



The Validity & Viability of a *Waqf* based banking model in the UK

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Foreword

Waqf (plural: *Awqāf*), is a type of charitable giving in the form of an endowment that is dedicated for the sake of God (Allah), to serve the public good. It is a mechanism that is based in Islamic tradition and has historically been widely utilised across the world as a form of ongoing charity (*Sadaqah Jariyah*). This has taken many forms, from the building of schools and hospitals from properties that have been designated as *Waqf*, through to the disbursement of funds towards community projects, earned from *Waqf* property rent or hire.

The earliest known examples of *Waqf* use in the Islamic tradition date back to the time of the Prophet Muhammed pbuh¹, when two of his closest companions Umar and Uthman (may God be pleased with them both) were involved in charitable endowments that were used for public good, as in the case of some land in Khaybar and the Rumah well, both located in modern day Saudi Arabia.

The land in *Khaybar* that was designated as *Waqf* by Umar (may God be pleased with him), was to be used for the public good and could not be bought or sold for private gain. As a result, the land was farmed and the fruits distributed to the poor within the community. Any income generated from the land was used to pay for the freeing of slaves (as slavery still existed as an institution), and to provide for the needs of guests and travellers to the city. Similarly, the *Rumah* well was purchased and designated as a *Waqf* by *Uthman* (may God be pleased with him) at a time when water had become scarce and inaccessible for much the community.

Following the designation of the well as a *Waqf*, water became freely available to all who were in need. Both examples mentioned above highlight a unique and innovative means of serving the needs of the community through providing public goods. Furthermore, once designated as a *Waqf*, the endowment takes on a permanent state as such and therefore must always be used to serve the community.

This is particularly significant as the development sector seeks out new and innovative means to achieve sustainable development that is both long-term and long lasting. The use of *Waqf* as a form of perpetual charity therefore provides significant opportunities for poverty reduction, community empowerment and sustainable development on issues as wide ranging as education, healthcare, climate change and gender.

These sorts of endowment have been the prime Islamic form of independent civil society activism throughout Islamic history. Whilst the use of *Waqf* waned sometime in the mid 20th Century, there has more recently been a significant and concerted effort at its revival globally. Within a UK-context, the closest relation to *Waqf* might be the charitable endowment, of which there are few examples in Britain. This paper contributes towards identifying whether the principles of *Waqf* might give rise to a *Waqf* based financial institution such as a *Waqf* bank.

1 It is an Islamic convention to send peace and blessing upon the Prophet Muhammad, normally phrased as 'peace be upon him,' abbreviated 'pbuh'.

In establishing the basis for such an institution, organisations and institutions involved in charitable giving might be able to apply principles of *Waqf* and Islamic finance in order to generate greater income that would support rights-holding communities and individuals across the globe. The contribution made by this paper is therefore both timely and vastly enriching to current discussions and discourse surrounding *Waqf* use in Britain.

In the broader context, we at Islamic Relief Academy are keenly engaged in exploring key issues around faith and development, including fiscal aspects of Islam, such as Islamic philanthropy, *Waqf* and Islamic microfinance. Consequently, published research can inform the development sector through empirical, evidential research in the field of Islam and development and, more broadly, lend our support for the positive value faith adds to humanitarian and development work.

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Executive Summary

Waqf represents an Islamic socio-economic institution, the functions of which are as diversified as the needs of the communities it serves. As a widely flexible institution, it can function in different socio-legal environments with a range of underlying objectives.

Over recent years, the concept of a *Waqf* bank has been propounded by academics. The objectives of such an institution are focused on extending the capacity of *Waqf*-based services and enhancing their operational effectiveness. It is reasoned that a *Waqf* bank could provide financial services to all strata of society including the poor, weak and economically marginalised, and could thus widen the scope for *Waqf* to be utilised to serve the public good. Additionally as a social institution, the proposed *Waqf* bank would prioritise the funding of social welfare schemes since the bank's focus would be on magnifying its social return, rather than the maximisation of financial return.

