

WAQF AND SUKUK: ADDRESSING THE HUMANITARIAN FUNDING GAP



Nur Sakinah Nabilah Nor Saeran

Shariah Management trainee
International Shari'ah Research Academy
for Islamic Finance (ISRA)



Noor Suhaida Kasri (PhD)

Researcher at International Shari'ah
Research Academy for Islamic Finance (ISRA)
Head of ISRA's Islamic Capital Market Unit

The United Nations (UN) latest report issued in January 2016 entitled "Too Important to Fail-Addressing the Humanitarian Financing Gap" showed a huge jump in the number of people seeking humanitarian aid. At present, US\$25 billion has been spent to provide life-saving assistance to 125 million people affected by natural disasters and humanitarian crises. However, the amount spent is still insufficient. There still remains an estimated funding gap of US\$15 billion. The United Nations is appealing to more countries and communities to come forward to help fund the aid needed; namely food, clean water, shelter, health care, education and protection (United Nations, 2015). This article takes a look at how *waqf sukuk* can be a possible panacea in addressing the humanitarian funding gap, focusing on two successful *waqf sukuk* issued in Singapore and Saudi Arabia.

Waqf

Waqf is an Arabic word meaning to restrain (*al-habs*) and to prohibit (*al-man'*). Legally speaking, *waqf* means to prevent something from becoming the property of a third person (Al-Sarakhsi, 1986). In English, *waqf* can be translated as 'religious endowment'. However, such translation may not convey the sense of devotion and grace with which *waqf* is associated with in Islam (Mohsin, 2009). *Waqf* has a long history in the Muslim civilization where it started since the 7th century AD (Kholid, Sukmana & Hassan, 2007). The first well-known *waqf* at the time of Prophet Muhammad (peace be upon him) is the Quba Mosque in Madinah in 622 C.E. The building of the mosque fulfilled communal religious needs as well as lessened the direct cost of providing religious services for the future generation (Kahf, 2003). The practice of giving *waqf* was also practised by the Prophet's companions such as Umar

ibn Khattab. He asked for the Prophet's (peace be upon him) advice with regard to his intention to donate a piece of land that he owned. The Prophet (peace be upon him) advised him, "If you want you can block the capital and give its fruits as alms. However, the land cannot then be sold, given or inherited by descendants." This means that the Prophet asked him to sequester the land and to give its revenues (fruits) to the poor (Krafess, 2005; Benthall & Bellion-Jourdan, 2003).

This practice of Prophet Muhammad (peace be upon him) and his companions continues until today where *waqf* plays an important role in the socioeconomic development of the Muslim world. The socioeconomic role of *waqf* system is proven through the construction of public facilities and housing projects in Istanbul, Turkey. The development includes the building of mosques, schools, *madrasahs*, *hamams*, roadhouses and *bedestens* (covered bazaars), water channel, and agricultural reforms. In fact, the construction of several cities such as Istanbul, Bursa, Edirne, Amasya, and Manisa were due to *waqf* facilities (Saduman & Aysun, 2009).

At present, several non-governmental organizations (NGOs) have innovated several mechanisms using *waqf* as its underlying principle for the purpose of addressing socioeconomic problems. For example, Islamic Relief which is a UK-based humanitarian aid organisation, has created cash *waqf*. The donations received by Islamic Relief are invested into Shariah-compliant shares and the money generated from such investment is channelled to long term projects with sustainable benefits such as constructing greenhouses as well as training aid recipients on how to cultivate fruits and vegetables. The proceeds will also be used to support Islamic microfinance in Bosnia and Herzegovina such as investing in livestock which provides employment opportunities, as well as giving agricultural equipment like seeds and tools to the families affected by floods in Bandipora and Baramulla districts in Jammu and Kashmir in India (Islamic Relief Worldwide, n.d.). Meanwhile, Awqaf South Africa has created endowment funds in South Africa. The income generated from the investment of these funds have funded a variety of communal development projects and programmes such as youth leadership and literacy upgrade, provision of books to libraries, study scholarship, study loans and bursaries, microfinance, building of mosques, *madaris*, and Islamic centres (National Awqaf Foundation of South Africa, n.d.). While the International Waqf and Zakat Foundation, founded by the World Zakat Organisation and established by the Government of Malaysia has channelled their *waqf* and zakat fund to food production, education, health care, affordable housing, and employment generation (International Waqf and Zakat Foundation, n.d.). Another example in Malaysia is Waqaf An-Nur Clinics and Waqaf An-Nur Hospital, which provide health care treatments and dialysis facilities to the general public particularly in the state of Johor, Malaysia (Johor Corporation, n.d.).

