Waqf as Economic Matters but Being Left Out as Policy Tools

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06 Rabi1, 1436H | December 28, 2014
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Abstract

The aim of this paper is to revisit on the possibility to reintroduce the waqf as policy instruments for economic development. This study is motivated by our findings that waqf are considered as economic matters in three aspects: ownership, tools for intergenerational transfer, investment and sources of revenue and expenditure. Subsequently, we suggest to record these activity in the State of National Account. However, the current practices of transmitting the waqf via NPO and Islamic microfinance lead us to narrow the scope of recommendation to only fiscal policy. The related policy that could contribute to a very large and significant development and welfare of the community is being left out. Therefore, in this paper, we suggest a social security policy, which is intended to achieve the prosperity of society.

Keywords: waqf, national account, fiscal policy, social security, non-profit organization

JEL Classification: D64, E01, E62, H55, E02
Waqf as Economic Matters but Being left out as Policy Tools

Abdul Ghafar Ismail,¹ Bayu Taufiq Possumah²

1. **Introduction**

Allah said in the Qur’an that:

“And what Allah restored to His Messenger from the people of the towns - it is for Allah and for the Messenger and for [his] near relatives and orphans and the [stranded] traveler - so that it will not be a perpetual distribution among the rich from among you. And whatever the Messenger has given you - take; and what he has forbidden you - refrain from. And fear Allah; indeed, Allah is severe in penalty.”³

In another verse (QS3: 14), Allah said:

Beautified for people is the love of that which they desire - of women and sons, heaped-up sums of gold and silver, fine branded horses, and cattle and tilled land. That is the enjoyment of worldly life, but Allah has with Him the best return.

Rasulullah also said as reported by Abu Hurairah:

“When a person dies, all his/her acts come to an end, but three: recurring (ongoing) charity or knowledge from which people benefit, or a pious offspring, who prays for him/her.”⁴

The verse and hadith clearly indicate that accumulation of wealth and its re-distribution are inseparable. Once wealth is accumulated, Muslims are ordained to redistribute this wealth voluntarily. Commenting on the hadith, scholars such as al Nawawi said that the deeds of the deceased come to an end as soon as he or she dies, and the renewal of reward ceases for him or her, except in these three cases because he or she is the cause of them: (i) his or her offspring is counted among his or her earnings,(ii) the knowledge that he or she leaves behind through teaching or writing, and (iii) ongoing charity, i.e., a waqf (Islamic endowment).”⁵

Scholars also agree that based on these verses and hadiths, the tools for wealth distribution in Islam can be divided into two categories i.e. obligatory and non-obligatory. The former are zakat, khums, Kharaj and Jizyah, whereas the latter consist of Waqf, wasiyah, Shadaqah and Qard Hassan.⁶ Both deal with the economic issues, e.g. poverty by adopting basically a redistributive approach, while Waqf can be used to enhance the capabilities of the poor by providing access to such as social process, education, health, and physical facilities. Thus, the institution of Waqf has direct relevance to poverty alleviation by improving upon non-income aspects such as health, and education and increasing access to physical facilities, resources and employment.

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³ QS.59:7
⁴ Narrated by Muslim, Hadith no.1631
⁵ Al Nawawi, (1994), Al-Minhaj Fi Syarhi Shohih Muslim bin Al-Hajjaj8/187, Mu'assasah Al-Qurthubah
⁶ Read further in Ismail, Zaenal and Shafiah (2013)
Throughout Islamic history, Waqf was a one of very important instrument in the socio economic system of Islam.\(^7\) It plays an important and precious role along the Islamic history, especially during the time of Ottoman Khalifah. There were various institutions, organizations, and even some infrastructure facilities, which were built by use of proceeds from Waqf properties. The importance of Waqf relies on the form of property being donated and it can be utilized for various types of interest or necessities (i.e. public or ummah interests). The recent example, such as in Bangladesh, shows that more than 8,000 educational institutions established based on Waqf [Salarzehi and Armes, (2010)]. In addition, 123,000 mosques were built based on Waqf, most of which are linked to education activities (Sadeq, 2005). The following examples (Boudjellal, 2005) also indicate the important roles played by Waqf institutions for the countries:three-quarters (3/4) of all Arab land in the former Ottoman Empire belonged to ‘awqff, in Algeria, under French occupation, Waqf comprised half (1/2) of the lands of the country in the middle of the nineteenth century, for the same period, Waqf comprised one third (1/3) of the land in Tunisia and in Egypt in 1949, about one eighth (1/8) of the agricultural land belonged to this category.