With this in mind, this study will examine the benefits and challenges of setting up such a *Waqf* bank in the social and legal environment of the United Kingdom. In order to do so, this paper will employ a predominantly qualitative research paradigm, via interviews with experts in the area alongside secondary data analysis.

Based on a detailed examination of the available literature and interview responses, the study finds that the use of the term *Waqf* bank does raise some significant challenges including the conceptual, functional as well as regulatory aspects of such an institution. The study explores these challenges in some detail before concluding with recommendations and suggestion of alternative models of *Waqf*-based financial institutions which can equally fulfil the underlying objectives of a *Waqf* bank.

In sum, the main contribution of this research is to identify and dissect the complexities of the proposed model of a *Waqf* bank and offer viable solutions based on the information collated. Ultimately through engaging with specialists in the field of Islamic Finance and Economics, this paper will look to offer a unique perspective on a *Waqf* bank model in the United Kingdom.

Table of Acronyms

AAOIFI - Accounting and Auditing Organisation for Islamic Financial Institutions

CAF - Charities Aid Foundation

CSR - Corporate Social Responsibility

FCA - Financial Conduct Authority

FSA - Financial Services Authority

IDB - Islamic Development Bank

PRA - Prudential Regulation Authority

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Introduction

The institution of *Waqf* is perceived as a catalyst for great transformation within the Islamic charitable sector. Compared to other mechanisms of giving used by Islamic charities such as *Zakāt* and *Sadaqah*, *Waqf* denotes charity in perpetuity. One of the most evident implications of this is that once a property is designated as *Waqf*, it is considered to be a permanent designation. The perpetual character of *Waqf* brings forth two distinctive benefits; firstly the ongoing spiritual rewards for the donor and secondly, everlasting material provisions for beneficiaries.

From a jurisprudential perspective, *Waqf* is more flexible and pragmatic than *Zakāt* and other forms of *Sadaqah*. In fact, *Zakāt* has its own regulatory framework and it cannot be employed for any purpose other than those explicitly mentioned in the *Qur'an*. In contrast, a *Waqf* potentially covers almost all charitable ends within its jurisprudential capacity.

The only restriction for the usage of a *Waqf* is that it must not be employed for purposes that contradict the principles of the *Shari'ah*. Also, compared to a *Waqf*, *Zakāt* and *Sadaqah* require transferring the ownership of the given subject matter from the donor to the recipient. Thus arguably, a *Waqf* offers more possibilities for flexibility and innovation.

Waqf as an instrument of charity constitutes one of the best modes of voluntary giving by various morally and spiritually-charged individuals. Perhaps for this reason, a significant number of international Islamic charity organisations enthusiastically promote and employ the concept of *Waqf* for raising funds in order to serve a multitude of charitable purposes.

In terms of *Waqf* donations, a range of possible modes and schemes have been suggested and accepted by its stakeholders. The domain of *Waqf* is wide enough to accept cash, stocks and *Sukūk* along with real estate and fully developed residential and commercial buildings.

As such, managing the pool of *Waqf* in the light of its jurisprudential rulings may constitute a delicate issue. With the necessary requirement of safeguarding the capital of cash *Waqf*, securing a competitive rate of return on investments may become a daunting task for charity organisations managing *Waqf*. This may become even more challenging if the given portfolio of cash *Waqf* investment is too small to be adequately diversified.

The two primary factors leading to a lack of adequate portfolio diversification are:

- (1) A small amount of accumulated *Waqf* and/or
- (2) High cost of asset management and non-employment of professionals for managing the pool of *Waqf*.

Since there are numerous Muslim charity organisations that often raise *Waqf* donations within the same region, the likelihood of the aforementioned two problems arising is heightened. For example, if there are twenty Muslim charities in the United Kingdom and each one is collecting cash *Waqf*, the accumulated *Waqf* pool of each organisation may be smaller than what is needed for a fully diversified investment portfolio.

