

Cash-waqf Certificate

Global Opportunities for Developing the Social Capital Market in 21st-Century Voluntary-sector Banking

M.A. Mannan*

ABSTRACT

This paper explores the Cash-waqf Certificate of Social Investment Bank as an innovation in Islamic social finance. The history of *waqf* and its new use as a financial instrument are covered. As a case study, the operational thrust of the Social Investment Bank is reviewed to provide real-life evidence of the process of floating a Cash-waqf Certificate. Instead of being strengthened by the wave of the market economy, formal sector Islamic banking may be submerged; the social and ethical ingredients of Islamic finance may be marginalized in the process. In this context, voluntary-sector Islamic banking can help mobilize savings and investment. The Cash-waqf Certificate can monetize the Islamic voluntary sector and help accumulate social capital and national wealth. While the indirect tax system of Bangladesh and other Muslim countries is favorable to its growth, political will is needed for the success of this form of *waqf*.

I. INTRODUCTION

This paper seeks to develop an understanding of the Cash-waqf Certificate as an innovation in Islamic social finance as well as to unfold some of the key issues involved both at the theoretical and operational level with special reference to Islamic voluntary sector banking. Generally, *waqf* is defined as the endowment of any property of permanent nature by a Muslim for any purpose recognized by Islamic law as religious, pious or charitable. This paper will demonstrate that “Cash-waqf” as recognized in Islam was used during the Ottoman era and also in Egypt. However, the Cash-waqf as a financial instrument is indeed a new product in the history of Islamic banking. I will argue in this paper that Cash-waqf supported activities can be divided into social and private good, thereby providing a basis for interesting economic analysis of resource allocation in public finance. Therefore, my analysis of the implications of spending a Cash-waqf fund will be in terms of the “good-deed effect,” the “free-rider effect,” and the “income redistribution effect.”

This paper is based on primary data generated from experience and assumptions drawn from the realities of Muslim countries: it intends to provide a forum for constructive dialogue on the challenges and opportunities for developing Islamic social capital market on a global scale. As a case study, the operational thrust of the Social Investment Bank is reviewed with a view to providing real-life experience and exposure to the process of floating Cash-waqf Certificates as a financial instrument in voluntary sector banking for the first time in history. The Social Investment Bank is a modern, participatory, three-sector banking model, in operation since November 22, 1995 in Dhaka, Bangladesh.

However, it is felt that instead of gaining strength, Islamic corporate formal sector banking is getting submerged in the wave of market economy and global corporate power and its networks of mutual obligations. In the process, there is indeed a risk of marginalizing the social and ethical ingredients of Islamic finance. In this context, it is argued that Islamic voluntary sector banking can help mobilization and capitalization of social savings and investments. Thus the paper indicates that the floating of Cash-waqf Certificates can help in monetizing Islamic voluntary sector; they can also serve as the most effective and perpetual mode of accumulation of social capital and national wealth and the profit from them can be used for strategic social investments. The Cash-waqf Certificate is intended to empower the family heritage of the rich for the benefit of society and future generations.

It is, however, argued that the introduction of the Cash-waqf Certificate is highly suggestive in the context of the present fiscal system of Bangladesh and other Muslim countries, where tax systems are heavily dependent on indirect tax which is generally regressive in nature (i.e. in Bangladesh 85% of the total tax revenue in 1995-1996 is indirect tax). A great part of direct tax can be converted to social assignments thorough Cash-waqf Certificates. Cash-waqf Certificates can partially or wholly substitute an income tax for financing the development of human and social infrastructure. What is needed is a political will. A new beginning can be made for a participatory economy

* Founder and Chairman, Social Investment Bank Ltd., Dhaka, Bangladesh.

and a caring society. In this context, the *Cash-waqf* endowment can also be viewed as a movement for new social development that can expand as well as open new frontiers of human freedom, including freedom from educational, social and economic deprivations.

While operational guidelines governing the operation of the *Cash-waqf* Certificate will be explained, an outline will be given on the achievement of operational results on the ground, thereby providing opportunities for people to share their experiences. The diverse areas of investment by the Social Investment Bank include various social investment activities having enduring value which will create a base for perpetual social capital, and help develop a credit program that reinforces family values and stimulates the social and moral foundation of a civil and caring society. At the end, the paper offers an Agenda for Action by Muslim countries and communities, Islamic banks, and Islamic voluntary Organizations around the world in the 21st century.

II. REVIVAL OF ISLAMIC SOCIOECONOMIC INSTITUTIONS

There is a rich legacy, culture, and history of Islamic voluntary sector institutions including *waqf*. The rising expectations and signs of revival of Islamic Institutions should be studied objectively with reference to at least five basic historical facts: (a) the ideal Islamic system as developed in the early Islamic period, (b) the legacy of Islamic Civilization, (c) the historic decline and successive stages of several centuries of colonization of the vital areas of Muslim World, resulting in progressive neglect of the role of *Ijtihad* (i.e., fresh thinking) (d) preservation of basic Islamic values and institutions at the grass-roots level of Muslim societies and (e) re-emergence of most of the Muslim states and institutions in recent times.

Without going into the detailed analysis of each of the five factors, it can be said that the momentum of Islamic social and economic ethics, and their creative values of new ideas, technology and institutions which can alter the status quo, received a serious setback due to the successive stages of several centuries of colonization and cultural domination of vital areas of the Muslim world. Even though Muslims themselves must share part of the responsibility for the loss of this Islamic momentum, the process of colonization indeed contributed greatly in bringing about the de-Islamization of contemporary Muslim societies and the consequent decline of Islamic socioeconomic institutions.

Nevertheless, the basic Islamic values and injunctions dealing with economic behavior—such as payment of Zakat, establishment of *awqāf*, granting benevolent loans without interest, implementation of the Islamic law of inheritance to ensure equitable distribution of wealth, internalization of socioeconomic values arising out of the Qur’ānic verses emphasizing God’s sovereignty over all resources, and many other popular phrases relating to socioeconomic issues—continue to guide succeeding Muslim generations particularly at the grass-roots level of Muslim societies. The issue of internalization of Islamic values among the masses of Muslim societies today needs to be understood in greater depth for insight into sustainable development of Islamic socioeconomic institutions in the 21st century.

