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# Waqf as a framework for entrepreneurship

## 1.0 INTRODUCTION

Waqf as a framework of economic and social system is no short of concept as it is found in a substantial body of literature (Braten; Belemqeddem, 1993; Cizakca, 1998; Tahir and Hamid, 2006; Babacan, 2011; Nur Khalidah et al., 2014; Orbay, 2016). It has been successfully implemented during the early era of Islam (Gerber, 1983, 1988; McChesney, 1991; Peri, 1992; Benabdellah, 1996; Bouregba, 1996; Haiti, 1998; Dallal, 2004). Waqf system is even recognized by the Western world as a socio-economic solution (Gaudiosi, 1988; Nizamoglu, 2016).<sup>1</sup> However, its specific application in entrepreneurship is a more recent development. There is now a growing interest in waqf as a framework of business or entrepreneurship that essentially derives from the principles of wealth creation (Amuda, 2013). It can be implemented at all levels – individual, urban and rural, community, corporation, government, etc. and it can also be applied as an area of focus, i.e. as an object, a tool, a mechanism, a policy instrument, or even an economic system.

Waqf is well-conceptualized in the context of business model (e.g. Sanep and Nur-Diyana, 2011; Norinah et al., 2015), corporation (e.g. Muhammad, 2010) as well as social entrepreneurship (e.g. Salarzahi et al., 2010; Azliza et al., 2013; Fakhrol et al., 2014; Raimi et al., 2014) but workable models of waqf-based business entrepreneurship is yet to be further developed and practised. The central issue of waqf in entrepreneurship is presently still hard-pinned under the breadth of theoretical postulation rather than the practical application. Nevertheless, theory is important in the first place for shaping up the basic idea about something.

This paper adds to the body of literature pertaining to waqf as an integral part of the economic system by discussing the background concept of waqf and how it can be developed for entrepreneurship. The essence of waqf and entrepreneurship is discussed next. Embedding waqf concept in entrepreneurship then follows. Entrepreneurship undertakings are discussed after that. Finally, some recommendations are given for waqf to become a framework of entrepreneurship.

## 2.0 THE ESSENCE OF WAQF AND ENTREPRENEURSHIP

Waqf is a permanent parting of one's rights in asset from his legal possession to be dedicated, in the path of Allah, for the welfare of mankind.<sup>2</sup> It is a permanent dedication of any movable or immovable property recognized by Muslim Law as religious or charitable and includes any other endowment or grant for the aforesaid purposes, a waqf by user, and a

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<sup>1</sup> The West, according to Gaudiosi (1988), has re-branded waqf as trust or endowment. Prestigious universities such as Oxford and Cambridge (U.K.), Harvard and Stanford (U.S.A) have successfully established their own endowment fund. University of Harvard, for example, has an endowment fund in excess of US\$30 billion.

<sup>2</sup> Authors' own definition. As mentioned in the following paragraph, by 'asset' it means movables and non-movables.

waqf created by a non-Muslim (Waqf Bangladesh).<sup>3</sup> It is a form of *sadaqah jariah* whose benefit flows until the Day of Judgement.

By default, waqf system is characterized by a simple 1W-3M structure as shown in Figure 1 that consists of waqif-mawquf-mawquf'alaihi-mutawalli relationship.

**Figure 1:** Simplest waqf system

Such a system is not effective and efficient for the administration, management, and utilization of waqf assets and their disposal of benefits. It has become unfashionable to meet the changing needs of the Muslim ummah today because of its incapacity in generating economic benefits for the society's well-being. Not only lacks technical expertise, in short of financial resources, it was beset by weak management (see Muhammad, 2012).

Entrepreneurship itself is wide ranging. It is multi-dimensional and often associated with economic gains as the main motive of human efforts. As Dees et al. (2001) put it, entrepreneurship is a process of innovation in the pursuit of economic goals. This definition refers to business entrepreneurship. Further, a business entrepreneur is a high achiever with instinct and innate ability to accumulate wealth and create economic prosperity (Wellington and Zandvakili, 2006; Whelan and O'Gorman, 2007). These are achieved with some amount of risk-taking.

As business entrepreneurship is about innovative way of wealth creation so with waqf. For instance, in today's prevailing neo-liberal economic system, dedication of assets for income generation, designed with the inherent capability to create wealth for the poor or needy and not for the capitalists, is an innovation. Where a waqf business applies entrepreneurs' business model, the outcome would be surprising. Here, waqf acts as a mechanism of "wealth creating wealth". Thus, waqf-based business may be a form of entrepreneurship that can be regarded as the disposal of wealth by a philanthropist or nazir for the purpose of creating wealth preferably for the poor or needy. It is an input-output model (Morris et al., 1994). See Table 1.

**Table 1:** Elements of conventional and waqf-based entrepreneurship

### 3.0 EMBEDDING WAQF CONCEPT IN ENTREPRENEURSHIP

There needs to be a greater inter-institutional collaboration for developing waqf (Ahmad, 1999). For this to happen, the basic structure of the waqf system needs to change for better. Modification of the basic structure of waqf system is required whereby entrepreneurship component is incorporated into the system, again, using input-output model (see Figure 2). Considering business entrepreneurship as an input-output model (Morris et al., 1994), waqf can be possibly linked to it on its both sides. Waqf aims at both social and economic goals and, thus, waqf can be a vehicle of entrepreneurship in pursuit of well-being of the mankind.

<sup>3</sup> Accessed on 19/03/2016 at <http://www.waqf.gov.bd/component/content/article/7-article/17-homed.html>

In Figure 2, on the input side, resources such as land, building, and finance can be acquired through waqf mechanism to be employed in various business activities in various sub-sectors of the economy via input division or investment. Entrepreneurial outputs such as income or profit from these business activities can be then distributed into waqf fund for re-distribution to the society and re-investment into entrepreneurial activities.

The creation of wealth through waqf assets may take a variety of forms. All depends on the creativity of the nazir or rather the business manager of waqf. This will need accepting the traditional market products with some modification to comply with the fundamental constant pillars and attributes of waqf first, and then introducing the innovative changes to the traditional business models of the products and services that waqf institutions intend to invest in.

**Figure 2:** Possible link between entrepreneurship and waqf

First, nazir-controlled funds and services (Figure 3a). Since the role of nazir (mutawalli) is more than safeguarding the asset of waqf and its income, he is obliged to increase the income of waqf assets<sup>4</sup> under his care. He may make tawliyyah by employing the poor or professionals and skilled individuals to use waqf capital for the purpose of maximising income to the beneficiaries via mudharabah (in the case of cash waqf), ijarah, muzara'ah, etc. By innovation of the nazir and guided by the basic principles of use of cash and illiquid assets in the olden times, he can venture into a large field of business activities. In our case, Majlis Agama Islam dan Adat Istiadat Melayu Terengganu (MAIDAM) gives tawliyyah to Peyatim for this role via al-istisna' arrangement to build the campus and accommodation. Although there is a thin layer of difference between this waqf project and non-waqf projects, the model introduced is quite entrepreneurial whereby mass funding was applied, in principle, to acquire the property.

