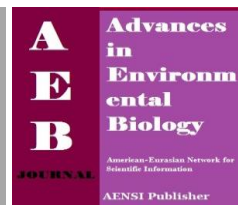




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Role of Cash WAQF IIN Voluntary Banking

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ABSTRACT

Modern Islamic Banking Concepts has established worldwide cash waqf and voluntary banking system as a part of welfare economy. Cash-Waqf means the dedication of some money from one's possessions and establishing a Waqf based on that amount and offering it to the benefit of people generally or allocating it to make use of them by some segments of the community particularly. In this study, we focus on the development of Cash-Waqf management from theoretical perspective particularly in modeling the optimal cash Waqf management. The management of Cash-Waqf has a unique characteristic that conceptually is different from the management of foundation, charities or donation fund.

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INTRODUCTION

Islamic jurisprudents believe that initial building which consecrated for worshipping was *Ka'bah*. As we mentioned in the topic, this paper is intent on discussing about *Cash-Waqf*. So in following the most of materials are about *Cash-Waqf*. Previously, *Waqf* of buildings and lands were the most popular forms of *Waqf*. Nowadays, *Cash-Waqf* has become increasingly well-known particularly because of its flexibility which allows distribution of the *Waqf's* addition, along the history, there were so many shrines, synagogues, churches and such these buildings which consecrated for doing religious deeds and ceremonies. The history of Islam shows that *Quba* mosque in *Medina* was the first foundation which was endowed by *Prophet Mohammad (Peace be upon him)* in 622 A.C.

Although, some historians believe that initial root of *Cash-Waqf* returns back to 8th century in Islamic era - while various questions about the usage of such *Waqf* were asked from "Zafar Ibn Hazil" and he answered that those amount of money have to be accomplished by *Mudzarabah Contract*- others believe that after emersion of *Cash-Waqf* in Rome, it was firstly introduced in Ottoman era in Egypt between 15th & 16th century. Professor Mannan introduced *Cash-Waqf* in Bangladesh through Social Investment Bank Limited (SIBL) in 1995. SIBL issues *Cash-Waqf Certificate* to collect funds from the rich and to distribute gains of the managed funds between the poor. Like those of Bangladesh, in other Islamic countries, most of people are poor. Therefore, effectiveness of cash *Waqf* certificate program to help reduce poverty in Bangladesh gives hope that a similar program can be successfully implemented in other countries. So, by the time, this *Waqf* model has developed by other Islamic bank of Bangladesh. These days this model is expanded through most of Islamic and even Western countries.

In this concept, *Mutavalli (Cash-Waqf Fund manager)* collects the fund from *Waqif* and invest the money in the real sector (mainly Small & Medium-sized Ventures) and in any *Shariah* based investment opportunities. He (*Mutavalli*) is obliged to maintain the amount of fund in such a way that does not go below the initial amount. Therefore, *Mutavalli* not only should be highly capable but also needs a financial institution which has been proven to be experienced, highly capable and effective in helping SMEs development efforts.

Then such a micro-financing program is considered as the most vital portfolio in the poverty alleviation program. Therefore, it's necessary to design an instrument which is able to control the endowment fund management especially *Cash-Waqf*.

Literature Review:

The witnesses of 21st century signify the revival of *Waqf Institution* in many Muslim countries and the creation of *Movable Waqf* especially *Cash-Waqf* in large extent. In this section, some models for the creation of

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Cash-Waqf which have been practiced in Muslim countries will be presented. They are known as *Waqf* Shares Model, Corporate *Cash-Waqf* Model, Deposit Product Model, Cooperative Model, *Waqf* Mutual Fund Model and *Wakalah* with *waqf* fund Model.

I) *Waqf* Shares Model:

This model is a *Public Waqf* which has been practiced in Malaysia, Indonesia, Sudan, Kuwait and UK. The procedure of this plan, in detail, is as follows [7]:

- *Founders* will buy *Waqf* shares from specified religious institution with prices ranging between \$1to \$100 according to each country.
- *Founders* will receive *Cash-Waqf* certificates as evidence that they purchase *Waqf* shares with a specific amount.
- These *Waqf* shares will then be endowed to the issuing institution that will act as a *Mutawalli* to manage the collected fund.
- The collected fund will then be distributed to charitable purposes as specified by the institution itself e.g. building mosques, schools, training center, etc.