The recent revival of Islamic socioeconomic values has manifested itself in many ways, including the establishment of the Organization of Islamic Conference (OIC) of Muslim States, the consequent establishment of the Islamic Development Bank (IDB) in which 53 Muslim countries are now members, and the growing links of Muslim majority Central Asian Republic with the OIC, IDB and neighboring Islamic countries coupled with the resurgence of Islam in the former Soviet republics. In addition, there have been a number of local Islamic banks set up from the 1970s to the 1990s having declared objectives to conduct each of the bank’s economic and financial activities in conformity with the principles of Islamic values, as well as the setting up of Islamic Chambers of Commerce, the creation of an Islamic Solidarity Fund of OIC and the call for establishment of an Islamic common market, Islamic monetary system, Islamic insurance, and Islamic dinar, etc., confirm the hypothesis that the serious process of revival and rediscovering of Islam has begun. It does not, however follow that all contemporary Muslim countries or societies of today are necessarily “Islamic” in the actual operation of their economies.

In this context, it is to be recognized that the motivational properties of economic premises of Islamic economics and finance tend to be significantly different either from the market or the command economy. As such, the common tools of economic analysis such as scarcity, choice, opportunity cost, marginal efficiency of capital, discount rate, profit, rent, wages, and a host of other concepts will have uncommon meanings in Islamic economics, banking and finance. Therefore, it is extremely important to develop understanding of the depth of the ethical and moral foundation of economic premises of Islam today at the grass-roots level together with the structure of vested interest of a group of local people who are foreigners in their own countries, linked to a global elite and its network of mutual obligations.

III. THE NEW FRONTIERS OF ISLAMIC VOLUNTARY SECTOR: AN OVERVIEW

The real glory of the Islamic voluntary sector lies in the fact that it has a rich legacy, culture, and history. It is indeed an area where a thousand flowers can bloom; given the revolution in information technology, it is the right time for the globalization of Islamic voluntary sector activities. In this process the Islamic bank in the 21st century can play a very vital role in re-activating and institutionalizing the role of Islamic socioeconomic institutions, as well as various voluntary and obligatory tools of redistribution of income through innovative financial instruments and management of funds such as *waqf* properties development bond, Cash-*waqf* Certificate, Zakat Certificate, Hajj Saving Certificate, Trust Fund and so on.

Despite the fact that many of the activities of the Islamic voluntary sector-which may include institutions such as Zakat, *awqāf*, Mosque, Hajj, Islamic non-profit charitable trusts and foundations-do not come under the conventional calculation of GNP, these institutional activities need to be reviewed and analyzed in light of the challenge and change Muslim societies are facing today. In the wake of great transformation in the East-West relationship resulting from (a) the emergence of a formidable economic bloc in Europe, (b) the collapse of communism, (c) the rise of Muslim republics in Central Asia, (d) the widening of the economic gap between North and South, (e) severe economic backwardness, under-development and poverty in the Islamic countries of the Organization of Islamic Conference (OIC), despite their potentialities and vast resources, and (f) the rise of ethnic militancy and growing threat to Muslim minorities in non-Muslim countries, there is an urgent need to restore these institutions to their true spirit and utilize them fully for promoting the moral, spiritual, social and economic welfare of Muslim societies and mankind as a whole. The crucial question before us is how to operationalize and institutionalize these activities of the voluntary sector so that they can be integrated into the mainstream of economic activity, resource mobilization, savings and investments and capital markets.

Viewed from this perspective, there is an immense scope of utilization of *Zakah* Fund in lawful *mudāraba* Projects as a financial partner. *Zakah* revenue redistributes wealth into consumption flows for the poor, raises their productivity, reallocates ex-ante saving by checking the tendency to hoard idle cash, and stimulates production through inter-sectoral allocation of resources. Similarly, Hajj affairs can be viewed as one of the significant socioeconomic institutions of Islam. The mosque can serve as an agent of social development.

Furthermore, from a historical perspective the institution of *waqf*, which is one of the most powerful elements of the Islamic voluntary sector has, among others, played a significant role in furthering the cause of Islamic education, health and research through establishment of schools, hospitals, *madradas*, mosques and public libraries.

In the context of the 21st century, Islamic banks must work for the securitization of the Islamic voluntary sector. In this connection, it is to be noted that in the voluntary sector, Social Investment Bank Ltd. is in the process of organizing voluntary capital market operation for the mobilization of necessary funds, and is in the process of developing the following financial instruments with different sets of rules in conformity with the *shari'ah*:

1. *Waqf* Properties Development Bond (specific and general)
2. Cash-*waqf* Deposit Certificate (specific and general)
3. Family *Waqf* Certificate
4. Mosque Properties Development Bond (specific and general)
5. Mosque Community Share
6. *Quard-e-Hasana* Certificate (specific and general)
7. Zakat/*Ushar* Payment Certificate
8. Hajj Saving Certificate
9. Non-Muslim Trust Properties Development Bond (specific and general)
10. Municipal Properties Development Bond (specific and general)

The value of all the Bonds and *Quard-e-Hasana* Certificate can be guaranteed by the Bank against surrender of the instrument on maturity. In this paper we shall, however, try to unfold the Cash-*waqf* Certificate and identify issues it implicates.

IV. INSTITUTION OF *WAQF*: ITS MEANING AND ROLE FROM HISTORICAL PERSPECTIVES

The word *waqf* (pl. *awqāf*) comes from a root meaning “to prevent or restrain.” In Arabic, it literally signifies “confinement or detention.” In the terminology of Islamic jurisprudence, it may be defined as refraining from the use and disposal of any asset from which one can benefit or can use its proceeds for any charitable purpose

as long as it exists. In fact, the vast majority of Hanafi scholars regard *waqf* as “taking the corpus of any property out of ownership of God, and dedicating its usufruct to others.” In the language of the contemporary law, *waqf* “does signify the usufructuary donation, made in favor of a beneficiary, with a view to fulfillment of some pious aim or some projects of general utility and which entailed the legal sequestration of gift or donation, whether this donation included, did not include, a usufruct.” It is also defined as “non-negotiable property dedicated to charitable purposes, once for all,” or as “the permanent dedication by a person professing the Musalman faith of any property for any purpose recognized by the Musalman law as religious, pious or charitable.”

