



WAQF: REALISING THE SOCIAL ROLE OF ISLAMIC FINANCE

The recent revival of waqf was spurred by the realization among the stakeholders that waqf is an important resource mobilisation mechanism, that if properly developed, managed and utilized will be able to fund various economic activities for the benefit of the community. Through waqf, the socio-economic aspects of contemporary Islamic finance can be fulfilled. With proper structuring and administration, it can provide perpetual benefit to the society. Today the utilisation of waqf extends beyond key Islamic finance jurisdictions such as Malaysia and the GCC, namely in the US, Canada, South Africa and India, which is a testament to its social and economic contributions. The perpetual nature of waqf makes it a highly effective platform for sustainable economic growth, concurrently serving the social agenda of Islamic finance Institutions in particular, and Islamic finance in general.

MALAYSIA
WORLD'S ISLAMIC FINANCE
MARKETPLACE

Waqf: Realizing the Social Role of Islamic Finance

The global Islamic finance industry has expanded rapidly in the past few years, with assets growing at a double-digit compound annual growth rate (CAGR) of 17% between 2009 and 2013. As of 1H2014, the Islamic financial industry's assets were estimated at USD1.87tn¹. The rising appeal of Shariah-compliant finance was supported partly by religious and ethical preferences by both Muslim and non-Muslim communities in selected countries. In line with the primary goals of Islam, the eradication of poverty, socio-economic justice and equitable distribution of income are features of a Shariah-compliant financial system. These

features can be achieved by taking into account the social sphere in their operations, along with commercial financing practices.

There are various social institutions and structures in Islam that reflects both income and wealth redistribution for the fulfilment of the basic needs for all in the society, and the institutions include, among others waqf, which is more commonly known as Islamic endowment. Likewise through waqf, the gap present between contemporary Islamic finance and its socio-economic aspects can therefore be addressed.

Waqf refers to a religious endowment i.e. a voluntary and irrevocable dedication of one's wealth or a portion of it – in cash or kind, and its disbursement for Shariah-compliant projects. With proper structuring and administration, it can provide perpetual benefit to the society². Waqf is considered as a virtuous act, and was seen as the pillar of the religious, social, cultural, scientific, economic and political life of the Islamic society. The economic success of waqf was manifested during the reign of the Ottoman Empire, where waqf were highly developed and played a crucial role in the social and economic order of the Empire. Through waqf, the Empire managed to accumulate large revenue and savings and achieved budget surpluses. Historically, the waqf system has generated revenue to support education, welfare and even hospitals in both Turkey and Egypt, and till today it is still functioning effectively³. Being

seen as a complement to zakah, and along with its rapid expansion, waqf was therefore seen as an institution with an immense potential for economic and social reform. In Malaysia, the developments of waqf activities and institutions have expanded in terms of financial value and innovation in the recent years.

From an economic perspective, waqf can be regarded as a type of savings-investment mechanism where funds are diverted from consumption and invested in productive assets that provide revenue. The proceeds can be used to achieve social objectives such as building hospitals, orphanages, universities and etc, thus unlocking both its economic potential and philanthropic objectives.

¹ "Islamic Financial Services Industry Financial Stability Report 2015", Islamic Financial Stability Board (IFSB).

² "Promoting Charity via Waqf", The Star Online (15th April 2014)

³ Thomson Reuters Zawya

Common Types of Waqf

Land and buildings

Corporate waqf

Cash waqf

Source: ISRA

In the past, lands and buildings were the most popular forms of waqf. But nowadays, corporate waqf and cash waqf has become increasingly popular particularly due to the flexibility it offers. Corporate waqf is a creative and innovative ways of using the waqf concepts by applying modern corporation mechanism and efficiency to optimize the achievement of the objectives of waqf. Cash

waqf, on the other hand, is a type of movable waqf established by using cash. This type of waqf has been practiced as early as the beginning of the 15th century during the period of the Ottoman Empire, and by the end of the 16th century, cash waqf had reportedly become popular all over Anatolia, and the European provinces of the Empire.⁴

Waqf as a potential source of financing and a mechanism for wealth distribution

An encouraging development on waqf in key Islamic finance jurisdictions is the realization on the importance of waqf as a source of financing and a mechanism for wealth distribution. As seen in the recent past, waqf funds have been established in various Islamic finance jurisdictions where the returns will be used to achieve social objectives. Government, international and corporate bodies have been active in promoting and supporting waqf.