It shows that waqf was used as instrument for development, but not now. This finding and the current findings from Ismail et. al (2014) motivate us to revisit on the possibility to reintroduce the waqf as policy instruments for economic development. We can own and transfer a waqf property to others. In certain circumstances, we want to transfer some waqf property to next generation, or intra-generation. It has some economic implications such as distribution, consumption, and saving from micro and macro-perspective. As an economic instrument, we must look at the characteristics of waqf and explore its relation to economics. Then, we are able to create regulatory and policy to regulate and provide a strong foundation for better potential and maximal waqf management.

The remaining discussion of this paper will be divided into six sections. This paper will firstly discuss the waqf as economic matters. The recording system of waqf in the State of National Account will be discussed in section three. In section four, we learn about the transmission of waqf to the economy. Then, we discuss the waqf in the context of social security policy. Section six provide the conclusions.

2. Waqf as Economic Matters

The question that we may ask is why we classify waqf as economic matters. Let we look it from the basic premise, that is the definition. This definition could be divided into two, language and scholar perspectives. From language perspective, as discussed in Ariff (1991), waqf is spelled out as Wakfun and formally known as Waf-f-al-al-ulad or religious endowment. Alternatively, it is typically denoted as a building or plot of land\(^8\) devoted for religious or charitable purposes.

Scholar such as Imam Abu Hanifah said that waqf means the detention of specific thing in the ownership of waqif and the devoting of its profit, products or other good objects for the poor. Imam Abu Yusuf and Imam Muhammad said that waqf signifies the extinction of the waqf’s ownership in the thing dedicated and detention of all the thing in the implied ownership of God. It shows that its profits may revert to or be applied "for the benefit of mankind". Another scholar,
i.e., Kahf (1998), he defines waqf as “holding a Maal (property) and preventing its consumption for the purpose of repeatedly extracting its usufruct for the benefit of an objective representing righteousness or philanthropy.”

Hence, waqfis very much closed to economic in different aspects: (i) it gives the transfer of ownership of the said property to a trustee; (ii) the said property is taken from the owner’s wealth such as cash waqf, it reduces the consumption of owner but it create a “transitory” wealth of recipient or it generates benefits of other generation via intra or intergenerational transfer; and (iii) perpetuity concept of waqf remains as long as its asset lasts, hence the accumulation of stocks (or investment) remain with the trustee; and (iv) finally it increases the sources of revenue and expenditure of the trustee.

(i) Ownership

According to the Shafii School, when a property is made as waqf, the ownership of property is transferred to Allah, and hence there is no legal title for the endower or the beneficiary (mawqoufalayh). While, according to the Maliki and Hanbali schools, when a property is endowed as waqf, the endower transfers the ownership to the beneficiary. Qadi Abu Yusuf and Imam Mohammad, two followers of Abu Hanifa stated that,

“the tying up of the substance of a thing under the rule of the property of Almighty God so that the proprietary right of the waqf becomes extinguished and is transferred to Almighty God for any purpose by which its profits may be applied to the benefits of His creatures”

In economic terms – waqf is property transferred for merit or benefit to others because when ownership of property transferred to Allah and beneficiary (the owner has no ceases to have any claims over it, the property is said belong no one but Allah), could be channeled for public purposes (waqf al-khayri) or for children and the family (waqf al-ahli). If the benefits are channeled for public purposes, it means that its benefits should be used for poor people, relatives of the endower, slaves, itinerant travelers, and guests.