Similarly, the underlying cost of asset managers' services may be higher than each can afford to pay. In this scenario, if the accruing return on the investment of cash *Waqf* slides, it is the potential beneficiaries who ultimately suffer.

Perhaps both of these problems can be resolved by proposing the idea of setting up a bank which is based on the concept and practice of *Waqf*. A *Waqf* bank which could manage the collective pools of cash *Waqf* deposited by various charity institutions, may achieve the required diversification of the portfolio. This would also reduce the investment cost significantly. Furthermore, a *Waqf* bank can ideally serve the social and charitable purposes in a better manner. In addition, for the development of dilapidated *Waqf* properties, the envisaged function of a *Waqf* bank could play an instrumental role.

Additionally, if developed into a full-fledged bank, the financial products and services of the *Waqf* bank could be a solution to the problems of microcredit seeking, economically-marginalised clientele.

In the context of this study therefore, the proposed *Waqf* bank can be defined as a *Waqf* based financial institution which collects small and large amounts of *Waqf* donations from various donors. After investing these donations in *Shariah*-compliant investment avenues, the institution can dispense the accruing revenues for worthy causes and to those in need of assistance.

This research aims to explore the prospects and challenges of setting up a *Waqf* bank, particularly in a Muslim minority country such as the UK. The study employs a primarily qualitative research paradigm, via interviews of experts in the area, but also incorporates some secondary data analysis. It explores the financial, regulatory and structural requirements of a *Waqf* bank, focussing particularly on the legal environment of the UK.

Focus of the study

This research attempts to unpack and analyse the following aspects of a tentative *Waqf* bank model:

1. Model and structure of the proposed *Waqf* bank.
2. Regulatory requirements for such a bank.
3. Possibilities of collaboration to set up a *Waqf* bank.
4. Alternative *Waqf*-based financial institutions.
5. Corporate governance of the bank.
6. Arrangement of the seed capital for the bank.
7. Innovative modes of fundraising.
8. Maintaining a stream of cash flows for sustainable functioning of the bank.

Aims and Objectives

- i. To analyse the possibilities of setting up a *Waqf* bank in the UK.
- ii. To identify the underlying challenges in setting-up a *Waqf* bank in the UK.
- iii. To explore the potential sources of funding for a *Waqf* bank.
- iv. To examine the viability and long-term sustainability of a *Waqf* bank.
- v. To explore and analyse the possibilities of coordination between Islamic Relief and other UK-based Islamic charities in establishing the *Waqf* bank.
- vi. To recognise the required leadership characteristics for undertaking the establishment and sustainable operation of the *Waqf* bank in the UK.

Research Methodology

This study adopts a qualitative research paradigm, using a combination of primary and secondary data. The analysis is formed on the basis of the literature review and data collected through thirteen interviews with key individuals including academics, banking professionals, *Shari'ah* scholars and experts in Islamic finance. In conducting the interviews, a semi-structured questionnaire was employed (see Appendix 2). The selection of interviewees was made on their proven expertise in *Waqf* and Islamic finance.

The decision to interview experts from academia and the financial industry was taken for two reasons. Firstly, the available literature on the concept of a *Waqf* bank is rather limited and therefore interviewing sector experts seemed to be the best way to generate primary data on the topic. Secondly, since the concept of *Waqf* had previously been explored differently in other contexts, interviewing the experts from various geographical locations appeared to be the most appropriate method to collect wide-ranging perspectives on the idea of a *Waqf* bank.

In order to ensure that the research methodology was robust and findings be accurate and representative. This meant that the process of developing the interview questions involved intensively surveying the scant literature in the area and developing some 'pilot' questionnaires.

These 'pilot' questionnaires subsequently went through a revision process to ensure that the concept of a *Waqf* bank was adequately captured within the questions asked. Since the interviewees included leading experts in the area, it was somewhat challenging to schedule interviews of the participants from different parts of the world. Additionally, to tackle the challenge of low response rate, the number of potential interviewees was substantially increased.

Accurate representation of the views expressed by interviewees was a critical aspect of ensuring sound ethics within the study.

