

EDITORIAL

Promoting the Institution of *Waqf* for Socio-economic Development in Islamic Societies

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For a healthy, and harmonious society, a share of the income and wealth of the relatively rich must be passed on to those who might not be able to get resources sufficient for their survival. It would enhance financial and social inclusion boosting overall economic growth by helping poor people maintain their human capital for the future and by promoting countercyclical economic policy. It would assist in the growth of the economy and equitable sharing of wealth.

The services of financial institutions working as intermediaries must be as equitable and efficient as the heart is required to efficiently supply blood to all organs required for a healthy human body. *Waqf* is a unique institution of the Islamic economy for intergroup resource sharing to take care of both short and long terms needs of those in the society who might need support for their instant consumption requirements, or production and business process/job opportunities.

As a tool for the general welfare, *waqf* played a crucial role in the Ottoman era, Mughal India, and the Malay region. It financed the craftsmen and entrepreneurs as well. Particularly, cash *waqf* facilitated in providing jobs and business opportunities, education, capacity building, and rehabilitation from any calamities. In this way, it served as an institution to transfer the funds from the well-off in society to those in need for consumption or for activating the production and business process.

Waqf played the role of development in the past and it is valid for all times. In case a suitable framework is provided, Muslims today would be just as keen as their forefathers to establish *awqāf*. The privately accumulated capital may be endowed by the well-to-do voluntarily to finance all sorts of social services to society. This way, *waqf* would help in realizing the socio-economic goal of a better distribution of income and shared wealth in the economy.

Linking the globally emerging concept of 'CSR' to the *waqf* institutions could be instrumental in enhancing socio-economic welfare. The funds allocated by the corporate bodies, particularly, by the banking and finance companies may relate CSR funds to the *waqf*-based community development programs.

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Islamic finance was institutionalized in the second half of the 20th century in many OIC members states to resolve the problem of increasingly inequitable income distribution due to exploitation tools of *ribā* and *gharar*. Some mega-conventional financial institutions also adopted Islamic finance as a business proposition. Practically, it failed in realizing the objective of equity and justice mainly because it pursued the paradigm of conventional finance and ignored the tools of Islamic social finance.

As such, Islamic finance as being practiced, does not have capacity to realise the objective of social inclusion by just distribution of profits among the investors, and by providing access to finance by the entrepreneurs and SMEs at micro level.

Waqf being the most effective institution in the beyond-market segment of the Islamic economy can be an effective tool for Islamic financial institutions in realizing the objectives of Islamic finance. Islamic finance, FinTech, digital economy, and *waqf* could be termed as the Key Economic Growth Activities (KEGA) for such Islamic countries that are facing the challenges of increasing debt burden, fiscal and balance of payment deficits, and the widening gap between the poor and the rich.

Waqfs are being established in countries like Indonesia, Malaysia, Bangladesh, South Africa, and some Middle Eastern countries, also of cash, stocks, securities, intellectual property rights, and other financial instruments by individuals, and institutional, and corporate entities. During the last couple of decades, *waqf* also turned out to be a contributory tool for bridging infrastructural deficits.

In Pakistan and many other Islamic countries, of course, little work has been done in reviving/promoting *waqfs* for realizing the social and economic objectives indicated above. Effective efforts have not been initiated for financial inclusion with the crucial role of *waqf* that Islam suggested for socioeconomic inclusion and general welfare.

The formal journey of *waqf* as giving for pleasing Allah (SWT), and the longer-term benefit of the poor and the needy in society started over fourteen centuries ago. Real estate was the form of *waqf* in the early Islamic era, but later other movable, financial, and intangible assets were included as cash endowments. The concept of cash *waqf* turned the *waqf* into a kind of financial intermediary through which smaller amounts of charities were channeled into many sub-systems of socio-economic welfare in education, healthcare, hospitality, financing the craftsmen, and other infrastructural sectors.

We at the Riphah Centre of Islamic Business (RCIB) have just completed a research project, funded by the HEC Pakistan, to suggest the theoretical framework of charity giving from the Islamic perspective, and organizational, management, and legal frameworks of *waqf* for promoting the system in the present-day world. The frameworks have been suggested keeping in view *waqf* operations from a historical perspective and the deliberations with the *waqf* experts from Pakistan, Türkiye, Malaysia, and Indonesia. The frameworks and the recommendations of the report could be used for promoting the *awaqf* system in all OIC member countries. Further, as per theme of the ICIB-6 to be held in the last week of February 2023, digitalization of finance and FINTECHs can play role in promoting social finance with a focus on *waqf*.

We accordingly emphasize upon the state authorities and the regulators of the banking

and non-banking finance companies in the OIC member countries to collate their efforts for the revival of the most effective institution of Islamic economics and finance for the broad-based welfare of society. A lot of academic work has been done on the revival of *waqf* in the form of books, journal articles, and conferences. Recently, the 10th Global *Waqf* Conference was organized jointly by the Islamia University of Bahawalpur Pakistan, the Malaysia-based Global *Waqf* Conference, some other universities, and *waqf* entities. The Bahrain-based Islamic infrastructure institution, AAOIFI has issued the Shariah standard (SS. 60), accounting standard (FAS-37), and the governance standard (GSIFI-13) relating to *waqf*. The International Working Group on *Waqf* which represented experts from IRTI, Bank Indonesia, and many *waqfs* operating in various parts of the world suggested in 2018 the 29 *Waqf* Core Principles (WCPs) for optimal *waqf* management. Application of AAOIFI's standards and the WCPs would maximize the benefits to human societies inclusively and enhance public confidence in the *waqf* system.

The conventional finance institutions have started moving to social, green and value-based finance [the terms like VBI, CSR, ESG are becoming part of their agenda increasingly] in line with the UNDP's SDGs-2030. For Islamic banking and non-banking finance institutions, it's an obligation that they adopt all such tools that could facilitate them to move to social finance. For this, not only the IFIs, but also their regulators need to move to the new paradigm of value-based and sustainable finance. In the Islamic world, the Malaysia government and the Bank Negara Malaysia (BNM) have taken some crucial measures to promote VBI and sustainable finance for inclusiveness and sustainability. The impact of all such measures on inclusiveness and general welfare of the public could be multiplied through the institution of *waqf*. *Waqf* is particularly crucial for Pakistan and such other OIC member countries that are facing serious financial problems due to budgetary and trade deficits, and debt servicing obligations. In such economies, the legal and operational frameworks of charity giving and spending for welfare cause must be rationalized to enabling the individuals and corporate entities to come forward for financing welfare programs of the state.

The potential of *waqf* in the 21st century has been recognized globally as a social sector institution that can be used to realize social and economic objectives. It will also enable Islamic banking and finance institutions to realize the objective of promoting socio-economic justice in society. The state authorities need to facilitate giving formal charity for creation of cash *waqfs* by individuals, corporate entities, banking, and non-banking institutions, and business communities for socio-economic development and sustainable growth. The *awqāf* system must be promoted to the effect that the well-off people and the institutions like banking and non-banking companies and other entities in public or private sectors are obliged to create *awqāf* for socioeconomic purposes. At the micro level, the middle-income population could donate, as part of their wish for getting manifold reward in the hereafter, to different cash *awqāf* that the high-income groups or corporate bodies may create.