In addition, the property that is to be transferred must have at least two conditions; the property (al-mawqiforal-muhabbas) must be ‘continuously usufruct-giving’ and ‘immovable things’. The former means waqf should be identified as the perpetual dedication of benefits of a valuable (as long as its principal is preserved), the value of which is amortized subsequently, and its proceeds or revenue are later spent on welfare of the named beneficiaries. In this perspective, perpetual dedication of benefits does not mean perpetual physical object which is the subject matter of the dedication. It is to be read together with ‘value’ of the benefits. Hence, perpetual dedication of benefits is obtained by amortization of the value of the object.

While, the later means that the object of the dedication could be of any kind: it can be perpetuity or immovable (such as estate). However, the Hanafis also allow most movable goods

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11 Refer to http://www.thefreelibrary.com/The+role+of+legal+doctrine+in+the+decline+of+the+Islamic+waf%3A+a...-a058118608
to be dedicated to a waqf with some restrictions. It shows that the property could be identified and hence it is transferable and registered under trustee.

(ii) Intergenerational Transfers

By referring to the hadith from Abu Hurairah (may Allah be pleased with him) which reported that Allah's Messenger (may Allah's blessings and peace be upon him) as saying,

"Among the actions and good deeds for which a believer will continue to receive reward after his death are knowledge which he taught and spread, a good son whom he left behind, or a copy of the Qur'an which he left as a legacy, or a mosque he built, or a house which he built for the traveller, or a stream which he caused to flow, or a sadaqah which he gave from his property when he was alive and well, for which he will continue to receive reward after his death."\(^{14}\)

This hadith clearly asserts that Islam has recognized the transfer of wealth, transfer of 'ilm and “transfer” of nasb. Waqf is one of a type of distribution of wealth in the inter-generational transfer. By doing this, it has a significant impact on the economic system as follows: first, wealth is not the end of a goal, but just a surrogate for distribution to a more eligible and need. It shows that we are not the absolute masters of the wealth we produce but we are only trustees and are therefore not authorized to pass this wealth to others as we like. Second, we should maintain a fair distribution of wealth. By breaking up the concentration of wealth from the hands of few individuals and spread it out in society and to the next generation. It can maintain equality and erode the gap between rich and poor and sustainability of welfare from the current generation to the next generation. Third, when Islam forbids monopolies of wealth, it provides solutions for wealth that does not accumulate on one side only, in a way telling to fulfill the rights of others or the next generation through inheritance, saving, bequest/wasiyah and consolidation of the family system, which is the social unit of an Islamic society. Fourth, Islam takes care to maintain the present and future sustainability of economic growth, sustainability and equality of welfare events.

(iii) Perpetuity and Investment

Perpetuity (ta’bid) in waqf means that once a property is devoted as a waqf, it remains so that until the Day of Judgment and no one can change it later on. So the property cannot be sold, transferred or liquidated. The ownership of property lies outside the waqif (person who perform Waqf) or mutawalli (person who is entrusted to manage) but it belongs to Allah. From here we can conclude that there are three meanings associated to the term of perpetuity. First, once the declaration of waqf is made by the donor, a legally binding waqf is automatically affected. Second, that waqf cannot be constrained by time and temporariness. Third, the subject matter of the waqf should remain so forever. Therefore, perpetuity also includes irrevocability, as is the case in the first meaning. This is also in line with the classic opinion on perpetuity which is implied by the second and third while inalienability may be inferred from the third. In fact, the third indicates the perpetuity of waqf in the sense of perpetuity of the subject matter.

But, perpetuity does not mean that its value could be maintained. Hence, the value of property may reduce and but the benefits may increase. For example, overtime, the value of a bus (which is considered as fixed assets) may reduce, but this investment still benefits the commuters.

In addition, according to Kahf (1999), perpetuity of a property is acquired by legal organization or legal status through equities in common stock of a company. Accounting

\(^{14}\) Narrated by Ibn Majah and Baihaqy
procedures may turn a given property into perpetuity through the application of the principle of provision for capital consumption or provision for amortization. This may create new investment.