This meant that for some participants, the entire interview transcription was emailed to them following the interview in order to ensure fairness and accuracy.

In adopting the above mentioned measures, this research study is built upon a robust research methodology, in order to ensure that findings are both accurate, and reflect opinion within the sector.

Literature Review

Background

Waqf denotes a perpetual form of Islamic supererogatory charitable institution. Technically, *Waqf* can be divided into three categories. These include *Waqf Khāyri* (philanthropic *Waqf*), *Waqf Dhurri* (family *Waqf*) and *Waqf Mushtarak* (combined *Waqf*) (Kahf, 1999). According to the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI), *Waqf* is defined as "making a property invulnerable to any disposition that leads to transfer of ownership and donating the usufruct of that property to beneficiaries" (*Shari'ah* Standard 2/1, 2010).

The concept of philanthropic *Waqf* was introduced within the first few years of prophetic Hijrah from Mecca to Medina. Omar and Othman (may God be pleased with them both), were two of the companions of the Prophet (pbuh) that are reportedly among the first founders of philanthropic *Waqf*.

Whilst the endowment of the well of Rumah (in Medina) is associated with Othman (may God be pleased with him), the endowment of a land in Khyber was made by Omar (may God be pleased with him) during the life time of the Prophet (peace be upon him) (Kahf, 2003). From the spiritual perspective, it is believed by *Shari'ah* scholars that the practice of *Waqf* best represents the concept of *Sadaqah Jāriyah* (a perpetually rewarding act) (Çizakça, 2000). In addition to its spiritual sanctity, the institution of *Waqf* is widely regarded as revolutionary in terms of its indelible socio-economic implications and impacts.

The historical role of *Waqf* in empowering Muslim and non-Muslim communities is well documented in the literature (Singer, 2008; Çizakça, 1998).

Types of Waqf

The idea of *Waqf* has attracted renewed interest from academics as well as practitioners in the modern world, perhaps shaped by their belief in the enormous potential of the institution. The institution of *Waqf* has a history of promoting philanthropic causes and is well poised to repeat its historical role in the modern day economy.

Waqf as an institution has the potential to function in multiple settings as it covers religious, philanthropic, private, public, individual and institutional aspects of human life. In terms of benefiting its beneficiaries, *Waqf* can be employed in a number of different ways. For example, the function of a *Waqf* to establish a mosque or graveyard is different from the function of a *Waqf* dedicated to the promotion of learning and research. Similarly, a *Waqf* providing usufruct to the beneficiaries would be different from a *Waqf* that is revenue-generating.

In its technical setting, *Waqf* of a house to provide shelter to its beneficiaries differs from the *Waqf* of a similar house to be rented and rental proceeds be disbursed among the beneficiaries. Furthermore, different variants of *Waqf* can cater for different needs and demands of a given society. These may include *Waqf* of immovable versus movable items and fruits-bearing versus cash *Waqf*.

In this context, it can be argued that revenue-generating *Waqf* may have greater scope for flexibility than the *Waqf* of usufruct. This is due to the fact that in a revenue-generating/liquid *Waqf*, the trustee, or in Arabic *mutawalli*, is generally better placed to apply his/her discretion in the distribution of benefits.

Thus, it appears that compared to an illiquid *Waqf*, liquid *Waqf* may be easier to bring variations in deployment of the accruing proceeds. Additionally, the benefits of this kind of *Waqf* can be easily channelled beyond geographic boundaries and doner limitations. By comparison, *Waqf* of usufruct/utility is restricted by location.

In contemporary *Waqf* literature, the significance of cash variants of *Waqf* have been emphasised repeatedly. Perhaps due to being liquid, a cash *Waqf* may be easier to donate for a prospective *Wāqif* (donor) and more flexible to manage for a *Mutawalli*(trustee). Cash *Waqf* may also be wider in terms of its scope for potential beneficiaries (Ibrahim et al, 2013).