Waqf Sukuk

A number of researches have shown that *waqf* coupled with *sukuk* could be a panacea in solving the humanitarian funding gap. *Waqf sukuk* has become a “household name” for charity fundraising or humanity causes. This is because *sukuk* allows for mobilizing of large amount of resources. Additionally, *sukuk* has flexible characteristics, where it can be structured to meet medium to long-term financing requirements (Securities Commission Malaysia, 2014). Two successful examples are the issuance of *sukuk* for developing *waqaf* assets in Singapore and Saudi Arabia.

The *sukuk musharakah* issued in Singapore in 2002 was for the purpose of redevelopment of the *waqf* assets located at 11, Beach Road and Bencoolen Street, Singapore (Omar & Rahman, 2014). It is a joint venture project undertaken by Baitulmal, Majlis Ugama Islam Singapura (MUIS), Warees Investments Pte Ltd, and Wakaf fund, MUIS. It managed to raise SGD\$60 million capital which was used to develop a mosque, commercial properties, 104 service apartments and a 6-storey commercial complex (Abdul Karim, 2010). The socioeconomic impact on the Singaporeans was enormous. Firstly, the larger capacity new mosque will inevitably instil and enhance the spiritual development of Singapore’s Muslim minority as they are able to hold congregational prayer and other large scale spiritual activities. Secondly, it has provided employment for many people in the service sector through the setting up of the service apartment. Thirdly, the beneficiaries consisting of the poor, needy and sick people have benefitted from the steady stream of income from the commercial properties. The benefits include payment for their medication, study scholarship, burial and other general charitable purposes. Fourthly, the Muslims investors have the opportunity to invest in a *Shariah*-compliant wealth creation fixed income securities such as mosques and Islamic institutions (Abdul Karim, 2010; Mohsin, personal communication, February 10, 2016).

The Saudi Arabia *waqf sukuk* which used the concept of *Sukuk al-Intifa’a* (time share basis bond) was issued in 2000 to develop the *waqf* land adjacent to the Grand Mosque in Makkah through the construction of ZamZam Tower (Omar & Rahman, 2014). The 31-storey building with 1,240-units of apartments was constructed by utilizing a BOT (Build-Operate-Transfer) contract for 28 years (Abdul Karim, 2010). A US \$390 million *Sukuk al-Intifa’a* was issued for 24 years in order to finance the construction of the Towers. Investors who bought these *sukuk* were entitled to rent a space for a specific time and also to sub-lease it to others or to just sell the *sakk* to any interested buyer (Kholid, Sukmana & Hassan, n.d.; Karim, 2010). This *sukuk* was expected to contribute many socioeconomic benefits. Firstly, the rental benefits from the development on such *waqf* land will be distributed to the needy and the poor (*mawquf ‘alayh*) after the *sukuk* are redeemed (Omar & Rahman, 2014), Secondly, the

Towers will help accommodate Muslims coming to perform their umrah and hajj. Thirdly, this project has created jobs for many categories of workers such as in construction, manufacturing, and in commercial areas (Mohsin, personal communication, February 10, 2016).

In conclusion, these two cases of *waqf sukuk* epitomise the extent of its contribution to global socioeconomic development. This proves the eligibility of *waqf sukuk* to meet the current need for humanitarian funding purposes which would cater for food aid, water supplies, shelter, health care, education and protection. It is worth mentioning the effort made by the Islamic Development Bank (IDB) to issue *sukuk* for the purpose of raising fund for countries suffering from humanitarian issues such as refugees and displaced individuals or communities (Haq, 2015; Omar, 2015; Islamic Research & Training Institute, 2015). Apart from that, Maybank Islamic Banking Group has started with the initial work towards the issuance of humanitarian *sukuk* as well as holding pilot project discussions with humanitarian organisations (United Nations, 2016). While from the non-banking sector, a non-profit organisation, Awqaf New Zealand in consultation with International Shari'ah Research Academy for Islamic Finance (ISRA), has plans to issue *waqf sukuk*. The proceeds will be used to purchase *waqf* farms in order to supply millions of livestocks globally for *qurbani* and relief or charitable purposes. However, we must be reminded that in reality, there are 125 million aid donees in need and that organisations like Islamic financial institutions can play a pivotal role in addressing the issue of humanitarian funding gap.