**Figure 3:** Nazir-controlled and philanthropist-controlled waqf-based entrepreneurship

Second, philanthropist-controlled funds and services (Figure 3b). Although historically waqfs were not initiated by the Prophet s.a.w, 'Umar al-Khattab r.a., Uthman bin 'Affan r.a., and many others (during and after the prophethood) as a business entrepreneurial vehicle, it may be so developed in this modern time. This can be a guiding pillar when philanthropic motive is set on the output side of a business. This concept is close to the philosophy of social entrepreneurship or corporate social responsibility (SCR) for social changes by creative efforts through donation, fund raising, venture capital funds, community programs,

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<sup>4</sup> Anything that ascertains the best benefit out of waqf is the duty of a nazir (al--Sharbini, Mughni Muhtaj, vol 5, p 395). In particular, maximisation of income or growth of waqf is the duty of a nazir (al-Bahuti, al Rawd al Murabba', p 240). For example, if a land is agricultural but demand for housing is high due to urban sprawl and rental from it is better than for agricultural production, then it is the duty of nazir to build houses on it and let it to people (Qadikhan, fatawa Qadikhan, vol 3, p 300). As another example, if the painting of a house [positively] affects the rental then nazir has to do it (Ibn Taymiyah, Fatawa, vol 31, pp. 67-68). So, getting better rental/revenue from a highest-and-best-use activity, renting a waqf asset according to market value, cultivating the best crop on a waqf land, etc., all indicate the importance of generating and maximizing the use of waqf asset to ensure the best benefit to the society (Ibn Nujaim, Ashbah wa al Naza'ir, p 225; al Khassaf, Ahkam al waqf, p 207; al Tarablusi, al Is'af, p 69).

community action groups, etc. (London and Morfopoulos, 2010; Volkmann et al. 2012; Hasan, 2015). The JCorp's Al-Noor Corporation Bhd (WANCorp), which is given tawliyyah to operate as a corporate waqf by Majlis Agama Islam Johor (MAIJ), is close to this type of social entrepreneurship.

For a normal business entity, its nature of social obligations is different from that of a waqf entrepreneurship; the latter has to be waqf in the first place. For example, in Figure 3b, JCorp is not a waqf entity and all its contributions to Waqf al-Noor are social in nature. However, its contributions to Waqf al-Noor are waqf. By contrast, Waqf al-Noor as a company and its assets are waqf as they are so created. Further, the management of Waqf al-Noor is not under the State Islamic Religious Council, rather, its management and the donations it receives from JCorp are delegated to it. In short, we look at JCorp as a social entrepreneur and al-Noor Corporation Bhd (WANCorp) as a waqf entity.

What this indicates is that a waqf corporation may receive corporate-social-responsibility (CSR) funds or assets as waqf, invest or use them to generate income in the open market or for micro-financing activities and to contribute to society by channelling some of the profits to the poor and needy. The difference between this method and the first would be merely in the sources of funding and management control. The State Islamic Religious Council may have a role only of tawliyyah and receiving a portion of income from the invested and productive assets.

Third, there is a concept of social entrepreneurship as the creation of social impact by developing and implementing a sustainable model which draws on innovative solutions benefitting the disadvantaged and, ultimately, society at large (Brock and Steiner, 2010). In this case, social entrepreneurship is not promoted through business-oriented undertakings but through government or non-profit organizations. In Turkey, Sabanci Foundation, for example, has built more than 120 schools, hospitals, libraries, orphanages and other facilities apart from other funded public-works projects and municipal services such as water systems, bridges, and roads. These assets are then transferred to state ministries, which run them. In fact, many modern Turkish foundations have continued to supply such traditional infrastructure until today (WSJ, 2016).

Apart from material objects, under this system, waqf 'amal can also be created through non-material contributions such as free or volunteer services given by individuals.<sup>5</sup> This volunteer services however be given some monetary value to make the waqf perpetual. But because the monetary value is less, it will contribute to the affordability of the product or service. For example, individuals can offer their time, knowledge, expertise, and skill for a particular project free of charge with a charity purpose in mind. Community programs or projects for environmental protection, poverty alleviation, illiteracy eradication, security surveillance, etc. can be implemented in this way. This will at the end cost less.

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<sup>5</sup>Allah says: When the wife of 'Imran said, O my Lord, verily I vowed unto You of what is in my belly *muharraran* and so accept from me verily You Are Most Listening Most Knowing". According to Fakhar al-Din al-Raadzi (2004), *Al-Tafsir al-Kabir*, Beirut: Darul Kutub al-'Ilmiah, hal. 23., one meaning for *muharraran* is "freeing to the path of obedience".

A fundamental difficulty in applying the concept of waqf in entrepreneurship is its motive of profit creation, as there is a misconception that entrepreneurship is mainly about economic gains. Here, One has to realise that the rental of waqf properties, and cultivation of waqf lands, allowed by all jurists. These are permitted to make profits for waqf. Similarly, the use of mudarabah in case of cash waqf by Hanafi jurists, is for the purpose of making profits and distributing them on the objectives of cash waqf. Therefore, the question should not be what is gained by the enterprise rather who gains it. Yet, with the introduction of social enterprises and social entrepreneurship i.e. the business of financing a third party with the aim of making reasonable profits with some return to the society, this misconception may slowly subside. But, it has to be noted that social entrepreneurs may include self-interested providers of capital in return for profit to themselves and some return to the society. Waqf entrepreneurship too would provide capital and would expect fair profit but not for the individual who provides the capital. Rather, all revenues have to be spent on the welfare of the society including those employed by it. The concept of social entrepreneur or entrepreneurship hence may seem different from what we intend to imply by waqf entrepreneurship. Where revenue of an enterprise is dedicated to a social cause then, on substance, there would be no distinction between social entrepreneurship and waqf entrepreneurship. And, if only entrepreneurship can be oversimplified as the making of money either for individuals, shareholders or the society, the above misconception can be removed.

Muhammad (2003, 2010, 2015) has proposed that business *jihad* be incorporated into economic efforts to promote waqf among the public and this necessity stems from ever swelling dissension against the capitalist system that grips world's economy today whereby wealth is accumulated for the rich at the expense of the poor. Some proponents of waqf have raised support along this line of idea. Salarzahi et al. (2010) have proposed the concept of waqf for social entrepreneurship and Fakhrol et al. (2014) have indirectly identified that social entrepreneurship has an economic notion to it, especially in the way corporate waqf is implemented in Malaysia. Focusing on the management, development, and financing of waqf properties, Hamid and Tahir (2014) have presented fragmented principles of waqf that could provide an important reference related to business and entrepreneurship.

Waqf mechanism can be applied at three levels, namely macro (national government), semi-macro (corporate) or micro (individual). The waqf models for each of these levels are quite distinct and need an integrated framework for implementation. Further, Malaysia's workable waqf models for entrepreneurship are yet to be developed further. Presently, the so-called "waqf models" for entrepreneurship exist as versions practised by waqf promoters such as State Islamic Religious Council (Johor, Selangor, Negeri Sembilan, Melaka, Pulau Pinang, etc.), Yayasan Waqf Malaysia, and Jcorp. A specific study is required to assess the feasibility of these models with a view to proposing a unified waqf-based entrepreneurship model for Malaysia. Besides, models already proposed in other countries need to be examined as well to decide on how they can be embedded into the national models. Overseas models of waqf-based entrepreneurship include those practised by Islamic Religious Council of Singapore (Shamsiah, n.d.), Indonesian Waqf Deposit (Ahmad and Niah, 2010), and others especially those in Iran, Kuwait, Turkey.

#### 4.0 THE BUSINESS MODEL OF WAQF ENTREPRENEURSHIP

Every business has to have its model of value proposition, value chain, revenue model, competitive and growth strategies. For waqf entrepreneurship, it shall be more than the ordinary business model. The uniqueness of its products, its target market segment, its business activities, revenue stream compare to others and the potential to be accepted by the market. A basic business model for waqf entrepreneurship is illustrated in figure 4.1, by taking affordable housing as an example.

**Figure 4.1: Waqf housing entrepreneurship business model**

The waqf institutions have to be specialised in both affordable and quality housing. Current market products are neither affordable nor have quality. Also, housing prices are not matching with the income levels of the target groups. Yet the houses are of poor construction quality as well as the needs of family. The current sizes of affordable houses are the same. They are not conducive for families having more than four members. Larger houses for bigger family could be the niche area for waqf housing in terms of market segment and an advantage against other market players.

