Waqf as an Asset Class in Contemporary Finance

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• The Concept of *Waqf*
• Some Features of Historical *Waqf*
• Primary and Supportive *waqf*
• Why *waqf* properties are under-developed and underperform
• *Waqf* as a third sector of the Economy
• Investment in *Waqf*
• *Waqf* as an Asset Class
• Cash *waqf*
• Conclusion
The Concept of Waqf

• The Concept of *Infaq*
  The word *waqf* literally means to stop, to prevent, to detain and to keep in custody
  In legal terms, *waqf* is defined as a perpetual dedication of a certain property to Allah (swt) and devoting its benefit or usufruct to religious and charitable causes.
  *Waqf* and De-privatization of properties
• The two main features of *Waqf*
• Inalienability
  – *Waqf* properties should not be sold, purchased or inherited
  – These properties are not owned by individuals but by the community as a whole.
  – *Waqf* properties are communities or social wealth
• Perpetuity
  – *Waqf* is a continuous charity (*sadaqah jariyyah*) and the property devoted as a *waqf* must be capable of yielding a continuous benefit
  – *Waqf* assets are meant to benefit charitable causes for perpetuity
  – This has resulted in the accumulation of considerable amount of *awqaf* properties
  – The perpetuity of the asset depends on the nature of the asset
Features of Historical *Waqf*

- Historically *Waqf* financed mosques, cemeteries, education, health and other welfare activities
  - Azhar university was financed by *awqaf*
  - Later the model was adopted by the universities in the west
  - Harvard, Oxford, Yale and other universities are financed by endowments
- Historically the *waqif* would decide on the management and the beneficiaries
- Historically *waqf* was managed by individual or institutions
- Historically *waqf* were also created for the benefit of another *waqf* or other institutions such as universities or hospitals
Features of Historical Waqf

- Historically *waqaf* were need-oriented and made for diverse causes.
- Here is a quotation from Ibn Battuta which shows the diversity of the beneficiaries in Damascus.
- “The variety and expenditure of the religious endowments at Damascus are beyond computation. There are endowments in aid of persons who cannot undertake the pilgrimage to Mecca, [such as the aged and the physically disabled], out of which are paid the expenses of those who go in their stead. There are other endowments for supplying wedding outfits to girls whose families are unable to provide them, and others for freeing of prisoners. There are endowments for travellers, out of the revenues of which they are given food, clothing, and the expenses of conveyance to their countries. Then there are endowments for the improvement and paving of the streets, because all the lanes in Damascus have pavements on either side, on which the foot passengers walk, while those who ride use the roadway in the centre. Besides these there are endowments for other charitable purposes.”
Features of Historical *Waqqf*

- Historically family *waqqf (waqqf al-zurri)* was extensively used to provide for the future needs of one's children
- Historically *waqqf* also acted as a charitable insurance
  - The proceeds from *waqqf* would help the beneficiaries
- Through *waqqf* not the parents but others provided for the educational and other needs of the orphans and the poor
Features of Historical Waqf

- The following is a beautiful illustration of the role of waqf as a charitable insurance by Ibn Battuta of what he saw in Damascus.

- “One day as I went along a lane in Damascus I saw a small slave who had dropped a Chinese porcelain dish, which was broken to bits. A number of people collected round him and one of them said to him, "Gather up the pieces and take them to the custodian of the endowment for utensils." He did so, and the man went with him to the custodian, where the slave showed the broken pieces and received a sum sufficient to buy a similar dish. This is an excellent institution, for the master of the slave would undoubtedly have beaten him, or at least scolded him, for breaking the dish, and the slave would have been heartbroken and upset at the accident. This benefaction is indeed a mender of hearts- may God richly reward him whose zeal for good works rose to such heights!”
Primary and Secondary *Waqf*

- Primary *waqf*
- It does not generate revenue
- The *waqif* provides land for the purposes of
  - Mosques
  - Cemeteries
  - Hospitals
  - Orphanages
  - Educational institutions such as schools, universities
- The beneficiaries could be public at large or a particular group of public
- These *waqf* provided for infrastructural facilities
Primary and Secondary *Waqf*

- Supportive *waqf* (*Waqf ‘al al-Waqf*)
- It generates revenue in order to financially support an already existing *waqf*
  - Agricultural land
  - Houses
  - Shop lots
  - Office buildings
  - Businesses
- The income from these properties would be channelled to the mosques, schools, orphanages and hospitals
- This would strengthened the primary *waqf* and ensure the continuous flow of benefit to future generations of beneficiaries
- In addition charities (*Sadaqat*) also supported *Awqaf*
Why *waqf* properties are under-developed and underperform

- The causes for the under-utilization of *waqf* assets
- Public perception about *waqf*
- Management of *waqf* properties
  - Less involvement of governments in the management of charities
- Lack of skilled managerial expertise
- Lack of expertise to raise finance
- The vast number and diversity of *waqf* properties that do not go well with a uniform development approach
- The absence of *waqf* for the benefit of another *waqf*
- The absence of *sadaqat* to support *waqf*
Waqf as a third sector of the Economy

- Government Sector
- Private Sector
- Third Sector
- *Waqf* has wealth, generate revenue, and spend money
- It can make significant contributions to the economy
- *Waqf* can provide charitable services which government or private sector may not provide
- *Waqf* can also create job opportunities
Investment in *Waqf*

- The need to combine charity with the profit motive
- The incentive to make profit will have to take care of the development of *waqf* properties
- The *waqf* institutions have to appeal to the profit incentive of the investors
- Market oriented policies for financing and development of *waqf* properties to develop *waqf* and give a reasonable return to investors
- To leave the management and the development of *waqf* properties to the third sector and private sector
- Investors motivated by the profit incentive contributed to the development of *waqf* properties
Waqf as an Asset Class

- *Waqf* assets offer potential opportunities for Islamic banking and finance industry and investors
- Investors contribute funds and *waqf* contribute land and other financial resources for mutual benefit
- Investment to develop *waqf* land
  - *Sukuk Intifa’*
  - *Sukuk Istisna’*
  - *Sukuk Musharakah Mutanaqisa*
• Build-Operate – Transfer
• Investment in agricultural *waqf* land
  – *Sukuk Muzara‘ah*
• Investment in *waqf* educational institutions
  – *Sukuk Mudharabah*
• Investment in *waqf* businesses
  – *Sukuk Mudharabah*
Cash *waqf*

- Cash *waqf* could be for direct investment such as investment in equities or used to develop the existing *waqf* properties or providing funds to microfinance enterprises.
- To use cash fund to build affordable business premises for subsequent lease to the poor and the needy.
- The principal fund would remain and the profit would be channelled to the beneficiaries.
- The profit could be spent on, for instance, paying for the current expenses of mosques such as electricity, water and other expenses such as payment of salaries to the workers in orphanages, schools and universities and other philanthropic purposes as mentioned by the *waqif*.
- When *waqf* fund is invested the principle of risk-sharing should prevail.
Conclusion

- Non-profit organizations dedicated to kidney and cancer patients, disables, Old folk houses, etc. should be allowed to act as a mutawalli to encourage people to create waqf for these causes
- Sadaqat Institutions through which people can channel their donations to a cause of their choice
- Waqf contribution through salary deduction
- There is a need to establish an investment fund similar to the Awqaf Properties Investment Fund (APIF) established by IDB that would work as a fund provider to waqf on profit sharing basis