This model can be clearly seen in following figure:

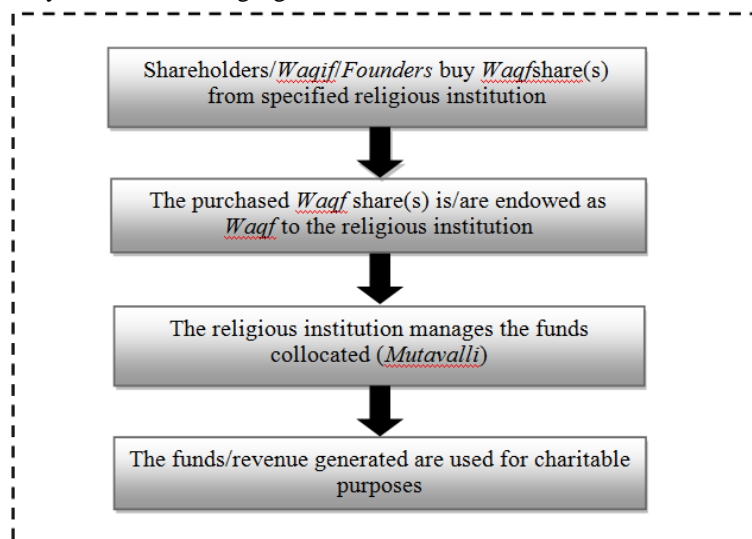


Fig. 1: *Waqf* Shares Model (*Public Waqf*).

II) Corporate *Cash-Waqf* Model:

This model is a public *Waqf* which has been practiced in Malaysia specifically in Kumpulan *Waqf* an-Nur 1998, Turkey in Sabanci Foundation 1974, Pakistan in Hamdard Foundation 1953 and South Africa in the National *Awaqaf* Foundation 2000. The *Founder* in this model might be either an individual or a corporation.

The procedure of this plan, in detail, is as follows [7]:

- Dividends earned for example by individuals, corporations will convey to an Associated *Waqf* Institution as *Cash-Waqf*.
- The Associated *Waqf* Institution will act as a *Mutawalli* where manages and invests the accumulated *Cash-Waqf*.
- The revenue earned will then be directed to charitable projects after operational expenses have been deducted.

This model can be clearly seen in following figure:

III) Deposit Product Model:

This model is a *Public Waqf* which has been practiced in Bangladesh in two banks, the Social Islami(Investment) Bank Limited (SIBL) and Islami Bank Bangladesh Limited (IBBL).

The procedure of this plan, in detail, is as follows [7]:

- The *founder* deposits money into *Cash-Waqf* based account in the bank.
- While depositing the money, the *founder* will be given a list of the *Beneficiaries* whereby he can chose or specify his/her *Beneficiaries*.
- The bank will act as a *Mutawalli* and will invest the capital through *Mudarabah Contract*.
- The revenue generated will be channeled to charitable purposes or purposes specified by the founder.

This model can be clearly seen in following figure:

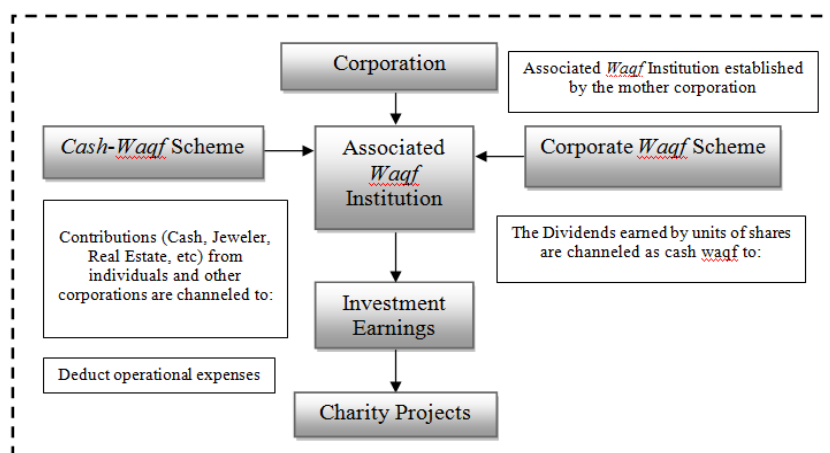


Fig. 2: Corporate Cash-Waqf Model (Public Waqf).