The market for waqf housing would be the bottom 40 of the population. Among this group a hyper segmentation could be made by focusing only on the poor or vulnerable groups. This may depend on the financial strength of the waqf institutions. The entire group may be the focus for its activities if financing sources are strong and sustainable.

The activities in the value chain of the waqf housing business model may comprise of primary (housing construction and development) and other supporting activities such as the business of construction, wholesale construction material, the marketing, and financing. Financing the project may be through social and income generating funds. Each of the latter activities will support the main activities by reducing the development cost and mark up. Social funds such as zakat and social waqf funds will be used to subsidise the price of the houses. Waqf amal and government grants for housing may add to further reduction of housing. This may largely be focused on the housing for the poor of the poor especially for those who intent to lease the housing for 99 years.

A further uniqueness of the waqf housing may be illustrated on rent to own housing. This may eliminate the need for collateral and security in case of those who do not stable monthly income. Subsidies leasing and short term rental may be another specialised products which the market may not be able to offer them in the same rates.

While collaboration with federal and state government may add to sustainability of market the zakat and social waqf funding may put waqf housing at the edge compare to other affordable housing. Additionally the construction of houses by waqf construction companies may add to the quality of waqf housing.

As the waqf housing sector accepted by large segment of the market the waqf institution could venture to all level of housing (including the high end). This will later enable the waqf institution to move from being local market player to a national one.



## 5.0 ESSENTIAL ASPECTS OF WAQF ENTREPRENEURSHIP

To limit our scope of discussion, on the basis of input-output model mentioned above, waqf-based entrepreneurship can be developed by focusing on three essential aspects, namely financial framework, activities, and institutional setting. Discussion follows.

### 5.1 Financial framework

Finance is the main vehicle of business and a major task in entrepreneurship. Cash or money-equivalent instruments are used for investment purposes and both can be sourced from waqf. Cash waqf, for example, can be acquired in many forms such as revenue or revenue reserves from waqf property, baitulmal, rental/lease of waqf property, organizational charity, public donations, and loan without interest. Proceeds from sukuk waqf, waqf shares or income of corporate shares may also be used for financing purposes. Projects can then be carried out by Islamic Religious Council and waqf corporation with the active role of muttawalli and nazir under some agreed arrangement such as mudarabah, musharakah, istisna', etc. This is illustrated in Figure 4. Based on Figure 4, funding can be organization/corporate-driven or community-driven. In many countries such as India, Pakistan, Bangladesh, Kuwait, and Singapore, community-driven waqf funds are initiated to support waqf development (KAPF, 2016). In Malaysia, there have been some pioneering corporate-driven waqf funds such as those acquired by WANCorp and AWQAF Holdings Bhd. (Muhammad, 2010, 2012, 2015).

The above funds can be drawn from waqf institutions' current or investment accounts or there could a more dedicated waqf funds such as the Yayasan waqf Malaysia, or in other form. This funds may be dedicated for investment and development activities. Additionally the funds may be used not only to generate income through investment activities but also services such as letter of credit and other financial services. This services would be through a bank owned by awqaf institutions (waqf bank).

**Figure 4:** General waqf-based financial framework for entrepreneurship

Waqf Bank is an impending source of financing to support entrepreneurship and it is an extension of the concept of cash waqf. In Turkey, Vakiflar Bankasi has been existing as a Waqf Bank for long time (Cizakca, 2000). Such a bank is yet to formally exist in Malaysia and its establishment would be an innovative mechanism that will spur economic development of the ummah through waqf system (Tahir, 2011; Muhammad, 2012; Dafterdar, 2012; Hamid and Tahir, 2014)<sup>66</sup>. Indonesia Waqf Deposit (IWD) was instituted to manage cash waqf (Ahmad and Niah, 2010). In Kuwait, Charity Bank was established for various socio-economic and public charity programs such as mosque, annual payment to donor's descendants,

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<sup>66</sup> Although Bank Muamalat has a cash-waqf scheme whereby the public can offer their waqf shares (Muhammad, 2012; Ashraf and Abdulaah, c. 2013), the Bank itself is not a waqf bank and, thus, by no means can operate in its entirety as a waqf entity.

publication and printing of al-Qur'an, research and innovation, sponsoring disabled and handicaps, orphan guardianship, community development, healthcare, emergency and relief, haj and umrah, etc. (KAPF, 2016).

The simplest structure of Waqf Bank is proposed to be based on input-output model of waqf-based entrepreneurship mentioned earlier, but here the concept is applied to the financial system (see Figure 4). On the input side, Waqf Bank receives fund in cash, sukuk/bond, share certificate, etc. Besides rich philanthropists such as billionaires, business corporations can contribute to the paid-up capital of Waqf Bank to enable it to operate immediately. Their donations could be combined with public funds, and they would receive tax benefits and naming opportunities (Nizamoglu, 2016). The fund will then be allocated to productive activities such as those shown in Figure 1 through entrepreneurship systems such as mudarabah, musharakah, ijarah, etc. Finally, the revenues or profits from these activities could be channelled to social projects and causes such as school, library, hospital, social services, etc.

### 5.1.1 Cash Waqf

Cash waqf is a powerful alternative method to western economic system of *riba'* (Ahmad, 2015). Cash waqf has been the backbone of microfinancing in many countries playing a pivotal role in assisting millions of poor around the world, in developing micro-enterprises, to free themselves from poverty trap. Various models of microfinance are available for adoption and waqf-based microfinance needs to be given attention (see Ahmed, 2007). Cash waqf, for example, provides an alternative to help the society in alleviating poverty despite its controversy (Dadgar and Saadat, 2007). It has been implemented for a long time in almost all countries practising waqf. In Indonesia cash waqf is used for micro- and medium-enterprise financing (Ahmad and Niah, 2010; Shukti and Ahcene, 2013). IWIM has been proposed as a waqf-based microfinance to help in building entrepreneurial efforts among the poor (Alpay and Haneef, 2015).

In Malaysia, the first cash waqf was introduced by the late Mufti of Johor, S.S. Dato' Hj. Ahmad Awang in the middle of 1980s which was then named Wakaf Tunai Johor and Wakaf Saham Johor. This concept was later emulated by other states, e.g. Wakaf Muamalat Selangor, Islamic Religious Councils of Federal Territory of Kuala Lumpur, Negeri Sembilan, Melaka, and Pulau Pinang. Yayasan Waqaf Malaysia also now has its own cash waqf scheme called Wakaf Tunai Malaysia to which the public can participate through salary deduction. To date, there has been a substantial body of literature discussing various methods and parties dealing with cash waqf and further discussion on it is not likely to be productive (see for e.g. Ahmed, 2007; Siti-Mashitoh, 2007; Magda, 2009; Ahmad and Diah, 2010; Siswantoro and Kartika, 2011; CCW, 2015). Its main issue today is less about its concept,<sup>7</sup> and more about commitment to it and effectiveness of its implementation. Admittedly, there are still a lot of obstacles in nation-wide implementation of cash waqf in Malaysia, among other things because there is no federal law subjecting all waqfs to the same rules and regulations (Cizakca, 2000).

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<sup>7</sup> There is abit vraiance in the use of cash for waqf in the Malaysian practice of cash waqf. For the sake of perpetuity they convert it to real estate, which becomes less dynamic.

