

PHILANTHROPY

# Making an endowment for a good cause

MOHD IZWAN MOHD NAZAM/THE EDGE

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**W**akaf, or a religious endowment for a charitable cause, is a lesser-known component of Islamic wealth management. It can be viewed as a way of doing good, giving back to society, or earning pahala (divine reward).

These endowments have usually involved immovable assets such as buildings and land, but they can also be in the form of movable assets such as furniture and jewellery — as long as they are not forbidden in Islam. Setting up a cash wakaf, or trust fund, is another way to make an endowment.

Cash wakaf, which is based on the concept of mudarabah, has been around since the 8th century. But the Islamic authorities have recently established a legal framework for such endowments in an effort to develop the segment. As a result, some new schemes have been implemented.

Associate Professor Dr Magda Ismail Abdel Mohsin, a lecturer at the International Centre for Education in Islamic Finance's (INCEIF) school of professional studies, says the concept of cash wakaf has emerged in many countries. "Besides individuals, financial institutions have realised that they need to raise funds to develop awqaf [plural of wakaf] properties instead of just leaving them idle [owing to mismanagement]. So, they have looked at setting up a suitable cash wakaf scheme to develop the old awqaf properties.

"This will not only provide jobs and shelter but also create revenue, which can go to the beneficiaries of the scheme. Thus, it bridges the gap between the haves and have-nots."

If a cash wakaf scheme is executed properly, it can provide a greater benefit to society, especially if it is able to generate revenue that can be distributed for charitable purposes. This would also allow the contributors to earn pahala in perpetuity.

## WAKAF SHARES

In Malaysia, the public can contribute by buying shares in a cash wakaf scheme. These wakaf shares are issued by the trustee, or institution that sets up the scheme.

The buyers of the shares are referred to as founders of the project, which will be set up using the accumulated funds. They also receive a certificate stating the amount that they have contributed.

The accumulated funds are used for projects such as building a school or hospital on wakaf land, or to purchase public or private land and distribute the revenue generated from it for charitable purposes.

In Malaysia, the wakaf share scheme is supported by seven state Islamic religious councils (SIRCs). Their main objective is to encourage a culture of contributing wakaf and for Muslims to recognise wakaf as a viable tool for improving the economic position of society. First implemented in the early 1990s, the wakaf shares have helped raise the necessary cash for projects that would benefit Malaysian society, such as developing wakaf land, building mosques, schools and medical facilities and setting up education funds.

Magda says wakaf shares are currently issued by Yayasan Dakwah Islamiah Malaysia (Yadim) and Yayasan Pembangunan Ekonomi Islam Malaysia (Yapeim). The shares, priced between RM1 and RM10 each, are open to individuals, institutions, organisations and corporations.

"Yadim once issued a wakaf share worth RM14 million and it managed to raise the money. A school near the International Islamic University Malaysia and a new mosque in Putrajaya were also successful in raising money through wakaf shares. This means there is a demand for wakaf shares in the country. So, it will be good if there are more options available," says Magda.

## CALL FOR NEW CASH WAKAF STRUCTURE

While a cash wakaf scheme can be a viable alternative instrument to raise funds for causes, some aspects need to be developed, particularly how the funds are managed, says Magda.

She suggests that financial institutions, including Islamic banks, be given the role of trustee or co-trustee to help manage the funds of cash wakaf schemes and



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> **Magda**

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## Development of wakaf

Associate Professor Dr Magda Ismail Abdel Mohsin, a lecturer at the International Centre for Education in Islamic Finance's (INCEIF) school of professional studies, says although the concept of wakaf may sound similar to sadaqah (voluntary donation), it is different in nature and principle.

While sadaqah is typically consumed immediately, wakaf has the principle of perpetuity, which means that once a property has been declared a wakaf, it cannot be sold, transferred or liquidated. "Once the wakaf deed has been written, the contributor can no longer claim ownership, sell or inherit the property. It becomes perpetual, non-anullable and non-returnable. However, the contributor has the right to be the trustee and manage his own wakaf," says Magda.

"Alternatively, he can appoint a trustee to manage the wakaf property during his lifetime or after his death. He needs to specify in his waqfieh (wakaf contract) how the revenue will be distributed. For example, 10%

of the rent of the wakaf house is used for maintenance, 20% for the trustee and 70% for the beneficiary."

The mosque of Quba' in Madinah was the first wakaf mosque in Islamic history. Magda says the mosque was built by the Prophet Muhammad (pbuh) and his companions during their migration from Mecca to Madinah so that they would have a proper place to pray.

"Because of its perpetual nature, the mosque still exists today. Of course, it was originally built with mud and tree branches. But now, it has become a prestigious and unique building," she adds.

While wakaf has played a vital role in Islamic civilisation, it has been neglected in the past century. Wakaf properties — agricultural land, residential areas and commercial buildings — have been left idle because of factors such as colonialism and mismanagement.

"Over the years, most notably due to the disruption in the Ottoman empire, the role

of the waqif (founder) has changed. Today, instead of the waqif managing his own wakaf, the governments of Muslim countries manage and control wakaf properties. They took away the waqif's right," says Magda.

This has led to a decline in wakaf contributions as individuals and corporations are reluctant to create such endowments anymore. "For example, if you wish to turn your private school into a wakaf school, you will be the best person to manage it for sure. You built the school from scratch and you know best how to operate it," says Magda.

"But then comes a law saying that the moment you declare it as wakaf, other people will manage it for you. Whereas during the Prophet's time, the founders had full authority over their wakaf property."

Regardless of the obstacles and challenges financial institutions have faced in the last century, innovative measures have been taken to provide Muslims with a better avenue for perpetual divine rewards.

finance the development of the old wakaf properties. She adds that it is better for the SIRCs to be the nazir (observer) and not the sole trustee of the cash wakaf scheme.

She explains that since all matters relating to wakaf assets in the country come under the jurisdiction of the SIRCs, it is hard to encourage people to contribute to cash wakaf schemes and difficult for financial institutions to raise and manage wakaf funds.

"Islamic financial institutions, including Islamic banks, are the best avenue for people to contribute to cash wakaf schemes. They know exactly what type of projects to develop, what type of investment structures to use and what kind of risk they will face. Being the trustee, they will have the flexibility to deal with the project quickly while being closely monitored by the nazir," says Magda.

"The SIRCs' role in overseeing and managing all the wakaf properties is very important. They have to monitor the activities very closely," she adds.

Since the banks are already regulated, Magda is positive that the model can work and that Malaysia will be a pioneer in this type of cash wakaf structure. This

change could happen if Islamic banks were allowed to take up the role of trustee. Then, the banks can adopt a cash wakaf model similar to the one used by the Social Investment Bank Ltd (SIBL) and the Islamic Bank Bangladesh Ltd (IBBL) — the deposit wakaf product scheme.

This scheme allows the public to deposit money in a cash wakaf-based account. The funds are then invested using a mudarabah contract. Later, the revenue generated is distributed to various charitable causes.

"What I suggest is that the local Islamic banks have target-specific projects. For example, Bank Islam's cash wakaf fund could be dedicated to education, so people who want to contribute to this can go to this bank. Or maybe, Maybank Islamic could create a wakaf fund for affordable housing, which it is very good at," says Magda.

The Islamic banks could even do their corporate social responsibility (CSR) projects via cash wakaf. "They could ask their depositors to contribute 10%, 5% or even 1% for them to develop wakaf projects. If they want to use the cash to build hospitals, for example, they could explain to the depositors and contributors how they too are part of the projects. This would encourage the depositors to contribute more," she says.