Following up these definitions, we can say that “by *waqf* is meant a thing which, while retaining its substance, yields a usufruct of which the owner has surrendered his power of disposal with the stipulation that the yield is used for permitted purposes. *Waqf* really means, however, the legal process by which one creates such an endowment (synonymous with *tahbis*, *tasbil* or *tahrin* or *tahrim*).”

A. *Waqf*, *Sadaqa*, and Gifts

From the very nature of its transaction, *waqf* may be seen as a kind of *Sadaqah*. But what distinguishes it from *Sadaqah* is that in the case of *Sadaqah*, the substance is transferred and also the profits. In *waqf*, however, the substance is retained but the profits go to the beneficiaries of the *waqf*. Similarly, the difference between *waqf* and a gift is that, in the case of a gift, the substance is transferred from one person to another person without consideration but a *waqf* is for a consideration, that is, religious merit. Clearly, *waqf* revenue cannot be regarded as *Zakat* which is obligatory and its eight heads of expenditure are specified in the Holy Qur’ān.

B. *Waqf* and Trust

It should be noted here that a *waqf* must also be distinguished from Trust. In a *waqf*, the property is vested in God, while in a Trust it is vested in the Trustee. Unlike a *waqf*, in a Trust, it is not necessary that a Trust must be perpetual, irrevocable or inalienable or made with a pious or religious motive. *Waqf* can, however, be created in favor of both affluent and indigent alike, or in favor of family or indigent exclusively, although pious and religious motives become the predominant concern of *awqāf* endowments. Thus, according to all schools, a *waqf* may be created for the benefit of any person or class of persons or for the service or well-being of humanity, although a founder may make his own maintenance for life a first charge on the income of the *waqf*. All *shari’ah* schools have, however, stressed the importance of the creation of a *waqf* which played an important role in ameliorating poverty and in furthering learning in the past and is expected to play its role in the future provided this institution is re-activated and its management is placed on sound footing.

The very development of *waqf* as an institution in Islam and its legitimacy can be deduced from the Qur’ānic repeated “exhortation at a number of places, and in different ways and contexts to render voluntary economic assistance to the fellow-beings and the poor” as well as from various traditions of the Prophet (peace be upon him). In fact, the positive evidence of the legitimacy of the institution of *waqf* can implicitly be found in the Qur’ānic verse in Sura Al-Imran that says: “You shall not receive godliness unless you have spent out of that which is dear to you.” Again the Prophet (peace be upon him) is reported to have said that “a man’s work ends upon his death except for three things: (a) contribution to knowledge, (b) ongoing charity, and (c) faithful child praying for him.” Here scholars see the Institution of *waqf* as an “ongoing charity.”

Throughout the history of Islam, the *waqf* played a very important role in promoting social, economic and cultural activities of Muslim communities. For example, the *waqf* provided scholars with a secured means of livelihood, thereby providing them an opportunity to engage in research and schooling in a manner which made them independent of governments and the ruling class. In fact, it did perform the duties of a number of government institutions, or specialized ministries of our contemporary period, such as Ministries of Health, Education, and Social Welfare. We have evidence to support that *waqf* resources were used not only to construct libraries and reading rooms, but also for residential quarters of the scholars, as well as for other research activities such as copying services by professional copiers and centers for decorative arts, etc.

In an attempt to encourage research, a translation program was supported out of the revenue of the *waqf* properties. A large number of books were either written or translated by Muslim scholars and scientists with the support of the *waqf* fund. Research using empirical and scientific methods were encouraged and supported.

The *waqf* supported and encouraged the development of medical science by providing facilities for better public health and education through the establishment of hospitals, medical schools, and by encouraging the development of local medicine and chemistry. *Waqf* revenues were used not only for the development of human medicine and health care but also for veterinary medicine. Students used to learn medicine and its applications by studying at these hospitals. Medical education was not confined only to medical schools and hospitals but also offered in mosques and universities such as Al-Azhar in Egypt. Even as early as the fourth century of Hijra, a

hospital for the treatment of children was built in Istanbul out of the *waqf* fund. In Spain hospital facilities were made available to both Muslims and non-Muslims. The *waqf* fund helped establish the center for decorative arts particularly during the Abbasid period and contributed immensely toward the growth of Islamic architecture particularly in the construction of mosques, schools, and hospitals.

The first *waqf* in Islam was Quba' mosque near Madina which was established by Prophet Muhammad (peace be upon him). The second *waqf* was the Prophet's mosque in Madina, Dar Al-Hijra, which was built by the Prophet (peace be upon him); the Prophet is also reported to have made the first *waqf* for charitable purposes when he endowed the gardens of Mukhairaiq, a Jew who was reported to have been killed while he was fighting on the side of the Muslims in the battle of Uhud. The endowment was made in accordance with Mukhairaiq's wishes. The endowments of Umar and other companions like Abubakar, Osman, Ali, and others followed this.

During the Abbasid period, the *waqf* property and revenues were left outside the treasury department and the Qadi was entrusted with the supervision. A special *bayt al-māl* (treasury) was instituted during the Abbasid period.ⁱ Again, in the Mamluk period the *awqāf* properties were divided into three groups: (a) "Abbas," comprising extensive estates in Egypt used mainly to keep up mosques; (b) "*awqāf hukmiya*," comprising town lands in Misr and Kahira intended mainly for the two holy cities; and (c) "*awqāf ahliyah*" or family endowments. Each of these categories had its own administrator.