### 5.1.2 Waqf-based sukuk

It is a category of Islamic bonds some of which are normally asset backed, with stable income, tradable and Shariah compatible trust certificates (Naqaasi, n.d.; Tahir, 2006; Mar Iman and Tahir, 2014). There are many types of waqf-based sukuk as investment instruments, namely *al-ashaam al-waqafiyyah* (waqf shares), *al-sanadaat al-waqafiyyah* (waqf bonds), and *sanadaat al-muqaradhah* (muqarada bonds) (Khattab, 2006). Waqf shares, which constitute purchase of shares for a specific project and to spend the proceeds for charitable causes determined in accordance with the amount of shares and desire of the shareholder, are used in many countries such as Iran (Meysam and Mojtaba, 2015; Ismal et al, 2015).

Sukuk for waqf purposes can be used for real estate development projects as well as cash based entrepreneurial activities. In the first category, saham waqf or waqf shares, would be a pure waqf certificates which are not repayable. Sukuk in the form of bonds are repayable funds with profit. They will be asset backed or asset based bonds; profits or rental of which would be shared with investing public. Sukuk for cash based entrepreneurial activities would be equivalent to crowd funding of a particular venture. The profits from the venture would be shared during the term of the sukuk and may be part of exit strategy too.

### 5.1.3 Qard-al-hasan

The concept of qard-al-hasan has its root in al-Qur'an through a number of verses such as "...and loan to Allah a beautiful loan..." (al-Muzzammil: 20) and "...if you loan to Allah a beautiful loan He will multiply it for you and forgive you for Allah is Oft-Giving, Forbearing" at-Taghabun: 17). In essence, qard-al-hasan is a loan that does not expect anything in return, except for reward in the Hereafter. In practice, however, qard-al-hasan is a type of interest-free soft loan and waqf mechanism serves this function very well. Waqf mechanism fits itself well into people-empowering programs such as financial support through soft loans (Pramono and Chandra, n.d.) and "banking for the poor". There are some organisations who do use qard hasan but their services charges are almost as high as the normal bankers, therefore the rationale for qard hasan gets lost in terms of cost of borrowing on the poor.

Waqf organisation may extend qard hasan at lower or zero service charges to both bankable and non-bankable borrowers. Muslim jurist allowed cash waqf in term of qard al hasan. The zero service charge can be subsidised by zakat funds released to the borrowers after they get qard hasan.<sup>8</sup> This means the waqf institutions may have funds dedicated by donors for qard hasan to be given to the poor and needy. This funds will enable the small business owners to be free from the oppression of the riba earners. However the application of qard hasan for a waqf entrepreneurship can be more sustainable if the waqf organisations obtain such interest free loan from other institutions such as baitulmal. The amount received will not be waqf. It would be repayable.

## 5.2 Entrepreneurship activities

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<sup>8</sup> The operational method of this opinion is as this: the waqf institution releases qard hasan to the poor at 5-10% service charge. The waqf institution then releases the zakat funds, it has received from zakat institution, to the borrower for the same amount. The borrower then pays the service charges from the amount paid to him from zakat fund.

In Malaysia, traditionally, special waqf is created for religious purposes such as mosque, musalla, religious school, and orphan home. These are basically non-productive uses. Less often, general waqf is created for productive purposes such as cultivation, car park, shop lot, and rental unit. These premises can be used by waqf entrepreneurs on hire basis. However to achieve a vibrant waqf entrepreneurship, waqf institutions need to have a good action plan that not only look at few customary activities but also new. Out of box thinking should facilitate such designs. Some of customary activities, as shown in Figure 1, can be developed for various productive activities (see Table 2).

**Table 2:** Selected Waqf-Based Undertakings in Islamic-Practising Countries

Source: Desk research by authors.

### 5.2.1 Agriculture

Agriculture is the most classical example of land-related waqf application as evidenced by the hadith of Ibn 'Umar about 'Khybar land'.<sup>9</sup> However, in Malaysia, a large proportion of agricultural land parcels that are being donated as special waqf could not be put to production due to various reasons such as their small size, scattered distribution, and unfavourable site location. Nevertheless existing unproductive waqf lands and new waqf lands can be used for agricultural activities some of which may be traditional and others new form of entrepreneurships. We will explain the traditional use of old and new waqf lands first.

- a. Under specified conditions, *ibdal* and *istibdal* can be applied to replace these unproductive land parcels with the productive alternatives (Hamid et al., 1999). Under this framework and further by a religious decree, the concept of *ta'til al-ardh* can be applied whereby small fragmented parcels of agricultural land can be amalgamated and released from their waqf status to be exchanged with another piece of land of an equivalent value. This larger piece of land is then utilized for agricultural production.

The cultivation of the land can be made through traditional methods of muzara'ah (as permitted by the majority of fiqhi schools) or mudarabah (as permitted by Hnabali School). *Muzara'ah* or share-cropping method is a form of classical mudarabah, whereby some percentage/ share of the produce goes to the land owning waqf while the rest goes to the cultivator (Moh-Chairul et al., n.d.; Abdullah, 2008).

- b. *Irsad* is implementable for a large-scale agricultural project whereby the State Ruler through the powers delegated to the State Executive Council grants the State Islamic Religious Council, as *mutawalli*, a piece of land to develop an agricultural project. This project could run as an enterprise under a subsidiary company that employs professionals to manage it. One example is a 3,000-acre oil palm plantation in Mersing that has been donated by Johore State government through *irsad*. The

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<sup>9</sup>Agreed upon. See Hamid and Tahir (2014).

status of mutawalli can also be granted to a recognized corporation, that has demonstrated track records in business success, to manage the agricultural project.

New forms of entrepreneurship can be formed on these lands; some may be related to the agricultural produce of waqf lands and others may be outsourced. A whole lot of agriculture industries may be introduced where small entrepreneurs may or may not work in collaboration with each other to have unique or traditional output of agricultural products and service. Each of these products and services may have a distinctive attribute that could enable them to compete in the neoliberal markets.

### **5.2.2 Construction & real estate**

Similar to the abovementioned agricultural innovation, new winning market niche has to be identified that not only could make waqf real estate projects successful but also to make them unique and waqf compatible. Historically property development is an area where waqf has excelled throughout the past centuries. But it is time to take the real estate development further.

Waqf system was instrumental in the development and construction of public facilities during the Ottoman Empire (Saduman and Aysun, 2009; Abd-Halim et al., 2014). University of Al-Azhar in Egypt was financed by its waqf revenue for over 800 years while the Shishli Children Hospital in Istanbul was funded by a health waqf.

Malaysia has made some progress since the past decade in employing waqf mechanism to partake in the construction and real estate industry. Construction projects on waqf land such as hotel, commercial building, hospital, learning institution, etc. has been on Malaysia's main development agenda since in the early 1980s (see for e.g., Hamid and Tahir, 2015). One of landmark waqf development projects was Menara Wakaf (office & retail) – an istisna' plus wakalah based project – between MAIWP, Lembaga Tabung Haji, and Tabung Haji Technologies (Nursyamimi, 2010), Awqaf Corporate Park, Putrajaya (business centre), and business premises developed by Yayasan Waqaf Malaysia in collaboration with State Islamic Religious Councils.

Many developed waqf premises especially in town areas are rented to retail business, although exact statistics is not available. Bazar Wakaf Rakyat premises under Yayasan Waqaf Malaysia (YWM), for example, are found throughout the countries.

The above recent development projects were undertaken to fill the gaps left by the conventional developers. However, waqf institutions need constant audit of their performance. The innovations they have embedded in their development activities have to be assessed as whether or not they are working in terms of market participation and utility to the target groups. Where the projects have failed to attract the target group, or where they have succeeded in doing this, but failed to improve the lot of the target group, or have failed to even receive the target income from the developed properties, a red flag needs to be raised. Re-examination of the targets, their action plans, the process and procedures needed for the implementation of the organisational policies have to be reviewed and the cause of failures have to be identified and remedied.

