Marzunisham Omar: Waqf – an economic perspective

Speech by Mr Marzunisham Omar, Assistant Governor of the Central Bank of Malaysia (Bank Negara Malaysia), at the Forum on "Waqf: An Economic Perspective", Kuala Lumpur, 9 April 2018.

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It is an honour to speak on waqf from an economic viewpoint. Waqf, or Islamic endowment, is a virtuous act which not only serves as a philanthropic tool but holds great potential for economic development.

Allow me to share some thoughts on the relevance of waqf and three strategies to unlock its full potential to benefit our country.

Revival of waqf is timely to unlock its full potential

Waqf is part of Islam's great and long history. It is a well-established concept, conceived during the time of the Prophet, peace be upon him. When Umar ibn al-Khattab acquired a piece of land, he asked the Prophet how best to use it. The Prophet advised him to make the land inalienable and to use it for the benefit of the unprivileged – the poor and those in need. With that, the land was established as waqf.

Over the centuries, this tradition continued and waqf has made vast contributions to the development of Islamic civilisation. Notable examples include the waqf of Süleymaniye in Istanbul, which provided for the construction of schools and universities, and the waqfs of Murad II and of Bayezid II in Edirne that built and operated hospitals that provided free treatment.

While these are inspiring examples from the past, it is no question that waqf remains relevant today. It can play an important part in our quest to develop a more dynamic, progressive and inclusive economy. It can do so by tackling some of the major challenges facing society, such as inequality and improving access to quality education and health.

We must not allow intergenerational inequity to widen and magnify. And waqf, as a vehicle for those in a more privileged position to voluntarily give back and reinvest in the society, can help promote social mobility and stem this vicious cycle of inequity. As a sustainable, inter-generational mechanism for social investments, waqf could effectively contribute towards a more equitable society.

As stated in the Quran, wealth that has been bestowed by Allah should not merely circulate among the rich. The Prophet said: "Blessed is the wealth of a Muslim from which he gives to the poor, the orphans and the needy travellers."

In Islam, wealth is regarded as a means and not an end, and Islamic wealth management acknowledges responsibility towards the community and benefitting those in need.

Strategies to strengthen the effectiveness of waqf

It is, therefore, timely to revive waqf and to bring back its glory days. Let me put forward three strategies that we can explore to unlock waqf's full potential as a platform for Islamic social finance.

First, is to broaden waqf assets and their applications. Fundamental to this is the need to correct the perception of waqf.

One of the biggest misconceptions is on its usage. Waqf is to benefit all. While waqf land has traditionally been used to build mosques, cemeteries or tahfiz schools, nothing in the Quran or

Hadith prohibits wider use of waqf to meet the needs of the community. In fact, there is no requirement for a waqif or donor and beneficiary of waqf to be a Muslim.

There are instances from past Islamic civilisation where the use of waqf extended beyond those that were directly related to the religion and specific needs of the Muslims. Waqf land and buildings were used to build schools, hospitals and infrastructure to benefit both Muslims and non-Muslims alike. The Al-Azhar University is an excellent example of a waqf asset.

This makes a lot of sense. It is obvious that waqf should be prioritised to improve education and health, critical ingredients for social mobility and a productive workforce.

There are an estimated 300 square kilometres of waqf land – the size of the main island of Langkawi – in the country, and unfortunately, most of this land remains undeveloped. Think about all the needs that can be met by developing this land – affordable housing, schools and universities, hospitals, sports facilities, research centres and industrial complexes.

While I acknowledge the challenges in developing this land, including ownership and registration issues, as well as limitations in financial resources, these are surmountable. Fora such as the one this afternoon play an important role in bringing together various stakeholders to deliberate on possible strategies to address these challenges, facilitate the development of waqf assets and increase their productivity.

Limiting waqf to land and immovable property is another misconception. With the emergence of contemporary reinterpretations of fiqh rules and Islamic finance, there are new techniques that can inject new life into waqf.

One such concept is cash waqf, which is a waqf of a liquid asset that gives returns which can be utilised to meet the intended objectives under the waqf charter. In this regard, I welcome the Waqf Fund initiative by the Association of Islamic Banks in Malaysia (AIBIM) whereby six islamic banks have come together to collaborate with State Islamic Religious Council of ten states to provide channels to collect and manage cash waqf in a more coordinated and structured manner. The returns have so far been utilised for economic empowerment, education and health projects.

In addition, the concept of temporary cash waqf, introduced by ISRA and endorsed by the ISRA Council of Scholars in 2016, opens up a new interesting potential. Funds collected through temporary cash waqf, such as through sukuk, can be used to develop Shariah-compliant profit-generating projects. The completed projects would be declared as waqf assets upon maturity of the sukuk, and its future benefit could be enjoyed by waqf beneficiaries in perpetuity.