Although the *waqf* played a significant role in social development of the Muslim communities throughout Islamic history, we have evidence to support that the *waqf* did not always produce the desired result. On the contrary, the study of actual *waqf* administration provides many valuable details not only about its uses but also its abuses. Mismanagement and embezzlements of *waqf* funds were not unusual. As a result, various administrative strategies were adopted to achieve the objectives for which the *waqf* was made.ⁱⁱ Thus, varieties of agreements were created not only for the letting of *waqf* estates but also for granting perpetual leases, adapted to the institution of *waqf*. Since the sixteenth century of the Christian era, in contrast to temporary leases of three years, perpetual leases were granted in some cases to encourage personal incentives in the management and maintenance of the *waqf*. In some cases, the condition of the *waqf* possessions deteriorated so much that the revenues were not even sufficient for the necessary maintenance of the properties, not to speak of benefiting the poor, or achieving the objectives for which the original endowment was made. Under these perpetual leases, particularly in Turkey and Egypt, the tenant used to pay lump sum rent so that right of ownership would not lapse. Sometime rental income was also linked to the value of the properties in Syria and Egypt.

Perhaps Turkey, which has one of the longest histories of *awqāf* administration, reached its peak during the Ottoman era, where *awqāf* properties were estimated to have three quarters of the whole arable land in 1925. A Central Administrator of *Awqāf* was re-established after its abolition in 1924. Recently, a *Waqf* Bank and Finance Corporation has been set up to mobilize the *waqf* resources and to finance various types of joint venture projects.

The need for reform in many Muslim countries arises due to the fact that about one half (1/2) of the cultivable land in Algeria in mid nineteenth century was dedicated to *waqf*. Similarly, in Tunis one third (1/3) (1883), in Turkish Empire (3/4), (1928), in Egypt (1/7) (1935), in Iran about 15% (1930), of the whole arable land was endowed to *waqf*. The accumulation of such extensive possession of land under *waqf* had prompted many countries to introduce many reforms. Thus, Egypt enacted a law in 1946 under which all family *awqāf* were made temporary. Then, in 1952, a new decree was issued to the effect that no private *waqf* could be created except for charitable purposes. Egypt, which also has a long history of *waqf* management, allowed bank credit as a subject of *waqf* endowment. In Syria, the question of family *waqf* was prohibited in 1949, while in Lebanon it was allowed but limited to two generations in duration after which ownership reverts to *wāqif* or heirs. Therefore, the *waqf* was not considered to be an irrevocable legal transaction. Furthermore, several reforms were introduced both in Tunisia and Algeria during the French colonial rule where the legal position of land was brought completely under French law and the sale of *waqf* (*habous*) was recognized in practice.ⁱⁱⁱ

In India, statutory control of *awqāf* started with the passing of the Musalman *Waqf* Act of 1923 during the pre-partition days. During the post-partition era, several acts were enacted and ordinances promulgated in Pakistan, which was adopted in Bangladesh also. Though the Chief Administrator has assumed the administrative control and maintenance of *awqāf* properties in Pakistan as well as in Bangladesh, in many cases, the income from many small and scattered *awqāf* properties are insufficient for the upkeep of *waqf* properties. While permanent leases give insufficient income to maintain the property, family *waqf* has become one of the sources of litigation, particularly in Bangladesh. This calls for necessary reforms in the management and administration of *awqāf* properties. Although there is a general tendency to have state control over the management and administration of *awqāf* properties, there are notable exceptions (e.g., Uganda, South Africa, and the Philippines) where *waqf* is still designed as a purely private managed institution. This brief survey shows that there is considerable flexibility and scope for further

reform in the development, management, and administration of *waqf* properties in Muslim countries as well as in Muslim communities with special reference to *Cash-waqf*.

V. SOCIAL INVESTMENT BANK AND CASH-WAQF CERTIFICATE

Social Investment Bank Ltd. (SIBL) is a three-sector banking model beyond conventional banking and cooperatives which aims at alleviating poverty and empowering families through social investment based on participatory economy. Various activities of the bank are conducted through formal, informal, and voluntary sectors. In the process of organizing social capital market operations in the voluntary sector of the bank, it has for the first time in the history introduced a “Cash-*waqf* Certificate” scheme. It also aims at empowering the families of the rich for the sake of social investment and welfare.

A research study entitled “Structural Adjustments and Islamic Voluntary Sector with special Reference to *Awqāf* in Bangladesh,” written by the author and published by Islamic Development Bank, Jeddah, in 1995 showed that “Cash-*waqf*” is also recognized in Islam. Its use can be traced to the Ottoman era as well as Egypt. But the use of *Cash-waqf* as a financial instrument is indeed an innovation in Islamic social finance.

Cash-waqf provides a unique opportunity for making investment in different religious, educational and social services. Savings made from earnings by the well off of the society can be utilized by purchasing *Cash-waqf* Certificates. Income earned from the Certificates will be spent for different purposes like the purposes of the *waqf* properties itself.

Historically speaking, the immovable asset mainly in the form of landed properties is the predominant feature of *awqāf*. It follows then that one of the main characteristics of *awqāf* is their low degree of liquidity. Liquidity as defined by economists refers to the transferring of funds into cash money within a short period of time and at a reasonable cost. We know that landed property even in the case where it is legally permissible to be sold or replaced by another—such as giving up landed property—takes a considerable amount of time and expenses to be transferred from landed property into liquid cash. Therefore, we can safely consider low liquidity as a distinctive feature of the *awqāf* properties. Even when we want to invest in *awqāf* properties, e.g. constructing a building on a piece of *waqf* land with a view to leasing it, this will entail the availability of liquid cash money that would enable us to transfer *waqf* from one shape to another. In this context, raising funds through the sale of *Cash-waqf* Certificate for development of *awqāf* properties assumed a special significance in the 21st century.

Another significant aspect of the *Cash-waqf* Certificate lies in the fact that it has corrected the misperception that the privilege of making *waqf* belongs only to the rich. Since *Cash-waqf* Certificate as introduced by Social Investment Bank is expressed in terms of a small denomination of Tk. 1000/- (US\$21 only), it has become affordable to a large section of the Muslim population; it can also be expressed in even smaller denominations also. Seen in this light, the *Cash-waqf* Certificate Scheme can be seen as a movement of social reconstruction and development in which a vast majority of the population can participate.