Arguably, for more effective and flexible functioning of *Waqf*, the idea of collecting and pooling together various *Awqāf* of different forms and sizes can be put forward. For this purpose, setting up a *Waqf*-bank type entity has been proposed by some researchers (Karim, 2013; Sabit, 2011). The essential functions of such a bank constitute the management of the endowed assets both in liquid and illiquid forms, as well as an extension of different financial services to the targeted beneficiaries in a hassle-free and professional manner.

However, until present times, there hardly exists any specimen of a full-fledged *Waqf* bank anywhere in the world, despite the literature being replete with proposals of establishing one. To this end, several aspects and dimensions of a tentative *Waqf* bank require critical examination.

The major questions related to the idea of establishing a *Waqf* bank include examining its *Shari'ah*-compatibility along with the compliance of its legal framework within a

the compliance of its legal framework within a given jurisdiction.

Additionally, the following features of a proposed *Waqf* bank would require comprehensive discussion:

1. Financial: The potential sources of seed capital and recurring income for the bank as well as the means and methods of arranging the finances needed for the initial set-up and early operation of the bank.

2. Structural: The framework and structure for the *Waqf*-bank, that is, whether it would be registered as a charity, a not-for-profit company or a for-profit corporation.

3. Regulatory: The regulatory framework for such a bank, i.e. whether it might occur via financial regulators such as the Prudential Regulation Authority (PRA) or through the Charity Commission. Each of these regulators has their own distinctive regulatory requirements and framework.

4. Sustainability: The sustainable functioning of a *Waqf* bank requires a clear vision and firm commitment by its board members to direct its operation in a sustainable manner. Also, planning and arrangement of continuous cash flows in addition to developing a concrete strategy on investment of the accumulated *Waqf* pools would be required from the outset.

5. Practicality: The viability and the prospects of practical implementation of the model. The practicality of such a bank would depend on critical examination of the potential road blocks and their remedial strategies.

Cash Waqf

There is a significant body of literature describing the jurisprudential, socio-economic as well as historical aspects of *Waqf*. However, since the idea of a *Waqf* bank is relatively new, there are few studies on this particular topic, which many are written in an abstract manner.

First and foremost, with respect to the proposed *Waqf* bank, the *Shari'ah* permissibility of cash *Waqf* has been the central point of dispute and discussion over the recent years. Cash, due to being liquid and movable has not been regarded by many classical *Shari'ah* scholars as for the purpose of *Waqf*.

According to the juristic reasoning applied by these scholars, cash *Waqf* contradicts the most essential features of *Waqf*; namely perpetuity and inalienability. Nonetheless, scholars such as Imam Zufar and the classical Islamic scholar Ibn Taymiyyah, as well some scholars from the Maliki school of thought have differed from this view. According to them, *Waqf* of cash is as permissible as *Waqf* of immovable items (Sabit, 2011; Othman: 1982). Given the contrasting views of classical scholars on the permissibility of cash *Waqf*, the recent International *Fiqh* Academy resolution on the acceptability of cash *Waqf* has cleared all disputes surrounding the issue (*Fiqh* Academy Resolution, 2004).

Although in historical terms there is evidence of pooled cash *Waqf* management systems (that provided funding to the poor and served the financial requirements of the needy), the functions of such pools were rather limited compared to what a *Waqf* bank is envisaged to do in the modern sense.

The most vivid examples of such *Waqf* pools can be traced back to the sixteenth and seventeenth century practices of the Muslim community under the Ottoman regime.

These pools comprised of numerous cash *Waqf* donations from different individuals and were employed through the mechanism of *Istighlāl*, which is a *Murābaha*-type of financial instrument (Çizakça, 2000: 47-48). Notably, this mechanism of *Istighlāl* remained controversial amongst the scholars.

The Concept of a Waqf Bank

A conceptual framework of a modern *Waqf* bank with detailed recommendations has been proposed by Sabit (2011). According to him, the central axis around which the proposed model of a *Waqf* bank revolves is encapsulated in the *Shari'ah*-permissibility of cash *Waqf*.

