Chapter 10

Exploring New Trends of Waqf in the Islamic Capital Market

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ABSTRACT

The financial re-engineering of old concepts is a new trend in the field of Islamic finance. It has been termed as ‘New Horizon 2.0’ by Shinsuke (2014)—an approach which aims to revitalize original instruments once practiced in medieval Islam to harness the potential of Islamic finance to better meet the needs of communities. It is also in line with the continuous innovative efforts of the industry to apply existing concepts, contracts, and instruments that are Shari’ah-compliant in the modern context to resolve contemporary socio-economic issues. In light of this background, this chapter examines how the age-old philanthropic concept of waqf has been integrated in the Islamic finance industry to revive its applications in contemporary societies. The chapter focuses on the inter-links between waqf and the Islamic capital market (ICM). Accordingly, it examines the new trends of waqf that have emerged in the ICM.

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INTRODUCTION

In the literature, waqf has often been portrayed as an instrument to advance the socio-economic role of Islamic finance (e.g. see Habib, 2011; Shinsuke, 2014). Waqf (plural awqaf) is an endowment trust typically used for charitable purposes. Legally, waqf is defined as “a gift of a corporeal property (‘ain) for the benefit of either the donor’s family or someone else or something, in perpetuity or temporarily, as a charity promised and executed normally during the lifetime of the donor, which is not capable of transfer, gift, and transmission thereafter” (ISRA Consultancy, 2016). It has a history rich with achievements in meeting the needs of the poor as well as in promoting economic growth and development.

As Islamic finance has evolved and expanded in the various aspects of finance, the vision of stalwarts of the industry has been to integrate waqf—which is primarily philanthropic in nature—within the mainstream of the Islamic finance industry to strengthen its effectiveness and applications. The aim has been to widen the mobilization of waqf beyond the traditional sectors such as mosques, graveyards, Islamic schools, and drinking water wells to serve different other social purposes relevant to communities today. Moreover, besides using waqf as a mechanism for social investments, the aim has been to spearhead its use in commercial purposes to generate sustainable returns to the waqf beneficiaries.

To revitalize the concept of waqf so that it remains relevant to modern societies, it has required the reinterpretations of fiqh rules and re-examine their applications in Islamic finance (Omar, 2018). One such example is the concept of temporary cash waqf, which has been introduced by the International Shari‘ah Research Academy for Islamic Finance (ISRA) and endorsed by the ISRA Council of Scholars in 2016. This has opened up new potentials in the domain of creating new waqf structures.

Mainstreaming efforts in the waqf sector have led to establishing joint cooperation between waqf and the banking industry, the takaful (Islamic insurance) sector, Islamic microfinance and the Islamic capital markets (ICMs), respectively. For instance, a banking model of corporate waqf has emerged, such as the Wakaf Selangor Muamalat which has been jointly established by Perbadanan Wakaf Selangor (PWS) and Bank Muamalat Malaysia Berhad (BMMB) in 2012 (Ramli & Jalil, 2015), and Waqaf Perak Ar-Ridzuan and Maybank Islamic Berhad. The waqf-banking model actually interlinks with the Islamic capital market (ICM) as the waqf capital is professionally managed by a fund management company for its investment in Shari‘ah-compliant instruments and for generation of halal (Islamically permissible) returns for the waqf beneficiaries. Thus, besides waqf being utilized as an instrument of the Islamic social finance sector, attempts have been made to develop its use as an investment strategy to generate sustainable returns for beneficiaries. In the ICM, for example, the modern practice of waqf has seen the development of initiatives such as waqf-
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