### 5.2.3 Services – Education

Education has been the traditional beneficiary sector of waqf system that witnessed educational institutions in Egypt, Turkey, the Balkans, Kuwait, India, Indonesia, Pakistan, Bangladesh, Malaysia, Thailand, and Singapore being developed and maintained from waqf assets. In Malaysia, waqf education is implemented under the third type of waqf system discussed earlier. Beside the state government and SIRC, private groups of philanthropy-motivated people have taken their own collective efforts to develop or run school, tuition centre, orphanage home, hostel, etc. via public donation of cash waqf.

Thus far the traditional system of waqf is implemented. However the utility of this system seems to be limited to a special area of education in terms of effect and outcome. In other areas the educational waqf is less visible and less effective in terms of Islamic values. Additionally, a comprehensive approach to the educational sector in a country, if taken by waqf institutions, is not sustainable, as the current and future resources acquired through donations to waqf institution may not be sufficient. There is therefore a need for a self-sustaining mechanism. This can be achieved through an educational entrepreneurship.

### 5.3 Waqf Institutional Reorganisation

Waqf institutions, formal and informal, have become instrumental to the powerful effects of economic and social formations (Braten, 2013; Abdelfateh, 2016). Historically, this has been proven across the Ottoman Empire whereby almost all public services were extended through waqf (Anon, 2012). By contrast, for almost half a century, substantial amount of waqf assets in Malaysia were left frozen due to various problems inhibiting their full utilization. Part of the inherent factor was related to the structure of waqf institution itself.

The historical development of waqf organisational structures shows that waqf has changed from an autonomous entity, to Court controlled and then State controlled organisation. Each time the performance and existence of the awqaf were threatened by ill management of the controllers, alternative controlling system was introduced. The fundamental principle learned from these changes is the prevention of self-interested parties controlling the awqaf management. Therefore, if the focus of the awqaf managers is more on compliance with the wishes of a third party, then the efficacy of such managers is questionable. Awqaf's nazirs' and managers' benefit to awqaf may depend on the dedication of the third party to the causes which can be achieved by awqaf institutions. To counter such a probability partial autonomy to awqaf institutions has to be restored back to them.

Where Simi autonomous waqf institution is created the possibility of waqf entrepreneurship may be expedited. This may take a variety of forms depending on the wisdom of the institution within given environment. Waqf organisational structure may undergo fundamental change, where no governmental body controls it except for the purpose of audit and regulation. Or some functions and duties of the nazir may be delegated to a different entity. The entity which is appointed by the Nazir then has to be autonomous in its daily transactions including planning and execution of its objectives and aims. This entity has to be hundred percent dedicated to the causes of waqf and maximisation of income and

profits for that cause. Such a hundred percent dedication for the delivery of the waqf utility to the needy public will require innovation and changes of business models.

The current Malaysian scenario, in terms of practicability of ideas, is conducive for a two tier system of awqaf organisations: state nazirship and tawliyah system.

### **5.3.1 State-based versus tawliyah system**

All countries with waqf assets have their own state-based waqf institution. In Malaysia, Department of Waqf, Haji, and Umrah (JAWHAR) was established in 2000 under the Prime Minister Department to strengthen waqf institution. Further, waqf institution was expanded with the incorporation of SIRC-sanctioned waqf-related bodies such as Wakaf Selangor and those found in states such as Johor, Negeri Sembilan, Melaka, Federal Territory of Kuala Lumpur, and Sarawak Baitulmal Fund to actively utilize and develop waqf assets. Waqf-related undertakings have been also the main interest of Yayasan Dakwah Islamiah Malaysia (YADIM), Yayasan Pembangunan Ekonomi Islam Malaysia (YAPEIM), and some other partners such as Permodalan Nasional Berhad (PNB), Lembaga Tabung Haji (LTH) and Bank Islam Malaysia Berhad (BIMB).

In 2007, Yayasan Waqaf Malaysia (YWM) was established with the very aim of strengthening waqf development that can bring greater economic benefits to the people. YWM since then has received capital injection from the government through its Perbadanan Wakaf Nasional Bhd (PWNB) to develop waqf properties in the country (Borneo Post Online, 2015). Prior to that, Corporate Waqf Master Plan was announced by Malaysian government in 2013's Budget with a purpose of propelling waqf development in decades to come. With the defined legal and governance structure, it is designed to be professionally managed and has the ability to attract broader public participation that would provide a higher degree of confidence to the market (The New Straits Times, 2014).

Two main functions and capabilities of Malaysian awqaf organisations, in the context of entrepreneurship, are clear: The nazirs can be the champions of awqaf, and can still have the sole trusteeship and executive powers in general. It can attract waqf funds and assets from various entities to enhance the entrepreneurship capacity of awqaf. The non-productive assets would still be under their direct control. In the case of productive asset, it can be given to mutawallis or left with them under tawliyah. The Majlis can have executive powers where the mutawalli commit gross errors in the management of waqf assets. Other than that the mutawallis could be autonomous in the business dealings revolving around waqf entrepreneurship. The purpose of tawliyah system is to expand the business capability of waqf so that it will not solely be burdened on the state.

### **5.3.2 Commercial company**

Since state-based waqf corporations are not normally independent and self-sustaining in developing waqf properties, the establishment of fully commercial waqf-managing companies (CWMC) to manage or develop waqf assets can help to realize more productive undertakings in a particular country. CWMC's strength rests on its continuous ability to generate economy for the ummah besides avoiding leakages in the economic ownership of

the Muslims as result of privatization and lack of resilience (adapted from Muhammad, 2012). In other words corporatisation of awqaf management may have significant role in the sustainability of waqf and waqf entrepreneurships. The tawliyah method can be used for this purpose. Under the tawliyah, the entity would have full control over waqf assets to manage them in a business-like undertaking. The possibility of entrepreneurship cultivation and growth is much higher under this system.

In Turkey, according to Cizakca (2013), associated companies have been allowed to manage waqfs since 1967 whereby 24% of Turkish waqfs now possess commercial firms, some 70% of which earns up to USD 48,000 per annum. Taxable commercial revenue constitutes 42% of Turkish waqfs' annual income. As a whole, 81% of Turkish waqfs are profitable, which they distribute either as charity or add to their capital. In Singapore, MUIS, with cash waqf being contributed by the public through compulsory salary deduction, has its own business-arm company that actively engages in real estate development and is able to self-sustain through high-return projects in the republic (Shamsiah, 2006).

The Turkish or Singapore CWMC models now started to be adopted with local adaptations in Malaysia but the number is still limited. SIRC-sanctioned and regulated CWMCs are Malaysia's first attempt to encourage independent, self-sustaining waqf companies that acquire funds and operate on their own. Waqaf An-Nur Corporation Bhd (WANCorp) was Malaysia's first corporate waqf with JCorp's endowment of RM250 million in 2006-2007 (AWQAF Holdings Berhad, 2016). Now, its value of assets is in excess of RM 500 million. Awqaf Holdings Bhd (AWQAF), a company limited by guarantee, established in 2012 by the Malaysian Islamic Chamber of Commerce (DPIM), and Labuan International Waqf Foundation (LIWF), are two other examples of pioneer establishment of CWMC that engage in cash and non-cash waqf (AWQAF Holdings Berhad, 2015, 2016; LIWF, 2016). Muamalat Invest Sdn. Bhd. is a fund management company that invests the fund it receives from Wakaf Selangor-Muamalat in shariah-compliant instruments to generate returns that will be shared and re-distributed accordingly (see Ashraf and Abdullaah, c. 2013). More such CWMCs should be allowed to operate on waqf vehicle so as to create a market that will allow them to compete and to make them commercially efficient.