The potential of applying financial innovation in waqf has proven to be a success, as demonstrated by waqf sukuk in countries like Saudi Arabia and Singapore. The examples in these countries include sukuk issued to raise capital for the development of waqf land, which led to the revitalisation of an old mosque and modernisation of shop houses that were in a rundown condition.

Through the concepts of replacement and conversion, substitution and exchange that are allowed in Islam, there is flexibility in the way waqf assets are invested, so that they can be most productively deployed.

This example can be replicated here as a means to obtain funds to renovate old, neglected or under-developed real estate properties into highly valued and desirable prime properties. In the process, value is created from the land or property which would have otherwise been underutilised and undervalued.

Another innovative and creative form is corporate waqf. We do not need to look far for a successful model. The establishment of Waqaf An-Nur Corporation Berhad (WANCorp) to manage stocks and assets of Johor Corporation under endowment has essentially institutionalised the link between a corporate entity and waqf. This ensures efficient, transparent and professional management of waqf assets.

Success stories and good practices of waqf management should be emulated and be used by others as a benchmark to further spur the vibrancy of waqf development in this country.

The second strategy is to ensure that we achieve the goals of social equity and economic efficiency in operationalisation of waqf projects. While projects developed from waqf proceeds should benefit society at large, it is my humble view that it makes sense from an economic efficiency standpoint to allow market mechanism to allocate these scarce resources.

As waqf is intended to generate benefits in perpetuity for all generations to come, operating the fund on commercial terms allows it to be invested and managed in a manner that ensures preservation of capital. Prioritising economic efficiency can help strengthen the position of waqf to carry out its social equity objectives effectively.

To illustrate, rental of waqf-developed commercial complexes should be market determined, but lots with preferential rental rates could be designated for deserving community purposes, such as co-working spaces for start-ups and entrepreneurs.

In healthcare, waqf hospital charges should be comparable with private medical fees, but different pricing tiers could be provided for the B40 segment and other deserving patients.

Similarly, waqf-owned universities should charge full tuition fees to all, but offer scholarships and other forms of need- and merit-based assistance for high-potential students from less privileged backgrounds.

This approach is indeed in line with the conditions for waqf creation – ziyadah and nuqsan, idkhal and ikhraj, which grant flexibility and openness to redirect waqf benefits to those in greater need. If executed well, waqf can be both economically efficient and sustainable, while at the same time fulfiling its socio-economic objectives.

The third imperative is to professionalise and modernise waqf management. For waqf to progress strongly, it requires a new character and a more modern image. In this regard, I would identify two priorities, namely professionalising those who are entrusted to manage waqf and putting in place proper governance framework. Let me elaborate.

The management of waqf must be entrusted to experienced and knowledgeable experts with the highest integrity – that is, people with the right calibre, right competency and right character.

The USD 37.1 billion Harvard Endowment is run by some of the best minds in finance, who determine the most optimal asset allocation strategies that deliver the best sustainable returns for the university. In 2017, the endowment contributed more than a third of Harvard’s operating revenue. Returns from the fund help to provide scholarships and to fund ground-breaking research. Surely we would like to see the same in our Malaysian universities.

Acquiring such expertise and capability may take time. To expedite this, I would like to suggest that waqf authorities explore partnering or collaborating with experts from the private sector to commercialise or monetise waqf assets.

In particular, partnerships with Islamic financial institutions can help waqf authorities develop waqf assets productively with the required financial expertise on board.

A good example is the partnership between Majlis Agama Islam Wilayah Persekutuan and Lembaga Tabung Haji in developing Menara Bank Islam on a 1.2 acre waqf land in Kuala

Lumpur. The RM151 million project is a milestone achievement, being the first large-scale commercial development project on a waqf land in the country.

Another important aspect in professionalising waqf management is instilling good governance. It is unfortunate that management of waqf has had some governance challenges.

Efforts must be directed at strengthening its governance and management. Adequate internal controls have to be put in place, including risk management, internal and external audits, and compliance systems. Its standards of disclosure and transparency need to be at par with those of modern finance or of endowments in advanced economies.

For a start, waqf authorities should provide high-quality disclosure and reporting of waqf activities to instil trust and confidence among the contributors and wider stakeholders. Contributors want to know where their contributions are going and how they are being spent.

In this regard, the Waqf Fund collaboration between Islamic banks and the State Islamic Religious Councils provides a good mechanism for the financial sector to lend its expertise and share best practices on good governance and transparency practices in managing fund. Under the initiative, the Code of Governance and Transparency of Waqf Fund will be issued by AIBIM. This will act as guidance for more efficient and effective management of waqf and with higher governance and transparency practices, thus bringing waqf to the next level.

Conclusion

Waqf has played a significant socioeconomic role throughout history. Exciting potential lies within waqf, even today. As trustees of wealth bestowed upon us by Allah, we are entrusted to ensure that waqf meets its intended objectives. If properly developed, managed and utilised, we can harness its potential as a highly effective platform for sustainable economic growth, one that creates sustainable and perpetual benefits for all, especially our future generation.

It is time to put strategies and plans into action.