Attempts should then be made to popularize the role of *waqf* in the country, including *cash-awqāf* which can be instrumental in transferring the savings of the rich to those entrepreneurs and members of the public who finance various religious, educational and social services in Muslim countries. *Cash-waqf* can work as a supplement to the financing of various social investment projects undertaken by Islamic banks, which can eventually emerge as a *waqf* bank. Even today, for example, *Cash-waqf* in Bangladesh is extremely important in terms of mobilization of funds for the development of *waqf* properties. According to a 1986 census of *waqf* estates, there are 150,593 *waqf* estates in Bangladesh having multipurpose uses. According to a 1983 mosque census, there are 131,641 mosques in Bangladesh out of which 123,006 mosques are *waqf* properties. Out of the total *waqf* estates 97,046 are registered, 45,607 are verbal and the rest 7,940 are *waqf* by tradition. Out of these large *awqāf* estates, only 13,200 *waqf* estates are under the administrative control of the *waqf* Administrator out of which 10,683 *waqf* estates are of mixed nature.

As noted earlier, *Cash-waqf* Certificate can empower multigenerational family heritage as indicated in the following extended family chain.

VI. CASH-WAQF CERTIFICATE: EMPOWERING MULTI-GENERATIONAL FAMILY HERITAGE

An individual can easily link himself for at least two hundred years in the family chain in the following way: Consider yourself, your parents, and your grandparents, which is at least one hundred years of your family history. Consider yourself, your children, and your grandchildren, the next hundred years of your family’s future history. In this way, an individual can easily link himself for two hundred years within a framework of family heritage and develop a vision for his family contribution to society and people.

FIGURE 1. THE EXTENDED PRESENT: A FAMILY CHAIN



VII. IMPLICATIONS OF CASH-WAQF CERTIFICATE

As a part of extending the three-sector model banking services toward the achievement of the corporate objectives of Social Investment Bank Ltd. (SIBL), SIBL introduced the *Cash-waqf* Certificate, for the first time in the history of voluntary sector banking. *Cash-waqf* can be seen as a social assignment replacing income tax in many Muslim countries; income tax departments are reported to be among the most corrupt in most Muslim countries, including Bangladesh. Its introduction is highly suggestive in the context of the fiscal system of Bangladesh, which is heavily dependent on indirect tax (i.e., 85% of the total tax revenue in 1995-1996). A great part of direct tax can be converted to social assignments, and the *Cash-waqf* Certificate can partially substitute a substantial part of the income tax for financing strategic social projects in education, health, and social welfare activities proposed to be undertaken by the rich. What is needed is a political will. Together, a new beginning can be made for a participatory economy and a caring society.

Besides, *Cash-waqf* can be used as a strategic investment in alleviating poverty and economic deprivation as well as in improving education, health, and research to be discussed later on. By taking part in the scheme one can contribute not only toward development of a social capital market operation, but also sharing in permanent social investment. As deposit of *Cash-waqf* is made once and for all, the bank can safely invest it on a short-term, medium-term, or long-term basis as indicated below:

1. Short-term investment: Microcredit and micro-enterprise investment for poverty alleviation and family empowerment, Tokai rehabilitation, etc.
2. Medium-term investment: Cottage industry, weaving industry, small garments industry and dairy farm, etc.
3. Long-term investment: Various heavy industries/factories, etc.

These investment activities shall result in the creation of new avenues of employment opportunities. A large number of unemployed shall have the opportunity for earning their livelihood and thus making contributions to social progress.

As noted earlier, there are 150,593 *waqf* estates in Bangladesh. All of them are in immovable properties. There is an immense scope for commercial development of such properties through raising funds by selling *Cash-waqf* Certificates.

There are many rich people who would like to create *Cash-waqf* for the public good as well as for the benefit of their descendants. But they cannot proceed for lack of necessary institutional arrangements for the management of *Cash-waqf*. Social Investment Bank provides the necessary institutional support and a unique opportunity for opening *Cash-waqf* Deposit Accounts with a view to achieving the following objectives:

1. To provide banking services as facilitators for the creation of *Cash-waqf* and to assist in the overall management of *waqf*;

2. To assist in mobilization of social savings by creating Cash-*waqf* with a view to commemorate living or deceased parents and children, and to strengthen the integration of the family relationship of the well-off;
3. To increase social investment and to transform the social savings into capital;
4. To benefit the general public, specially the poor out of the resources of the rich;
5. To create awareness among the rich regarding their social responsibilities to society;
6. To assist in developing a social capital market;
7. To assist in overall development efforts of the country and to make a unique integration between social security and social peace.

VIII. CASH-*WAQF* SERVICES AS SOCIAL AND PRIVATE GOOD AND CRITERIA OF ALLOCATIVE EFFICIENCY

The *waqf*-fund-supported activities can be divided into social and private good, thereby introducing an interesting area of economic analysis of resource allocation in public finance. Generally speaking, social good is non-rival in consumption: it is difficult to price social goods because their consumption does not reduce the benefits available to others. This is not true in the case of private good, where a price can be placed on the good, and others can be excluded from consuming it. Its consumption is, therefore, rival. "Putting it differently, the benefits derived by anyone consuming a social good are "externalized" in that they become available to all others. This is the situation with social goods. In the case of private goods, the benefit of consumption is internalized with a particular consumer and consumption by him excludes consumption by others."^{iv}

When a *waqf* fund supports construction of a bridge it assumes the character of social good, and when it supports construction of a hospital or a school, it provides public provision of a private good on which there can be a price tag. Thus, when the total resources generated by *waqf* properties are divided between private and social good or when a mix of social goods are chosen, the existence of non-rival consumption changes the condition of efficient resource use from those conditions which are applicable when consumption is rival. Thus, the institution of *waqf* is performing an allocation function, however rudimentary it may be. This allocation function involves not only the adjustment of income and wealth, but also adjustment of the price of goods and services with which *waqf* is associated. Thus it should be possible to do in-depth case studies to show how *waqf*-supported goods and services perform allocation, distribution, and stabilization functions in a modern Muslim state.