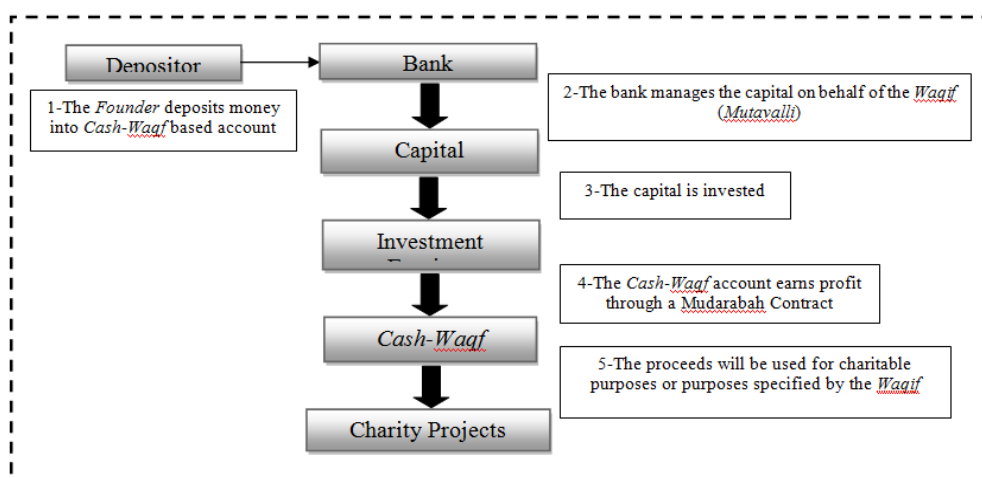


Fig. 3: Deposit Product Model (Public Waqf).

It has been realized as a good model where *Mudarabah* mode has been practice and at the same time the *Founder* has the right to choose his/her own *Beneficiaries*.

IV) Waqf Mutual Fund Model:

This model is a combined *Waqf* which has been practiced in Indonesia in the Dompot Dhuafa Batasa. This mutual fund is managed by the Batasa Capital Asset Management.

The procedure of this plan, in detail, is as follows [7]:

- The *Founder* will contribute to the mutual fund, and at the same time he/she can contribute to the *Waqf* fund. In this case the *Founder* will specify for example 70% of his investment earnings return to the mutual fund i.e. his personal account and the remaining 30% will be appropriated to the *Waqf* fund.
- The *Waqf* institution will act as the *Mutawalli* to manage and invest the capital.
- The investment earnings will then be distributed according to the *Founder* condition where 70% will go for his mutual fund and 30% will go to *Waqf* fund and distributed to charity projects, as highlighted below.

This model can be clearly seen in following figure:

From the above model it may be seen that it is *Waqf Mushtarak*, but in this case the capital of the 70% and the revenue generated from investing this portion will go back entirely to the *Founder* leaving the 30% as *Cash-Waqf*.

V) Wakalah with Waqf Fund:

This model is a *PublicWaqf* which has been practiced in Pakistan and Malaysia.

The procedure of this plan, in detail, is as follows (Abdul Rahim Abdul Wahab, 2006, P.11)

- The Shareholders would initially make a donation to establish the *Waqf* fund. The donation can be of any reasonable amount (Shariah scholars may specify such an amount). After the creation of the *Waqf* fund the Shareholders would lose their ownership rights on the *Waqf* fund and would become the property of the *Waqf* fund. However, they will have the right to administer and develop rules and regulations of the fund. This model can be clearly seen in following figure:
- The original donation of the *Waqf* fund needs to be invested in a very safe *Shariah* compliant investment and its returns would be used for the benefit of the participants. The idea being that the *Waqf* fund should remain intact with high likelihood.
- Company would take this donation on behalf of the *Waqf* fund as administrator of the fund and deposit this in the fund.
- The donations received from the participants, seeking *Takaful* protection, would also be a part of this fund and the combined amount will be used for investment and the profits earned would again be deposited into the same fund. As per *Waqf* principles, a member (donor) can also benefit from the *Waqf* fund.

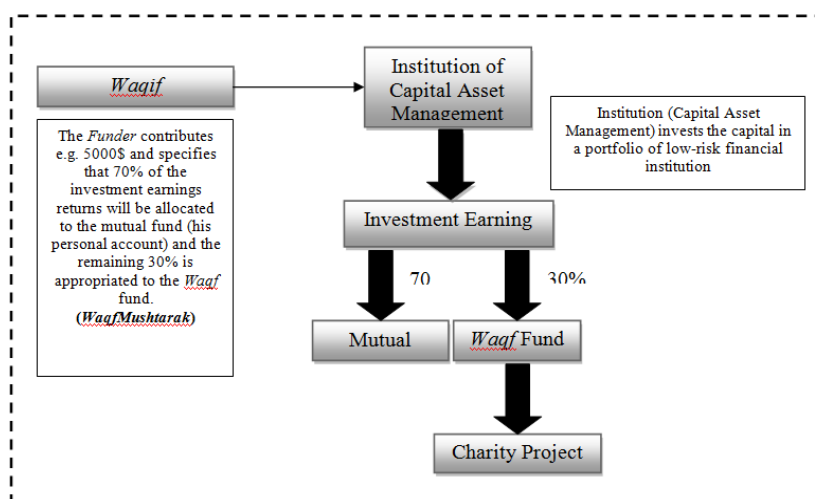


Fig. 4: *Waqf* Mutual Fund Model.