Based on the foregoing discussion, we are certain to propose that the various waqf entities are capable of self-sustaining waqf bank, a form of banking entrepreneurship, that would provide an institutional system of waqf for entrepreneurship as shown in Figure 4. It has four main components that are crucial for the establishment of strong, effective, and reputable waqf institutional system. These are waqif-mawquf-mutawalli component; the financial framework component; the business and entrepreneurship component; and finally the beneficiary component. All these components already currently exist in Malaysia in a very fragmented nature. Their consolidation is a highly daunting, uncertain task that needs to be undertaken with piety and patriotism. For this to happen, as Hamid and Tahir (2014) have advocated (see Chapter 16), new concepts of waqf, innovative waqf financing, and institutional transformation are among the main agenda that will help create a more integrative waqf institutional system for the realization of socio-economic goals and sustainable socio-economic well-being of the ummah.



## 6.0 CONCLUSION

Waqf as a framework of entrepreneurship is advocated in this paper. It has highlighted some prospects and challenges in finding a new ground for developing waqf as a framework for generating economic outputs that can be used for the improvement of society's well-being. Malaysia has some form of state-based waqf institutional set-up and waqf models but the financial framework is yet to be developed into maturity that includes the urgent need for the initiation of waqf bank. Private independently run commercial waqf-managing companies should be encouraged to operate. To spur waqf as a framework for entrepreneurship, new concepts of waqf, innovative waqf financing and institutional transformation are among the main agenda that will help create a more integrative waqf institutional system for the realization of socio-economic goals and sustainable socio-economic well-being of the ummah.

**Figure 4:** Proposed institutional set-up of waqf for entrepreneurship

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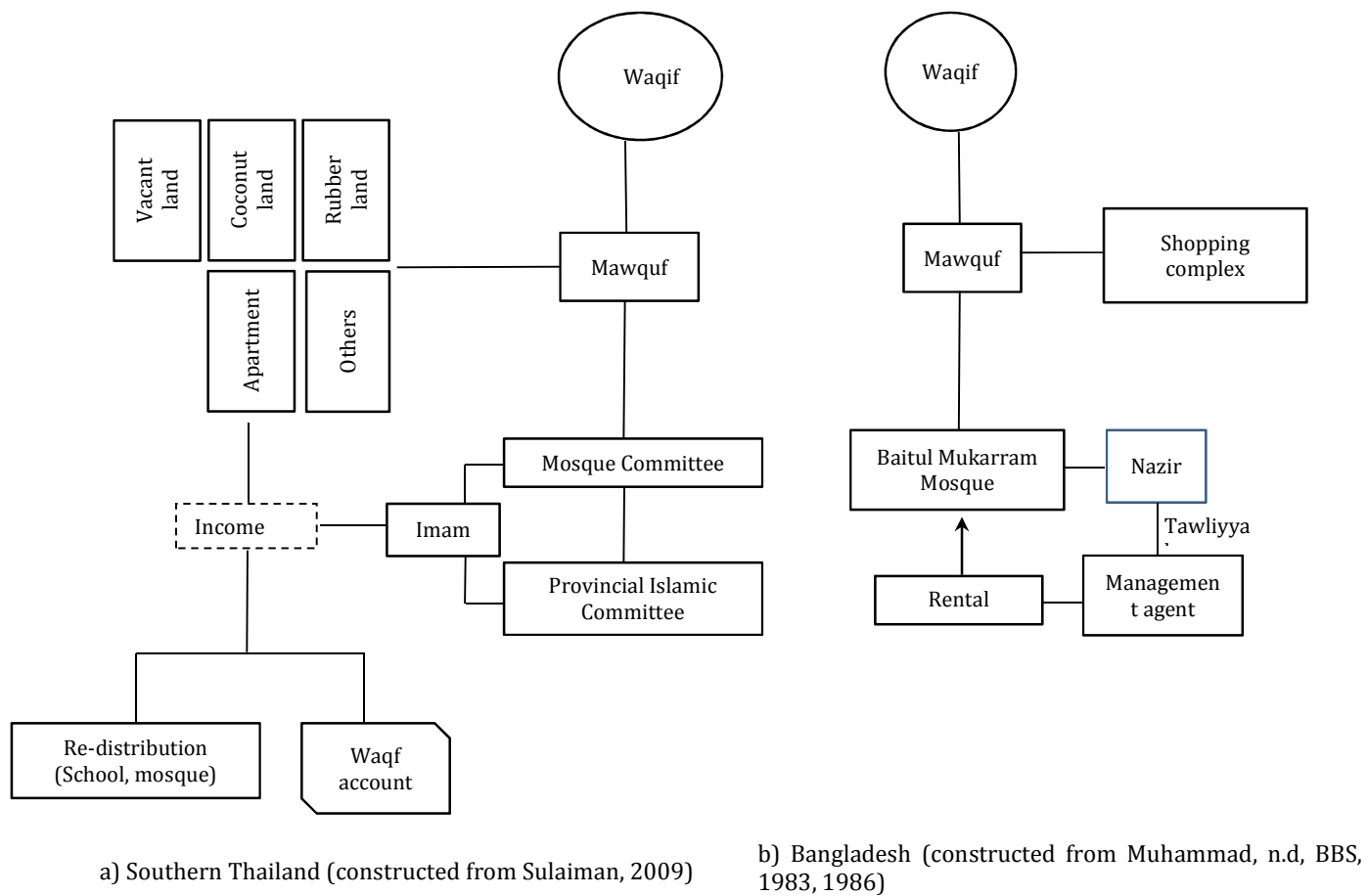
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a) Southern Thailand (constructed from Sulaiman, 2009)

b) Bangladesh (constructed from Muhammad, n.d, BBS, 1983, 1986)