In Malaysia, the Department of Awqaf, Zakat and Hajj (JAWHAR) was established in 2004 under the Prime Minister's Department to ensure the management and administration of awqaf properties, zakat and hajj are in order, systematic and effective.⁵ Through JAWHAR, Yayasan Waqf Malaysia was set up with a vision to be the leading organisation in strengthening the ummah through enhancing the various waqf instruments. Corporate entities in Malaysia are also active in waqf. For example, the Johor Corporation has developed extensive social responsibility programmes through its arm, the Waqaf An-Nur Corporation Berhad

(WANCorp), namely Waqaf An-Nur Hospital (HWAN) and chain of Waqaf An-Nur Clinics (KWAN), Waqaf Dana Niaga, Waqaf Brigade, Waqaf Community Centre and contributions to the society via general welfare activities.⁶ UDA Holdings Bhd (a pioneer in developing waqf lands in Malaysia) has also launched a subsidiary named UDA Waqf Sdn Bhd to develop waqf lands in Malaysia as part of its efforts to ensure growth and diversification of waqf assets. Presently, there are over 10,120 ha of waqf lands in Malaysia that are yet to be developed, with potential to be converted into commercial as well as residential projects.⁷

Elsewhere in the Middle East, the Kuwait Awqaf Public Foundation (KAPF) was established by the Government of Kuwait to ensure proper development of the society through waqf⁸. Awqaf Minor Affairs Foundation (AMAF) founded by the Dubai government department is responsible for the legal supervision over the Awqaf, its care and investment, as well as the well-being of minors.⁹ Through AMAF, waqf properties are properly managed and the proceeds are invested through Shariah-compliant channels.

⁴ Cash Awqaf in the Ottomans as Philanthropic Foundations and their Accounting Practices

⁵ <http://www.jawhar.gov.my>

⁶ <http://www.jcorp.com.my>

⁷ "UDA launches subsidiary to focus on development of wakaf land", The Sun Daily (January 2015)

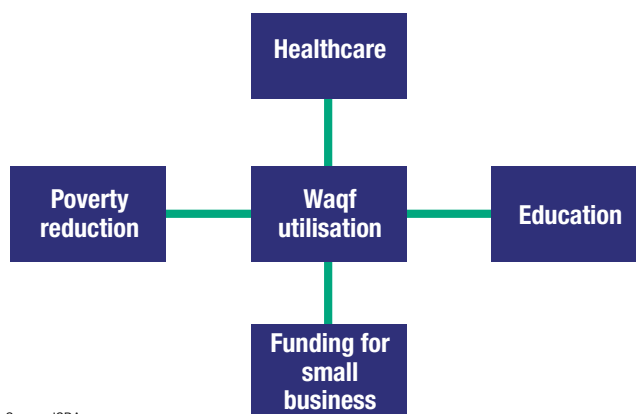
⁸ <http://www.awqaf.org.kw>

⁹ <http://www.dubai.ae>

Interestingly, the utilisation of waqf extends beyond key Islamic finance jurisdictions, namely in the US, Canada, South Africa and India - a testament to its social and economic contributions. Awqaf USA was founded in 2013 in Houston, Texas providing a platform of operation for those who see great benefits in community empowerment such as financial contributions to orphanage and children cancer hospitals in Egypt.¹⁰ Likewise, National Awqaf Foundation of Canada (Awqaf Canada) was incorporated in 2014 with a vision to establish a society where Muslims in Canada are valued, respected and have the opportunity to live and work to their full potential.¹¹ Through Awqaf Canada, Al Rashid Education Foundation (AREF) was established - to make a positive contribution to the

lives of Muslim students both in Canada and around the world where monies raised are invested in an endowment fund and is disbursed to successful award recipients. Elsewhere in the African region, there is also the National Awqaf Foundation of South Africa. It was established in 2000 as an independent community-based and owned trust, dedicated to the establishment of the institution of waqf and the empowerment of communities.¹² And more recently in India this year, National Buildings Construction Corporation (NBCC) rose as much as 5.3% in intraday trade, after the company announced it has undertaken the task of developing four Waqf Board properties as institutional and commercial projects, with an estimated cost of Rs 398 crore.¹³

Selected Examples of Waqf Utilisation Globally



Source: ISRA

Above and beyond, constant awareness on waqf has also been initiated through various waqf conferences held. For example, the Islamic Wealth Management Symposium (a joint collaboration between INCEIF Centre for Islamic Wealth Management and Labuan International Business and Financial Centre) were held for two years consecutively (2014 and 2015) in Malaysia so as to further create awareness and seek ideas to lay the foundation to develop effective waqf studies in the country.¹⁴ Radio Institut Kefahaman Islam Malaysia (IKIM), in 2014 has also organised a seminar on “Promoting Waqf as a Mainstream Tool in the National Economic Policy (NEP)” where several issues were discussed on the potential of waqf in supporting

the social and economic development of the nation.¹⁵ And this year, there is the Asia Pacific Awqaf Congress (Awqaf Australia and Sydney University Sydney Law School in partnership with Kuwait Awqaf Public Foundation) - a symposium held for those who want to learn more about waqf and who want to undertake waqf developments.¹⁶

Overall, through the development of waqf, it will help to improve the socio-economics of Muslims by providing opportunities to participate in economic activities resulting from the waqf development process.