Although, the majority scholars agree on the perpetuity of waqf.\(^{15}\) Fixed assets or immovable assets such as real estate or land, seems the ideal form of waqf. In certain extent, scholars also agree that the property must be perpetual value, except otherwise is permitted by text. There is also reasonable fact so that waqf in a movable assets is accepted. Following to this issue, cash waqf becomes increasingly well-known particularly because of its flexibility which allows distribution of the cash waqf’s potential benefit to the beneficiary. In this concept, mutawalli collects the fund from waqif and invest the money in the real sector and in any sharia based investment opportunities. Mutawalli will then allocate all profits and returns gained from the investment to any poverty alleviation program to enhance the quality of poor people’s life, such as free education and health services, cheap basic food, etc. Mutawalli is obliged to maintain the amount of fund in such a way that it does not go below the initial amount. Therefore, Mutawalli 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 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 Waqf fund management especially cash waqf.

(iv) Sources of Revenue and Expenditure for Trustee

In this section, we do not want to argue on who should be the trustee (government or non-profit organization because waqf management can be established by both), as long as they become the trustee. The trustee is given the mandate to receive the ownership on the said property. The trustee in the form of individual or group has to be constituted to manage the property for generation of income which is distributed as specified by the donor. Furthermore, the trustee may also utilize from the benefit for her expenses and may use the benefit to feed the needy.\(^{16}\)

Meaning that the profit from investments will be divided into two; first, it would go into the fund that would finance all linked industrial operation (including capital improvements); and it would help to subsidize programs for the needy. Thus, financially the system has been created in such a way that tax payers are not required to suffer the additional burdens. Intra-governmental multiplier effect also come into play. At the macro level, government would get more income for its budget; Government’s money would eventually be injected into other budgets like staff salaries, inmate wages, and payments to private sector vendors. Second, it would be paid for the labor of trustee’s revenues, to purchase goods from the suppliers (to support the beneficiaries’ budget and to pay compensation).

3. Waqf in the System of National Account

Once we identify waqf as economic matters, how could we record this activity in the System of National Account? Because, the national accounts are used as a basis for economic analysis and


policy formulation. In general, the System of National Account (or in brief SNA) provides an overview of economic process. It records the distribution of production among the economic agents, namely households, businesses, government and foreign nations. It also show the flows of income (from the production origin and after modified by taxes, zakat and transfers (e.g. waqf)) to economic agents and then, they allocate to consumption, saving and investment.

By looking at the trustee as non-profit organizations (NPOs), we can analyze the contribution of non-profit organization on the national account. Before, we analyze further, let we highlight the following issues: first, NPO is defined as an economic unit, which, conducts economic transactions, owns assets, and incurs liabilities. NPOs can consist of one (e.g. a nation who has centralized trustee) or more establishments (e.g., a nation who has decentralized trustee). By definition, NPOs are not permitted to be a source of income, profit or other financial gain for persons or entities that establish, control, or finance them. But, they can generate profits for the beneficiaries or to cover the operating costs of trustee.

Second, although NPOs may not be a source of profit to other economic agents, NPOs may act as market producers if they provide services for which they charge prices or fees that are economically significant. Economically significant prices influence both the amounts producers are willing to supply, and the amounts consumers are willing to buy.

Therefore, we need to analyze further on which sectors the NPOs are operating. The SNA groups economies into five major sectors: (i) non-financial sector; (ii) financial sector; (iii) government sector; (iv) households sector; and (v) NPOserving households.

- NPOs in the nonfinancial sector. NPOs that produce individual services of a non-financial character (e.g. health care, education, day care, nursing home care) and that receive half or more of their income from the sale of such services at prices that are economically significant (SNA, 2009: Part C) are allocated to the nonfinancial sector and thereby lose their identity as NPOs. Similarly, NPOs that serve enterprises in the corporate sector, such as trade associations, are also included in this nonfinancial sector.
- NPOs in the financial sector. NPOs that serve enterprises in the financial sector, or that produce individual services of a financial character (e.g. microfinance and credit provision) and that receive half or more of their income from the sale of such services at prices that are economically significant are allocated to the financial sector and also lose their identity as NPOs.
- NPOs in the Government Sector. NPOs that (i) produce collective services (e.g. parks, clean air) or (ii) produce individual services that are provided mostly for free or at prices which are not economically significant, and that are controlled and mainly financed by government units or funds, are allocated by SNA to the government sector and lose their identity as NPOs.
- NPOs in the Nonprofit Organizations Serving Households (NPOSH) Sector. Only those NPOs that produce individual services provided mostly for free or at prices that are not economically significant, and that are financed mostly by transfers from non-governmental sources (e.g. households, businesses, and foreigners), are considered by SNA guidelines as a separate sector, referred to as the Nonprofit Institutions Serving Households Sector.