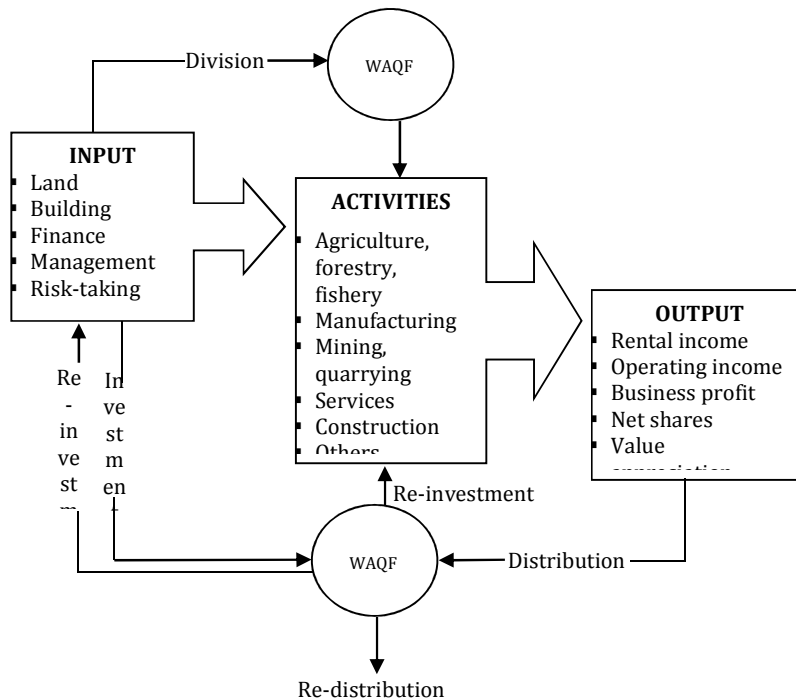
**Figure 1:** Simplest waqf system



**Table 1:** Elements of conventional and waqf-based entrepreneurship

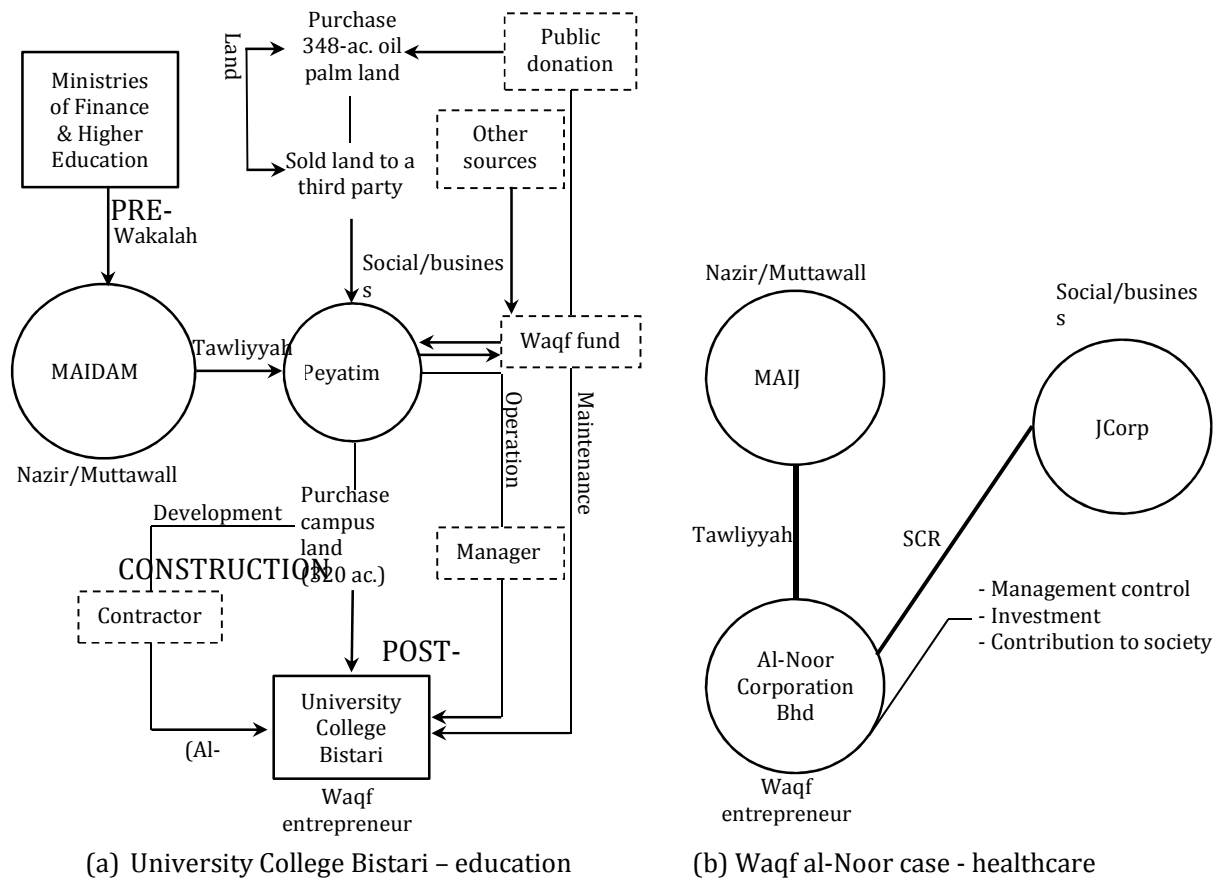
Business category	Financer/ investor	Input	Activity	Output	Beneficiary
Conventional	Self-interested individual	Land, cash, hired skills and know how, etc.	Trade, real estate, agriculture, forestry, fishery, manufacturing, mining, quarrying, services, construction, & others(see Figure 1)	Revenue, income, profit, service charges, asset value , value appreciation	Individual owner
Waqf-based	Philanthropist, nazir				Community/society, poor and needy

Source: Authors' concept.