¹⁰ <http://awqafusa.org>

¹¹ <http://www.awqafcanada.com>

¹² <http://www.netzkraft.net>

¹³ “NBCC rallies on signing MoU to develop four Waqf properties”, The Economic Times (May 2015)

¹⁴ Thomson Reuters Zawya

¹⁵ “Unleashing the potential of waqf”, The Star Online (May 2014)

¹⁶ <http://www.muslimvillage.com>

Waqf fulfills the social agenda of Islamic Financial Institutions (IFIs)

Today, recognizing the importance of waqf in realizing the social role of Islamic finance globally, various IFIs have jointly collaborated with waqf agencies/bodies, particularly to alleviate poverty and to support more equitable redistribution of wealth. In key Islamic finance jurisdictions such as Malaysia and the GCC, Waqf Selangor Muamalat which sets the first milestone of corporate waqf in Malaysia is a joint collaboration between Perbadanan Waqf Selangor Berhad (PWS) and Bank Muamalat Malaysia Berhad (BMMB) where waqf funds were channelled to the allocated waqf projects to help the needy beneficiaries for educational and health benefits and etc. Also in Malaysia, Maybank Islamic Berhad recently entered into a collaboration with the Federal Territory of Malaysia Islamic Council (MAIWP) to set up a RM20m In Waqf Seed Fund, where the bank will provide capital to the funds to be invested into various investment portfolios while MAIWP acts as its trustee.¹⁷ This initiative is meant to support towards achieving a more equitable and broad-based economic growth. And more recently in October last year, Bank Islam Malaysia Berhad (BIMB) and University College INSANIAH (KUIN) has signed a Memorandum of Understanding (MoU) whereby both parties will collaborate to realise the “INSANIAH Waqf Fund” project. The purpose of the project is to develop a mosque in KUIN in Kuala Ketil, Kedah.¹⁸ The trustee for the project is Kedah Islamic Council (MAIK).

In the GCC region, the Jeddah based Islamic Development Bank (IDB) established the World Waqf Foundation (WWF) in 2001 in collaboration with waqf organizations, governmental organizations, NGOs and philanthropists from the private sector with an aim to promote awqaf to contribute to the social and economic development of member countries and Muslim communities and to alleviate poverty.¹⁹ For example, recently, the 304th meeting of the Board of Executive Directors of the Islamic Development Bank (IDB), held in Jeddah, has approved three grants for a total of USD540, 000 under the IDB Waqf Fund for educational projects for Muslim communities in

Australia, Germany and India.²⁰ In Bahrain, the Central Bank of Bahrain and Islamic financial institutions (IFIs) together established a waqf fund in 2006, proceeds from which were allocated to finance training, education and research at various levels in the Islamic finance industry.²¹ In 2007, both DIFC Investments and Dubai Islamic Bank (DIB) established ‘Waqf Trust Services’ – the first Islamic trust services provider in the world offering Shariah-compliant services exclusively.²² Waqf Trust Services offers a diverse array of trust services for both corporate and individual clients, primarily encompassing the provision of tools to assist clients in the protection of assets, succession planning and the preservation of family wealth. Elsewhere, realizing the solid potential of mobilizing waqf for the development and progress of the socioeconomic Muslim society has also inspired Islamic Bank Bangladeshi Limited (IBBL) to establish the cash waqf certificate in 1997.²³

Overall, the recent revival of waqf was spurred by the realization among the stakeholders that waqf is an important resource mobilisation mechanism, that if properly developed, managed and utilized will be able to fund various economic activities for the benefit of the community. The perpetual nature of waqf makes it a highly effective platform for sustainable economic growth, concurrently serving the social agenda of IFIs in particular and Islamic finance in general. Moving forward, it is imperative for the management of waqf to evolve with the latest developments in the financial sector, so there could be more potential exploration of future collaborations together to further add imminent value to the waqf. With proper guidance, management, information and knowledge (both in terms of legal and Shariah), it is hoped that waqf will be established in a proper and rightful manner to eventually allow for the creation of sustainable and perpetual benefits not only for the Muslim community, but also for the entire nation. Overall, waqf holds exciting potential, but one must be mindful that in the pursuit of waqf value creation, one should never lose sight of waqf as a social entity.

¹⁷ “Malaysia wins award for leadership in global Islamic finance”, The Star Online (October 2014)

¹⁸ <http://www.bankislam.com.my>

¹⁹ <http://www.idbgbf.org>

²⁰ Thomson Reuters Zawya

²¹ “Waqf Can Be Financing Source For Wealth Distribution: Perak Regent”, Bernama (November 2014)

²² <http://www.difc.ae>

²³ Banking Model of Corporate Waqf: An Analysis of Wakaf Selangor Muamalat

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