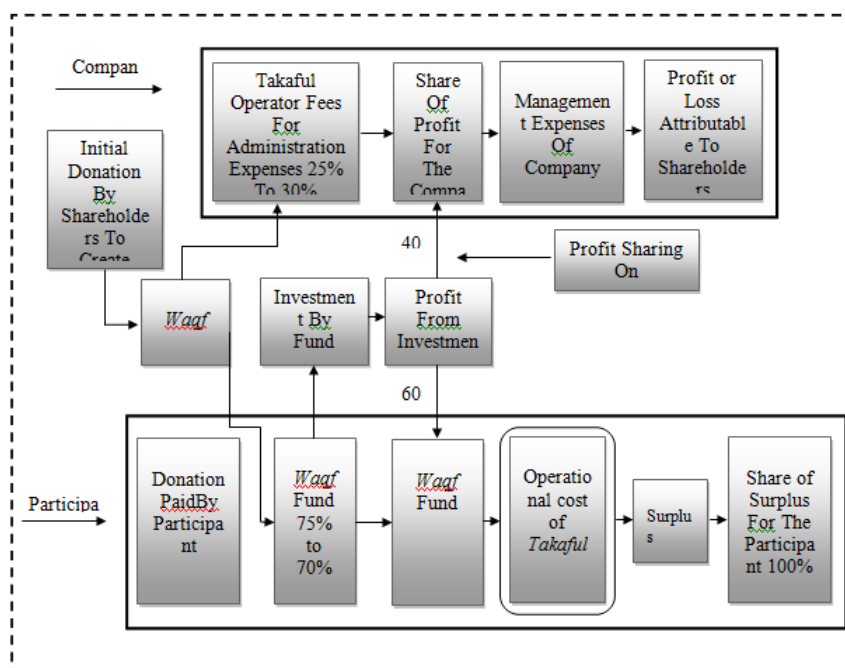


Fig. 5: Wakalah Model.

Establishment of a Cash-Waqf Financial Institution (CWFI):

Inasmuch as the above models are just associated with some instrument to simplify poverty alleviation, one

or several persons cannot implement them in real. So we require to some institutions or corporations that have high capability, skill and enough experiences to

Implementing our goal (Poverty alleviating via *Cash-Waqf* models) *Cash-Waqf* management institution should manage the accumulated *Cash-Waqf* created by the different *Founders* in such a way that the collected fund becomes more and more productive. The more the *Waqf* investment return, the more *Mawquf`alaih* benefit from *Waqf* fund. Only gains of the invested *Waqf* fund will be delivered to *Mauquf`alaih* and the principal of fund keep being invested in potential investment opportunities.

Methodology:

The study mainly depends on available information at hand. Sources of secondary data are Islamic Books, Annual Reports, Publications, Websites and other sources. Information was also collected from face to face and telephonic discussion with some top level bankers.

Background of Cash Waqf: The cash waqf (plural awqaf) is a trust fund established with money to support services to mankind in the name of Allah. The Ottoman court approved this endowment as early as the beginning of the 16th century and the end of the 15th century. They had reportedly become extremely popular all over Anatolia and the European provinces of the empire.

The endowment of moveable assets was the customary practice. But Imam Zufer ruled that the endowment of cash was absolutely permissible. He suggested that the endowment should form the capital base of a mudarabah partnership and any profit realized be spent in accordance with the general purpose of the waqf as stated in its charter.

In summary these principle constituted the basis upon which the ottoman jurists built the structure of cash waqf: The approval of a moveable assets as the basis of a waqf, acceptance of cash as a moveable assets and approval of cash endowments.

* Initial root of *Cash-Waqf* returns back to 8th century in Islamic era.

*Approval of cash waqf by ottoman courts between 15th & 16th century.

*Social Investment bank Ltd (SIBL) started operation as on 22 November 1995 with three sector banking models such as formal, nonformal (SME & micro finance) & voluntary banking (cash waqf).

*Professor M.A. Mannan (Founder Chairman of SIBL) presented a research paper regarding cash waqf deposit & voluntary banking in 1995 during IDB conferrance.