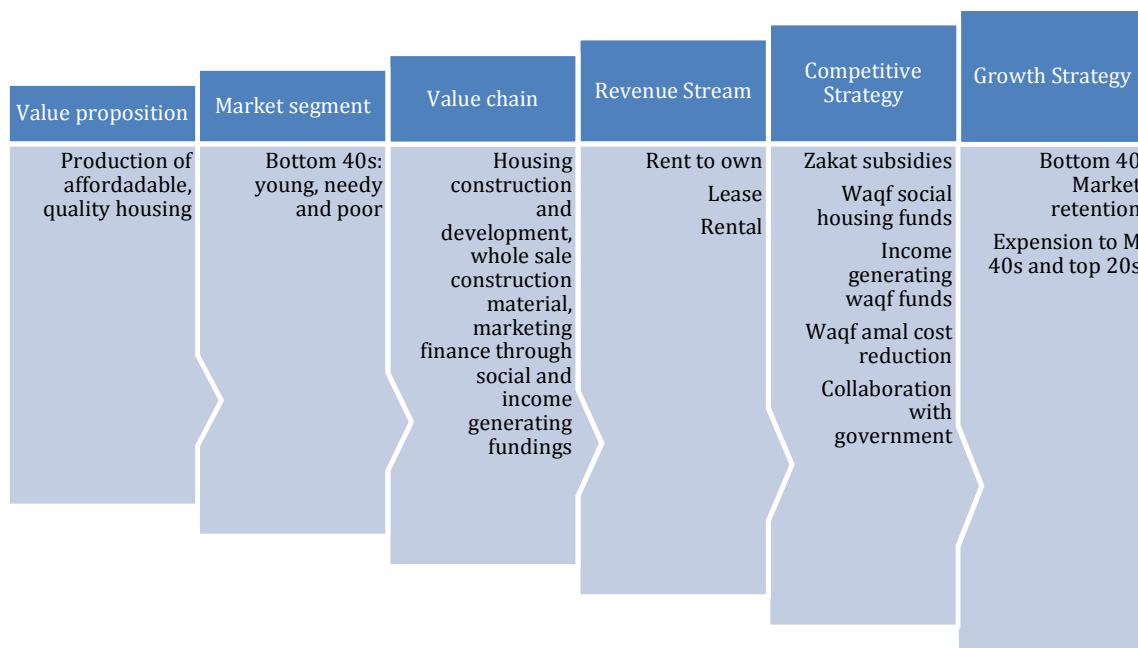


Source: modified from Table 1

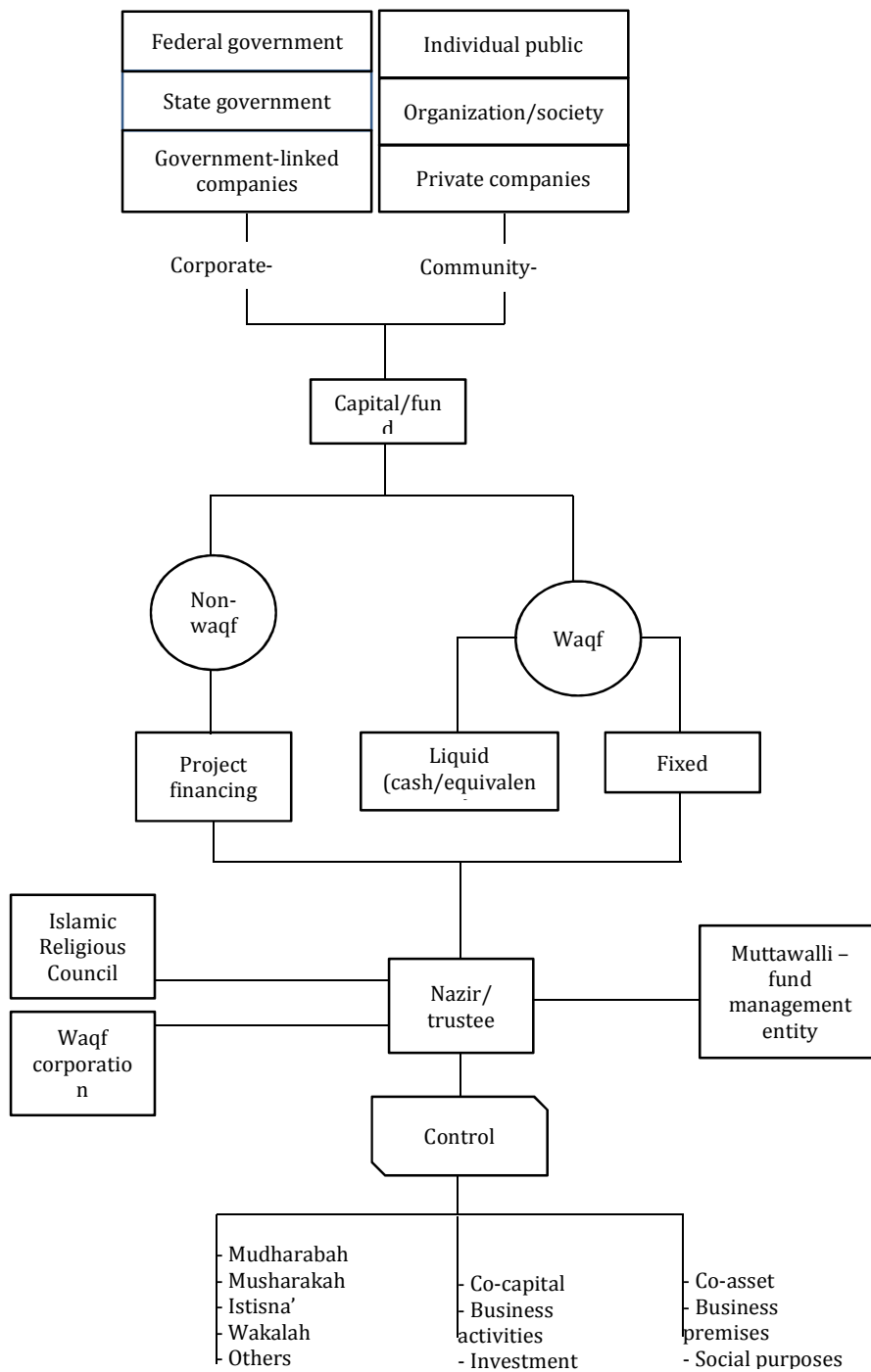
**Figure 2:** Possible link between entrepreneurship and waqf



**Figure 3:** Nazir-controlled and philanthropist-controlled waqf-based entrepreneurship



**Figure 4.1:** Waqf housing entrepreneurship business model

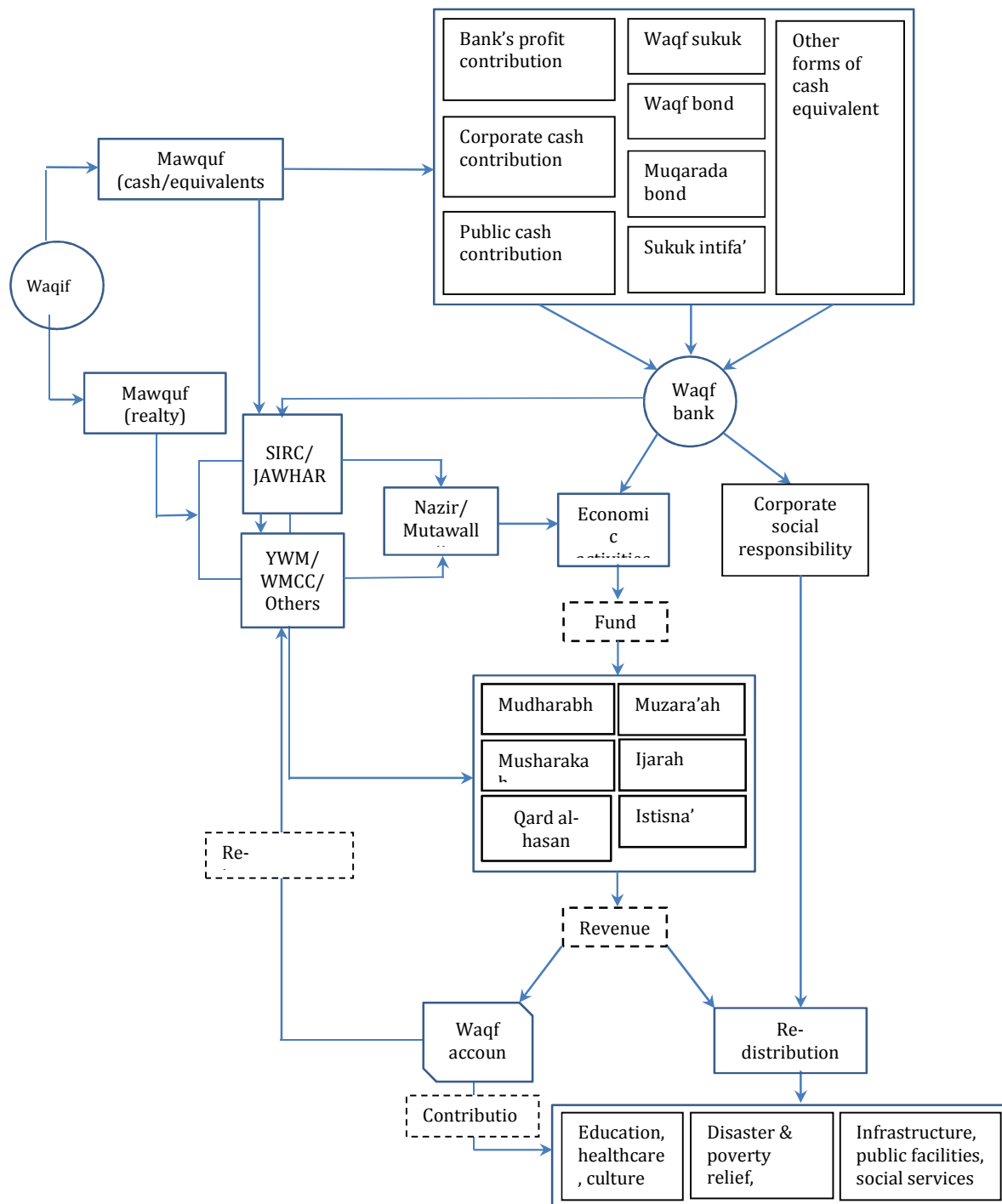


**Figure 4.2:** General waqf-based financial framework for entrepreneurship

**Table 2:** Selected Waqf-Based Undertakings in Islamic-Practising Countries

Country	Type of undertaking	Main activity	Waqf-related model	Reference
Turkey	Private, corporate	Agriculture, retail, real estate, public facilities	Sabancı Foundation	
Kuwait	Public	Public services/ facilities, real estate, cash investment	Kuwait Awqaf Foundation	KAPF (2016)
Indonesia	Private	Agriculture, retail		
India	Corporate	Agriculture, real estate, public facilities, charity	Central Waqf Council	Alam (2015), Mohammad (2016)
Pakistan				
Iran	Private	Retail, commercial	Tehran Bazar	Sadr and Souri (2010)
Bangladesh	Private	Agriculture, retail, services,	Grameen Bank	
Malaysia	Corporate	Agriculture, real estate, business, financial investment	Yayasan Waqf Malaysia, Wakaf Selangor, al-Noor Corporation, AQWAF Holdings Bhd., LIWF	Muhammad (2010, 2012, 2015);
Thailand	Private	Agriculture, real estate	See Figure 3	Sulaiman (2009)
Singapore	Corporate	Real estate	Waqf corporation	Shamsiah (2006)
Brunei				

Source: Desk research by authors.



**Figure 4.3:** Proposed institutional set-up of waqf for entrepreneurship