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In addition to the classification of NPOs based on their purpose, behavior and control, the SNA further classifies the activities of those NPOs assigned to NPOSH sector using the Classification of the Purposes of Non-profit Institutions (COPNI) serving households. COPNI recognizes seven categories in addition to a class of miscellaneous services, introduced by United Nation (2009) (refer to Table 23.1), i.e., (i) housing; (ii) health; (iii) recreation and culture; (iv) education; (v) social protection; (vi) religion; and (vii) political parties, labor and professional organizations.

The structure of COPNI generally follows the system used to classify the functions of government (SNA, 2009: Chapter 29), and covers current transactions, capital outlays, and some types of assets. However, it is important to note that COPNI does not cover all NPOs. Some are included in the other sectors (corporate, government). For example, nonprofit business associations are part of the corporate sector, whereas unions (serving employees as members of households, not of the corporation) and professional associations (serving members of a profession, not their businesses) are allocated to the NPOSH. The SNA assumes that market-producing NPOs are less frequent than nonmarket producers are, i.e., that the majority of NPOs are often created for charitable, philanthropic, or welfare reasons.

Therefore, in recognizing the contribution of Waqf to the economy, we need to: establish a trustee as NPOs, and NPOs should be established as a defined purpose, their market behavior, who controls them, and on its revenue structure.

4. The Current Transmission Tools of Waqf

After we recognize the contribution of Waqf in the State National Account, we want to learn on how the Waqf could be transmitted into the economy. By doing this, we could integrate waqf with the mainstream view and be part of the policy tools. The transmission will be discussed in the context of past studies and experiences in several countries and its impact on the economy.

4.1 Waqf as Policy Tools

From the past studies, we will highlight two frequently tools used in the transmission process, namely, Baitul-Mal and Islamic microfinance. In this section, we will discuss the operational details or tools that policy makers use in the transmission mechanism.

(a) Baitul Mal

Traditionally all waqf property are held on trust by word of mouth tradition. Waqf can only be well functioning, if there is an organization that will be given a trust and mandatory to manage it. In recognizing the importance of this NPO or known as Baitul-Mal or public treasury, several countries (for example Malaysia (Possumah and Ismail (2012), Bangladesh (Basher, 2010) and Indonesia (Ihsan and Ibrahim (2011)) has been looking to establish this NPO. The NPO has an important role in managing waqf. Normally, the waqf in Baitul-Mal could be generated from three different sources: (i) Religious waqf: - waqf exist for purposes such funeral and money to build mosque; (ii) Philanthropic waqf - people give property such as farms as well as money. Some

\[\text{18 Such as Zallum, (2004), 'al-Amwal Fi ad Dawlah al Khilafah',Thab'ahMu'tamadah, p. 15}\]

\[\text{19 The first Baitul Mal was established during the reign of Abu Bakr who succeeded in the year 632, A.D. as First caliph of the Islamic state.}\]
waqf holdings are converted into prime commercial property in order to improve the income and other rented buildings to bring in income. In country like Malaysia, cash waqf could also be transferred into share in a company. Partly, it increases the ownership of trustee in the wealth of a nation. The waqf benefits are allocated to the public for different purposes such as the support poor and promote social activities. It also support the development of educational centers, health care, animal care, and takes care the environment, development activities of the green space, and the development of infrastructures; and (iii) Family waqf - waqf from the parents to children and heir. So that the waqf benefits will be spent for next-generation.