References

- Abdul Karim, S. (2010). Contemporary Shari'a Compliance Structuring for the Development and Management of Waqf Assets in Singapore. *Kyoto Bulletin of Islamic Area Studies*, 3(2), 143-164.
- Abdul Karim, S. (2010). *Contemporary Shari'ah Structuring for the Development and Management of Waqf Assets in Singapore* (Doctoral dissertation, Durham University, UK).
- Abdul Karim, S. (2012). *Contemporary Waqf Administration and Development in Singapore: Challenges and Prospects*. Retrieved from <https://uaelaws.files.wordpress.com/2012/03/contemporary-waqf-in-singapore.pdf>
- Al-Sarakhsi. (1986). *al-Mabsut*. Beirut: Dar al-Ma'rifah.
- Benthall, J. & Bellion-Jourdan, J. (2003). *Charitable Crescent: Politics of Aid in the Muslim World*. IB Tauris.
- Haq, F. (2015). Cross-border financing proceeds cautiously with more diversity in the market. *Islamic Finance News*. Kuala Lumpur: RedMoney.
- International Waqf and Zakat Foundation. Retrieved from <http://www.worldzakatfoundation.org/>
- Islamic Relief Worldwide. Retrieved from <http://www.irwaqf.org/>.
- Islamic Research & Training Institute. (2015). *Islamic Social Finance Report*.
- Johor Corporation. Retrieved from <http://www.jcorp.com.my/>
- Kahf, M. (2003, Jan). *The Role of Waqf in Improving the Ummah Welfare*. Paper presented at the International Seminar on "Waqf as a Private Legal Body" of the Islamic University of North Sumatra, Indonesia.
- Kholid, M., Sukmana, R. & Hassan, K. A. K. (2007) *Waqf through Sukuk Al-Intifa'a: A Proposed Generic Model*.

- Krafess, J. (2005). The Influence of the Muslim Religion in Humanitarian Aid. *International Review of the Red Cross*, 87(858), 327-342.
- Mohsin, M. I. A. (2009). *Cash Waqf: A New Financial Product*. Selangor: Pearson Malaysia Sdn. Bhd. National Awqaf Foundation of South Africa. Retrieved from <http://www.awqafsa.org.za/>
- Omar, A. (2015). Sukuk Market Development & Issues. *2015 Quarterly Islamic Finance Public Lecture IRCIEF-IRTI*.
- Omar, H. H. & Ab Rahman, A. (2014). Aplikasi Sukuk Dalam Usaha Melestarikan Aset Wakaf: Pengalaman Pemegang Amanah Wakaf Terpilih. *Jurnal Syariah*, 21(2).
- Saduman, S. & Aysun, E. E. (2009). The Socio-Economic Role of Waqf System in the Muslim-Ottoman - Cities' Formation and Evolution. *Trakia Journal of Sciences*, 7(2), 272-275.
- Securities Commission Malaysia. (2014). *Bi-annual Bulletin on the Malaysian Islamic Capital Market*. Vol 9. July-December. Retrieved from http://www.sc.com.my/wp-content/uploads/eng/html/icm/14_04_14_msianicm.pdf
- United Nations. (2015). *WHS Global Consultation*. Geneva.
- United Nations. (2016). *Too Important to Fail-Addressing the Humanitarian Financing Gap*. High-level Panel on Humanitarian Financing Report to the Secretary-General.
- United Nations. (2016). *One Humanity: Shared Responsibility*. Report of the Secretary-General for the World Humanitarian Summit. Retrieved from <https://www.worldhumanitariansummit.org/bitcache/e49881ca33e3740b5f37162857cedc92c7c1e354?vid=569103&disposition=inline&op=view>