It should then be possible to discuss further the implications of the spending of *awqāf* revenue under the following three effects:

1. Good-deed effect;
2. Free-rider effect;
3. Income redistribution effect.

A. Good-deed Effect

Historically speaking, once an endowment is made, it is considered to be a good act because the *sharīʿa* attributes the quality of goodness to it. The satisfaction an individual receives by instituting an endowment is, however, distinctly different from the results of the act. In economics there is no direct and fixed co-relation between the goodness of the act and its results.

This distinction is not generally clearly understood. Are we merely concerned with the act of endowment? Is it enough to say that the goal of such an act is utility, not the utility of the result the endowment brings about? Should the individual be primarily concerned with the satisfaction he desires from the good deed of making the endowment? These are some of the questions that require attention from the viewpoint of the *sharīʿa*. The fact is that the cost of the endowment is that the alternative uses of the funds are given up.

What is equally important for the individual who makes endowments is to evaluate the results or consequences of such endowments, particularly when they are intended to make provision for public goods designed to help the community. Do different types of public good tend to yield different results? Some kinds of broader public goods bring more goodness from their results than others, therefore making dollar-amount contributions equal. For example, there is more goodness for most persons in the act of providing schooling facilities for orphans than in providing toys for them. There is probably also more good in building a hospital for the poor than in establishing a college of liberal arts, or in constructing a bridge in a community that can already afford it, given collective effort. The point is that at a given level of social expenditure on public good out of *waqf*-supported properties, the attempt should be made to maximize the utility of the results. It is, therefore, imperative that once a person desires to make an endowment he should be provided with necessary "advisory services" which would

provide information on the different ways the endowment can be used. In this way, the resources generated from them can be better utilized to attain predetermined socioeconomic objectives.

B. Free-rider Effect

Any theory of expenditure of *waqf* fund must try to minimize the free rider effect, particularly when such a fund is directed to providing a public good that is indivisible. In the context of an Islamic economy, this free rider effect will take place when contribution of a dollar will result in an increase in the total provision of the public good less than a dollar, because other individuals would tend to lower their voluntary contributions. We have evidence to show that *waqf*-financed education was for children of both rich and poor parents. Since the beneficiaries of education cover children of those who could otherwise bear their education expenses, it tends to create the problem of “free-rider effect.” Although it was not immediately visible in simple agricultural societies of the Middle Ages, the issue of “free-rider effect” needs to be taken rather seriously in today’s much more complex society. In the Middle Ages, the wealthy and rich did compete with one another in contributing to the *waqf*-supported schools. The related educational development was possible due to *waqf* grants by the successive rulers. The socioeconomic realities of the contemporary period are not the same as we found in the early days of Islam.

C. Income Redistribution Effect

It is also important to examine the income redistribution effect of the *waqf*. The net income redistribution effects and income transfer payments cannot be analyzed in isolation. It depends on the impact of all public taxation and spending activities on various income groups. Generally speaking, the disbursements of *waqf* funds should play an important role in any vertical income redistribution. The disbursement of *waqf* funds needs to be coordinated so that its redistribution effects in favor of the poor are not cancelled out. It is to be noted that one of the important ways to achieve vertical redistribution is to make the provision of certain key services public, particularly education for the poor. Historically speaking, a close look at the operation of the *waqf* shows a considerable horizontal income distribution from one earning class to another earning class. It is important to see the total effect of its spending in relation to other public expenditure in a modern Muslim state. It is generally alleged that in the past this institution of *waqf* was responsible for the industrial backwardness of Muslim communities, because a large amount of resources were diverted for purposes other than development activities. It is also argued that it led to the fragmentation and sub-division of agricultural holdings, thereby retarding the process of modernization of agriculture in Muslim countries. It is also criticized on the ground that mismanagement of *awqāf* properties led to the decline of total revenue of concerned countries that could have been utilized more effectively for other purposes. It is to be examined how far these criticisms are valid in the context of the present day situation. Cash-*waqf* offers a better scope for utilization of *awqāf* resources.

IX. GUIDELINES GOVERNING THE OPERATIONS OF CASH-WAQF CERTIFICATE

The guidelines governing the operation of the Cash-*waqf* Certificate as introduced by Social Investment Bank are as follows:

1. Cash-*awqāf* shall be accepted as endowment in conformity with the *sharīʿa*. The bank will manage the *waqf* on behalf of the *wāqif*;
2. *Awqāf* are done in perpetuity and the Account shall be opened in the title given by the *wāqif*;
3. *Wāqif* will have the liberty to choose the purpose (s) to be served, either from the list of 32 purposes identified by SIBL as noted later or any other purpose(s) permitted by the *sharīʿa*;
4. Cash-*waqf* amount will earn profit at the highest rate offered by the bank from time to time;
5. The *waqf* amount will remain intact and only the profit amount will be spent for the purpose(s) specified by the *wāqif*. The unspent profit amount will automatically be added to *waqf* amount and earn profit to grow over time;
6. *Wāqif* may also instruct the Bank to spend the entire profit amount for the purpose specified by him/her.
7. *Wāqif* will have the opportunity to create Cash-*waqf* at a (later?) time. Otherwise, he/she will declare the amount he/she intends to build up and will start with a minimum deposit of Tk. 1000/= one thousand only (or equivalent foreign currency). The subsequent deposits shall also be made in thousand or in multiples of thousand;
8. *Wāqif* shall also have the right to give standing instruction to the bank for regular realization of Cash-*waqf* at a rate specified by him/her from any other a/c maintained with SIBL;

9. Cash-*waqf* shall be accepted in specified endowment receipt voucher and a certificate for the entire amount shall be issued as and when the declared amount is built;
10. The principles and *shari'ah*-based rules of Cash-*waqf* Account are subject to amendment and review from time to time.