It shows that waqf have been utilized according to the type of expenditures - development expenditure or operating expenditure; and purposes, i.e., socio-economic and economic purposes. Examples from several countries show that the development expenditure on such as housing facilities, infrastructure projects and educational institutions; and operating expenditures on such as salaries, health services, and a number of similar services could be initiated from waqf.

The expenditure for socio-economic purposes is the most important aspect of the mode of disbursement of waqf benefits. Here, the simplest method is to extend these benefits through transfer payments to those entitled to receive them. In addition, the waqf for economic purposes are also channeled for the development of agricultural sector.

(b) Islamic Microfinance

Microfinance is one of the most popular tools employed as part of a poverty reduction strategy. However, the effectiveness of direct transfer to the poor has been questioned by many studies, for example Hudon and Traca (2011) and De Janvry and Sadoulet. (2006). Even the direct involvement of government (by giving grants) to make sure the microfinance could provide financing for many customers and subsequently, could last long, has been criticized by Aghion and Murdoch (2000). They argue that subsidies could be deployed to compensate formal financial institutions such as banks for entering into risky markets due to high transaction costs and inherent risks. The subsidies are also used to keep interest rates low for poor borrowers. Thus, with the funds from the government, microfinance can provide financing to customers with low interest rates (it is normally called ‘subsidized rates’).

By allowing the free market to work, researchers like Ahmed (2011), Abdullah and Ismail (2015) suggest that waqf based microfinance as an instrument for economic development. Cash Waqf can be source of fund for Islamic microfinance from potential donors who want to donate their money to help the poor to venture into income generating activities. The allocation of cash waqf on grant basis for: the poor, needy and other recipients; and consumption goods are considered to lead to more specific approach in dealing with the problem of eradication of poverty, since waqf addresses to general poor groups.

These waqf funds are managed by using two approaches, group-based lending approach and decentralization policy approach. By adopting group-based lending approach, Islamic micro-

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20 See Abdul Karim (2010)
21 See Mohd Shafiai (2012)
22 Read further in Smolo and Ismail (2011), Bhuiyan et al. (2012) and Bhuiyan, et. al (2013) and Widiyanto and Ismail (2010)
23 Group-based lending approach is deeply described in Ibn Khaldun’s concept of ‘Asabiyah or social solidarity. Refer to Qur’an 5:2, “cooperate in righteousness and piety, but do not cooperate in sin and aggression”
finance institutions may offer various Islamic financial products and services without compromising on the issue of institutional viability and sustainability. The second approach provides a permanent mechanism from within the economy, to continuously transfer income from the rich to the poor, so that whatever is the number of poor people in a society or whatever are the causes of poverty there is always a continuous flow of transfer to take care of the welfare of the poor.

4.2 Impact of Waqf on Economy

In this section, we will examine the impact of waqf on the economy. Having highlighted the choices of policy tools and the operating mechanism of those tools in the current economic condition. Next, we will explore the operational details or tools that policy makers use in the policy transmission mechanism. The understanding of the impact of waqf in the light of modern economic analysis makes its utilization possible in such a manner as to produce a cumulative effect on poverty and as an instrument of active fiscal policy.

Waqf may be earmarked for productive investment intended for the benefit of eligible recipients. Such investments may merge with overall investment priorities of the economy. Thus, waqf would serve two purposes at the same time. On the one hand, they would minimize the non-investment or consumption expenditure arising out of substantial and regular transfer payments of waqf in an economy. Since the marginal propensity to consume at low levels of income is not usually more than unity, and since in a developing economy it is high all round that the two would together further depress the ratio of savings to GNP. While at high levels of employment, the upward shift of the consumption function may be desirable in certain conditions. For example, the developing economies who confronted with an unusually low ratio of savings to incomes, they would very much like to restrict consumption. If waqf benefits flow into investment channels, it would reduce its negative effects on savings and add to gross national product.

In addition, the transfer of funds via inter-generational transfer may result in a steady state economy. Basically, we recognize the possibility that changes in transfers might induce changes in consumption and earnings paths and thus alter the life cycle component of wealth. If, we consider, our life cycle of wealth as accumulated earnings minus accumulated consumption (including taxes and zakat), and the accumulated earnings cover the wages and transfer payments from waqf. Then, the transfer of waqf increases the capital stock and wealth. Hence, any reduction from external sector could be absorbed from internal sector, the steady state economy could be achieved.