*Islami bank Bangladesh limited (IBBL) started cash waqf in 2007.

*Al-arafah Islami Bank started cash waqf in 2008.

*First security islami bank started cash waqf in 2009.

*Other islami bank and islami banking window started cash waqf product recently.

Findings of the Study:

With reference to all models that are presented, we consider the Islamic approach about them in order to state which of them is acceptable.

Although, in regards with Islam School's approach, "*Waqf* Shares Model, Corporate *Cash-Waqf* Model, *Waqf* Mutual Fund Model and Cooperative Model" are admissible, but *Wakalah* Model is not admissible by the all scholar.

Cash waqf is not a new idea but it has a historical non-institutional background, Social Islami Bank Limited (previously known as Social Investment Bank Limited, Bangladesh) has started first time cash waqf product in the world banking history since opening of the Bank in 1995. Considering the necessity and popularity of this product other islami bank in Bangladesh, Malaysia & Indonesia has started cash waqf product recently.

Bangladesh Bank has instructed all Banks to start Corporate Social Responsibility (CSR) programme in the last few years. But Islami Bank Bangladesh Limited (IBBL) has started its CSR activity through the IBBL Foundation after opening of the bank in 1983. Social Islami Bank Limited (SIBL) has started its CSR activity under voluntary banking programme (cash waqf, zakat fund & compensation realized) after opening of the bank in 1995. Cash waqf profit distributed among the following heads as per instruction of the waqif:

1. family rehabilitation: it includes poor, handicapped, beggars, destitute women, slum dwellers.

2. Education & culture: it includes scholarship and books for needy students, financing to orphanage, madrasa, school, college, vocational institute & establishing educational chair.

3. Health & sanitation: it includes water, sanitation & health care to villagers, slum areas, schools, mosques etc. Establishing clinic, hospital & research in particular disease.

4. Social utility service: it includes providing legal aid, marriage of poor girls, maintenance of road & culvert, tree plantation, specific mosque, graveyard, Eidgah with an income generating project, creating awareness against anti-social activities etc. Banker can share any of above social activity permitted under shariah & as per instruction of waqif which will enrich their voluntary banking program. Waqif & banker both will be benefited.

Most of the muslim countries are underdeveloped and poor peoples are not getting bank finance easily. As a result they take finance from NGO, cooperative and moneyed man at higher rate of interest. Cash waqf fund can

be invested for family empowerment micro finance/ group basis income generating projects, Micro enterprises (cottage industries & handicrafts) Small enterprises (shopkeepers, handloom, small poultry, dairy, nursery etc.) medium enterprises (large dairy, poultry, mini garments & textile, cold storage etc.),

Heavy industries (textile, rerolling, power generation, automobile, chemical pharmaceuticals, shipyard etc.) Considering the availability of fund, profitability, repayment possibility which will create mass employment for the people. Investment income will be distributed among the beneficiaries of the cash waqf as per direction of the client. Principal amount will be retained by bank for further investment. In such way a social capital will be buildup. Mosque Property may be developed as market/shop by Bank Finance which will generate income. In case of merger or dissolution of the mutawali (bank) cash waqf amount must be transfer to another islami bank as per decision of the central bank. But nobody of the bank will be allowed to expense this money for his own or use by violating shariah principle.

Conclusion:

Based on historical literature, the *Waqf* plays an important role in socioeconomic life of Muslim societies. Recently, one of the types of *Waqf* is *Cash-Waqf*. Based on our study, we conclude following points:

1. *Cash-Waqf* is a type of *Waqf* that revived in recently century.
2. This paper reviewed the *Cash-Waqf* history and then its necessity to poverty alleviation.
3. *Cash-Waqf* is justified with Islamic jurisprudence providing that while it is making profit and earning income, it remains perpetual.
4. This article surveyed validity conditions of *Waqif* (Founder), *Mawquf 'alaih* (Beneficiaries), *Mawquf* (Cash as property), *Mutavalli* and *Waqf* contract.

Then, this study introduced some contemporary practical models in *Cash-Waqf* and analyzed their validity according to Islamic jurisprudence. Based on this study, *Waqf* Shares Model, *Waqf* Mutual Fund Model and Cooperative Model are acceptable for running but establishing Corporate *Waqf* Model is conditional. On the other hand *Wakalah* Model can not justify with Islamic principal.

5. Cash waqf is difference from trust, sadaka, donation. This is a perpetual endowment in the name of Allah. Here principal amount always retained by the mutwali (Bank) and profit distributed each year as per instruction of the waqif, for which waqif will be rewarded by Allah Taala even after his death.

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