X. CASH-WAQF: ACHIEVING RESULTS ON THE GROUND AT THE OPERATIONAL LEVEL OF SOCIAL INVESTMENT BANK LTD.

The thirty-two purposes for utilization of Cash-*waqf* fund as indicated below show the diverse areas of investment by Social Investment Bank. Although this is not exhaustive, these social investment activities will create a base for perpetual social capital, and help develop a credit program that reinforces family values and stimulates the social and moral foundation of a civil and a caring society.

TABLE 1. THIRTY-TWO PURPOSES OF CASH-WAQF FUNDS

Family Empowerment	<ul style="list-style-type: none"> Uplift of absolutely poor Rehabilitating handicapped Rehabilitating beggars Rehabilitating destitute women Uplift of urban slum dwellers 	
Education & Culture	<ul style="list-style-type: none"> Education of orphans Educational development Providing informal education Providing physical education Supporting local culture and heritage Conducting Dawah activities Student scholarships 	<ul style="list-style-type: none"> Supporting vocational education Education in neglected areas Financing educational institutions Educating deserving descendants Projects for memory of mother/father Establishing educational chairs
Health and Sanitation	<ul style="list-style-type: none"> Village health care and sanitation Supplying pure drinking water Establishing hospitals, clinics, etc. Research in health sector 	
Social Utility Services	<ul style="list-style-type: none"> Setting disputes Legal aid to deserving women Arranging dowry-less marriages Public transportation and plantation Assistance to non-Muslims 	<ul style="list-style-type: none"> Protecting anti-social activities Public utility services Mosque development projects Graveyard development projects Eidga development projects

It appears that the Cash-*waqf* Certificate scheme, introduced by Social Investment Bank Ltd. (SIBL) offers a unique opportunity at the institutional level to drive social benefits and receive divine blessing for this life and the hereafter.

One can purchase Cash-*waqf* Certificates for:

1. Self
2. Parents
3. Heirs
4. Spouse
5. Neighbors
6. Brothers/Sisters
7. Improvement of the living standard of the poor
8. Rehabilitation of the physically crippled ones
9. Improvement of living standard of the slum dwellers
10. Assisting education of orphans
11. Facilitating education of meritorious students
12. Expansion and development of modern and up-to-date education
13. Expansion of education program of the School/College/Madrasa/University you studied
14. Establishing “Education Chair” in assisting research and education
15. Assisting mother-care education
16. Conducting research on specific diseases and establishing research center
17. Establishing Hospital and Blood Bank
18. Alleviating dowry system and motivating dowry-free marriage
19. Establishing small scale industries for social welfare
20. Assisting research, development and education program to commemorate parents or any other predecessors
21. Mitigating social problems of non-Muslims
22. Assisting alternative employment and income generating projects for poverty alleviation and any other *sharʿa*-permitted schemes. Above all, one can purchase the Cash-waqf Certificate with a view to fulfilling investment target in at least the following four areas:

A. Self Benefit

Man is mortal. At birth we are indeed poor; at our death, we are poor as well. It goes without saying that all of our activities end on death except the three things stated earlier. Cash-waqf falls within the purview of ongoing charity (*Sadaqa-E-Jariah*). As an instrument of *Sadaqa-E-Jariah*, Cash-waqf may play a vital role in bringing self-benefit for life here and hereafter.

B. Family Benefit

As indicated earlier Cash-waqf certificate scheme offers an opportunity to discharge our responsibility toward our parents, wife, children, and other members of the family. Cash-waqf Certificate can be purchased also for the betterment of future generations, for education, marriage etc. of children and/or grandchildren, or for establishing memorial for one’s parents or grandparents. Since the bank will remain in charge of management of profit derived from the purchase of Cash-waqf, this will ultimately lead to empowerment of one’s future generation as explained earlier.

C. Social Development

The Cash-waqf Certificate also offers a unique opportunity to contribute to society. With the profit from Cash-waqf, one can make valuable contributions to establishing/running different educational institutes, including Mosques, *Madrasas*, Hospitals, Schools, Colleges, and Universities. This scheme can assist in implementing any project of education, research, religion, social welfare, or medical services to the poor and alleviation of poverty.

By means of Cash-waqf, an Educational Chair can be established in the University. The scheme can also be used for awarding scholarships to meritorious students of School/College/Madrasa/University, etc. The benefits of Cash-waqf Certificates are thus perpetual in nature. Unlike temporary charity, Cash-waqf is well planned and everlasting. As a result, a vast group of people in society will enjoy its benefit perpetually.

D. Building a Caring Society

The fund established through Cash-waqf would be invested, which will ensure social security for the poor and social peace for the rich. Eventually, Cash-waqf would create a bridge of mutual care and compassion between the rich and the poor, thereby contributing to the process of social harmony and cooperation. The fact of the matter is that the Cash-waqf Certificate Scheme is likely to bring about wide ranging economic and social benefits to the society as a whole.

At this stage it is interesting to report that the Social Investment Bank introduced Cash-*waqf* Certificates on an experimental basis in December 1997, and formally launched the program on January 12, 1998. Since then the growth of the number of accounts and deposits is very encouraging, as indicated in Table-I below:

TABLE 2. THE GROWTH OF CASH-WAQF ACCOUNTS AND DEPOSITS

Item	1997	1998	1999 (to Aug. 31)
Number of accounts	21	215	367
% increase	-	924%	71%
Amount deposited (Taka '000)	39	1,249	2,763
% increase	-	3103%	121%

(1 USD = 48.3 Taka)

Source: Fourth Annual Report of Social Investment Bank, 1998

XI. AGENDA FOR ACTION

Islamic banks in the 21st century should make an effort for global mobilization and the creation of Cash-*waqf* for US\$1 billion by 2010. This would be done mainly through the sale of Cash-*waqf* Certificates to support the development of human and social capital infrastructure of the Islamic world in particular, and disadvantaged people of the world in general. On a global scale, “three billion people live on less than \$2 a day, 1.3 billion do not have clean water, 130 million children do not go to school, and 40,000 children die every day because of hunger-related diseases. Within this deprivation is another dimension: hundreds of millions of girls and women whose lives are diminished and shortened by inadequate economic means, and discrimination in social status and medical attention.”^v In this context, the challenge of bankruptcy of the Muslim world in the fields of education, science and technology, health, and research as well as the level of general economic deprivation of the masses, has reached the level of a global crisis. The lack of human and social capital infrastructure, colonial era bureaucratic set-up, pervasive corruption, lack of political and social will and national commitment in the fields of economics, education, health, and research have placed more than half of one billion Muslims in the darkness of illiteracy and ignorance and poverty.