The microfinance institutions may channel the benefits from waqf funds to the recipients without charging interest (riba). The modes of channeling may take several forms. It ranges from trading or leasing modes like Murabahah, baymuajjal, and Ijarah, to partnership modes like musharakah or mudarabah or loans like qard Hassan. These modes involve real transactions, i.e., a genuine exchange of goods/assets happens in the economy. As a result, the opportunity of diverting funds for non-productive uses other than that requested for could be reduced, if not eliminated. This would also produce the sustainability to microfinance institutions. Normally, the recipients are those who involve in the micro and small enterprises. By injecting capital through these modes of financing, it would enhance the development of microenterprise and to a certain extent; it would increase the income of recipients.
5. Waqf Funds – A Useful Economic Tool

Having discussed waqf as NPOs, it shows that waqf could not be left out. However, the current practice that limit the scope of this policy for creating a NPOs (i.e. microfinance institutions and Baitulmal. Baitul), the scope treats waqf in the narrow scope, it will limit the effectiveness of this toolonly to fiscal policy (via direct or indirect transfer). Waqf may become a useful tool, if we discuss it in the context of social security policy.

5.1 Why Social Security Policy

In International Labor Organization publication on World Social Protection Report 2014/2015 reported that only 20 per cent of the world’s population has adequate social security coverage and more than half lack any coverage at all. ILO also actively promotes policies and provides assistance to countries to help extend adequate levels of social protection to all members of society. The protection covers the access to health care and income security, particularly in cases of old age, unemployment, sickness, invalidity, work injury, maternity or loss of a main income earner. In this section, we will argue that Islam also has its own view. Why we want to promote Islamic social security policy?

The Islamic concept of social security originates from the following verses of the Qur’an and the Ahadith which enjoin upon the believers of Islam to help the poor and needy who are unable to fulfill their basic human needs and on how the government play her role. Hence, social security is a ruler’s duty to citizens or, in a more contemporary language, a government’s duty to its people as it has an obligation to enable them, at least to lead the minimum standard of life and to offer assistance to all who need it.

Therefore, the social security policy should be directed to achieve the prosperity of society. By doing this, it can achieve its permanent happiness, goodwill, security, unity, and peace. At individual level, each member of society should also help those in needs so that they can lead at least a decent life and meet their basic needs. In achieving the objectives of this policy the assistance could directed into financial and moral assistants. The financial assistance is aiming at making the poor reach the limits of ‘financial independence’ or ‘prosperity’. In this sense, ‘Umar bin Al-Khattab, may God be pleased with him, said: ‘When you make a donation, grant financial independence’, which can be achieved through providing additional access to employment opportunities and assisting in starting, managing and growing small businesses and Ali bin AbiThalib, may God be pleased with him, said: ‘God imposes a duty on the rich to donate as much money as adequate for the poor in their society.’ On the other hand, moral assistant is represented by many forms because human needs are not only financial ones, but they also include different

24 “They ask thee, (O Muhammad), what they shall spend. Say: That which ye spend for good (must go) to parents and near kindred and orphans and the needy and the wayfarer. And whatsoever good ye do; Lo! Allah is Aware of it.”QS.2:215 and “And serve Allah. Ascribe nothing as partner unto Him. (Show) kindness unto parents, and unto near kindred, and orphans, and the needy, and unto the neighbor who is of kin (unto you) and the neighbor who is not of kin, and the fellow-traveler and the wayfarer and (the slaves) whom your right hands possess. Lo! Allah loves not such as are proud and boastful.” [QS.4:36] and also the following hadith ”I am nearer to every believer than his own self; so whoever leaves behind a debt or children to support, it shall be our charge; and whoever leaves property, it is for his heirs, and I am the heir of the person who has no heir. – I inherit his property and pay his debt.”24 [Narrated by Muslim]

25 “The government is the guardian of anyone who has no other guardian.”25 [Narrated by Abu Dawud and Turmudzi]
forms, such as consultation, advice, friendship, goodwill, education, consolation, and other many forms of donation.