An average of hardly 4% of the GNP of Muslim world was spent on education, as opposed to 7% on defense. The total number of universities in the Muslim world, irrespective of their quality, is not beyond a mere 400. A recent survey shows that in the industrialized world, only three out of every hundred adults were not able to attend any school, while in the Muslim world as much as 77% of the population aged 25 and above had never been to any school. This figure is even higher than that of the rest of the Third World countries where it was found to be 64%. The survey further reveals that the Muslim world has: the lowest school-going population, that is 47 per every 100 children aged 5-19; the highest student/teacher ratio, which is 88 students per teacher; and the lowest enrolment in higher education, which is just 8 per 100 in the age-group, 20-24. In most of the Muslim African countries, it is below 1% of the adult population. Very few Muslim countries have created basic institutions in the field of Research and Development (R&D). At present, the Muslim World has the lowest amount of manpower in the field of science and technology.

Cash-*waqf* can be seen as a process of expanding and unfolding the frontiers of human freedom that includes economic and social deprivation. Currently, the United States is perhaps the most generous nation in the world. For example, Americans gave nearly US\$2 billion to international causes in 1997. Last year according to

figures by Giving USA, Americans donated \$143 billion to non-profit organizations. Just over three-quarters of this came from living individuals (\$109 billion); the rest from foundations (\$13 billion), bequests (\$13 billion) and companies (\$8 billion). The non-profit part of the economy accounts for 8% of GDP, a figure that has more than doubled since 1960; and it employs nearly 10% of the American work force—more than federal and state governments combined.^{vi} Perhaps, given its rich heritage and legacy, Muslim philanthropy in the 21st century can match American philanthropy in the 20th century. What is needed is to rediscover Islamic socioeconomic values and revive Islamic institutions in the 21st century. Islamic banks and voluntary organizations must explore this opportunity for mobilizing this social capital.

A. Global Mobilization and Creation of Cash-waqf Fund

Each of the local Islamic banks, Islamic voluntary organizations or non-profit trust and foundations may volunteer to act as an agent to sell Cash-waqf Certificates for global mobilization, and to raise Cash-waqf funds of at least US\$100 million in a year from member countries of IDB and Muslim communities in non-member countries of IDB.

B. Forming a Confederation of Islamic Voluntary Organizations

Since the purchase and sale of Cash-waqf Certificates provides new opportunities to transfer liquid assets and make connections with one another on a global scale, opens up possibilities for a greater variety of pluralism in the expression of Muslim identities and re-construction of the Islamic *Ummah*, and in the services of mankind as a whole or Non-Government Organizations (NGOs), Islamic Development Bank may initiate the formation of a confederation of Muslim voluntary organizations by holding a meeting of the volunteers. Islamic Development Bank's effort to establish the "Awqāf Properties Development Fund" is a move in the right direction. Private sector initiatives should be considered vital in this area also.

C. Globalization of Islamic Voluntary Sector Activities

The Social Investment Bank is already in the process of introducing other new financial instruments and products for financing development in the Islamic voluntary sector in Bangladesh, such as *Awqāf* Properties Development Bond (specific and general), Mosque Properties Development Bond, Zakat Certificate, etc. This relates to the issues of securitization and coordination of social capital market operation and globalization of Islamic voluntary sector activities. The Cash-waqf Certificate is a building block. As a part of the process, a comprehensive action plan needs to be drawn. Social Investment Bank can act as the coordinator of all concerned.

D. Strategic and Futuristic Social Investment by Committee of Volunteers

A coordination committee of volunteers of Islamic banks, voluntary organizations, and NGOs should be set up to prepare an Action Plan that includes establishment of a Cash-waqf Fund and identification of the areas for conducting joint strategic and futuristic social investment in the 21st century.

XII. CONCLUSION

Evidence suggests that there is considerable mismanagement and misuse of *waqf* properties, despite their contribution to social development over time. The Cash-waqf Certificate Scheme is an epoch making event. As the bank manages this Cash-waqf, the Cash-waqf has transparency, liquidity, and accountability, is a perpetual deposit, and its profit can be invested in a wide spectrum of social investments. Besides the 32 areas identified by the bank, the *wāqif* or subscriber can select one or more sectors according to his wishes in conformity with the *shari'a*. Money for Cash-waqf can be deposited as a lump sum or by installment. The bank shall manage the Cash-waqf on behalf of the *wāqif*. This ensures appropriate utilization of the fund of the *wāqif* in terms of its goals and objectives. The bank's 32 sectors/areas of investment include diverse social investment activities having enduring value which will create a base for perpetual social capital, help develop a credit program that reinforces family values, and stimulate a caring society. The Holy Qur'ān has emphasized the virtues of charity in life on earth and life hereafter. The Cash-waqf Certificate offers an opportunity to get divine blessing and to have a rewarding social and spiritual experience and internal peace. Viewed from this perspective, it becomes a social and moral imperative on the part of the well to do to come forward and invest under the Cash-waqf Certificate Scheme for his own benefit. This will certainly pave the way for a new dimension of social development. The Cash-waqf fund can be spent for the welfare of non-Muslims also, thereby paving the way for serving humanity at large.

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- ^v Sen, Amartya and James D. Wolfensohn. “Poverty, Development and the People.” The Independent (Dhaka), May 12, 1999.
- ^{vi} The Economist, May 30, 1998.