Broadly speaking, social security embraces in its fold social assistance, provision of basic necessities of life, social insurance against risks of hazards (such as sickness, old age, and unemployment), public maintenance, etc. The idea of social security originated in realization by the state of its responsibility to provide its citizens adequately against certain contingencies like want, poverty, disease, illiteracy, unemployment and old age.

5.2 How does it works

Under the contributory-based scheme of modern social security system, among the benefits available are retirement pensions, widows’ benefits, invalidity benefits, unemployment benefits and sickness benefits. This scheme operates on the basis of wilful financial contributions by the employers and the employees, while it works for the designed-people on the needy test basis. Although, waqf are the collection paid by those who are financially able, it is spent for the security of needy people in the society and for public purposes. Since beneficiaries designed under the contributory-based of modern social security system are on needy test basis hence, it is obvious that the waqf could undoubtedly provide a social security for those needy people on the basis of needy test. The only difference here is that, those needy are helped out under the modern social security system upon the contribution basis, whereas under the principles of waqf they are helped out on non-contribution basis.

The area of policy should cover the following areas:

i. Retirement scheme - it was practiced long time ago during the era of the Caliph Umar (r.a) who set up a special department to manage the retirement pension. He even once ordered the government to pay regular pensions to both Muslims and non-Muslims. Because, the retiree is a jobless with no income, hence it is usually considered as a needy.

ii. Widow’s benefits - it is one of the great virtues to look after the welfare of the widows as the Holy Prophet (saw) once said to the effect:

*The one who looks after and works for a widow and for a poor person is like a warrior fighting for Allah’s (swt) or like a person who fasts during the day and prays all the night...”* 

iii. An invalidity benefit is for those beneficiaries who are unable to work and earn their necessities due to sickness and such a concept is also in harmony with the commandments of Allah (swt) in helping the needy, as He (swt) narrated to the following effect:

“And in their wealth and possession, the right of (needy), him who asked and him who (for some reason) was deprived”. 

iv. Unemployment benefits are meant for those who are unemployed due to crisis in the job market or under qualification. Islam has indeed indicated that, it is a moral obligation to help those who are unemployed and face difficulties as the result of that phenomenon. The Holy Prophet (saw) said to the effect:

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26 Al-Baladhuri, *op. cit.* as cited in Doi (1990), p. 111
28 *al-Qur’an* at Ch. 51:19.
Whoever solves the worldly difficulties of a believer, Allah (swt) will remove from him one of the grieves of the Day of Judgement. Whosoever alleviates (the lot of) a needy person, Allah (swt) will alleviate (his lot) in this world and the next ...” 29

v. There are some situations whereby some people are unable to maintain themselves as well as their families due to unexpected sickness, which hamper their ability to earn their basic necessities and needs. As such, Islam also encourages the people to help these types of needy people as we find the Prophet (saw) saying to the following effect in one of his traditions:

Whosoever alleviates (the lot of) a needy person, Allah (swt) will alleviate (his lot) in this world and the next.30

6. Conclusions

The Islamic history and civilization are partly contributed by waqf. Initial findings from our analysis shows that waqf are considered as economic matters in three aspects: ownership, tools for intergenerational transfer, investment and sources of revenue and expenditure. Subsequently, any activities related to waqf can be recorded in the State of National Account. Hence, the waqf can be used as policy instruments for economic development. However, the current practices of transmitting the waqf via NPO and Islamic microfinance lead us to narrow the scope of policy recommendation to only fiscal policy. The related policy that could contribute to a very large and significant development and welfare of the community is being left out. Therefore, in this paper, we suggest a social security policy, which is intended to achieve the prosperity of society. The challenge is to encourage the people to donate, and the rewarding motivation in the hereafter might be the pushing factors, but the tax on inherit items might also be the obstacles.

29 Sahih Muslim as compiled in Al-Nawawi
30 Ibid.
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