Thus, the collection of cash *Waqf* from different entities along with the periodical investment returns on the capital may enable the bank to provide its services to various clients. Additionally, the model would invite and accumulate investment capital from other existing *Waqf* as well (Sabit, 2011).

Ideally, this *Waqf* bank would meet capital requirements for the renovation and development of different dilapidated *Waqf* properties. In view of Sabit (2011), a *Waqf* bank may bridge the existing gap between the demand and supply of funds among the most deserving individuals and institutions alike. The primary beneficiaries of such a *Waqf* bank would be various other *Waqf* institutions, many of which require funds for the development of their dormant properties.

As far as the sources of capital for the proposed *Waqf* bank are concerned. According to Sabit (2011) they may include both donation-based capital and investment-based capital. A pool of cash *Waqf* coupled with *Qard Hasan* and other investments constitute the suggested channels of capital for the proposed *Waqf* bank. These three sources of capital can be explained further:

1. Pool of Cash Awqāf: The pool would be comprised of the funds realised through a variety of cash-*Waqf* donations made by individuals. The modes of such donations may vary. For instance, donors can participate by donating cash *Waqf*, *Waqf*-share, *Waqf* of stocks etc

2. Qard Hasan: These may be sourced from high net-worth individuals as well as from Islamic charitable and non-charitable organisations. For this purpose, international Islamic organisations such as the Islamic Development Bank may be approached to secure time-bound *Qard Hasan*. Also, some Islamic banks may also be potential temporary fund-providers.

3. Other Investments: These may include investments from other fund providers on a profit-and-loss sharing basis. For this purpose, Islamic financial products including *Mudārabah*, *Mushārah* and *Murābah* might be used. Tools and techniques employed for crowd-funding can also be explored. The investors would be assumed to gradually sell off their respective shares to the *Waqf* bank in accordance with the contract.

Salient features of the proposed Waqf bank

There are a number of salient features of the proposed *Waqf* bank. These are elaborated on below:

1. The proposed *Waqf* bank would be an incorporated entity. Shares could be issued to potential investors as a means of generating seed capital. Nonetheless, the shareholders of the given *Waqf* bank would enjoy only limited rights in terms of their shares, as they would be required to liquidate their respective shares in favour of the *Waqf* bank within the specific time period.

² *Istighlāl* was a fictitious sale contract. In this "...the borrower handed over to the lender a piece of real estate, supposedly as a sale, but actually in a pawn. If the borrower redeemed his debt after a year, the asset reverted back to him. In the meantime, the lender leased the asset to the borrower (so that the borrower could go on using it)" and pay the rent (Çizakça, 2000: 46).

³ Crowd-funding implies "...financial contributions from online investors, sponsors or donors to fund for-profit or non-profit initiatives or enterprises. Crowd-funding is an approach to raising capital for new projects and businesses by soliciting contributions from a large number of stakeholders following three types of crowd funding models: (1) Donations, Philanthropy and Sponsorship where there is no expected financial return. (2) Lending. (3) Investment in exchange for equity, profit or revenue sharing" (CrowdSourcing.org, 2015).

The share of the initial shareholders would diminish through the redemption process. In addition, the *Waqf* bank as a legal entity would purchase the shares of all investors and become the sole owner of its assets and capital, within a specified timeframe.

2. The bank would be registered, licensed and regulated by the central regulatory body of the given jurisdiction. For instance, in the UK, a bank as well as other deposit-taking financial institutions are jointly authorised and regulated by the PRA and the Financial Conduct Authority (FCA). Thus, the structure of the *Waqf* bank would determine whether it is to be regulated by the PRA and FCA or by some other regulator such as the Charity Commission.

3. If the *Waqf* bank follows the structure of a bank in its technical sense, it would have to comply with similar regulatory rules as applicable to an Islamic bank.

4. The bank may follow the model of existing Islamic banks in its structural framework and can extend the services of a modern bank such as taking deposits, providing loans (*Qard Hasan*), facilitating transfer of funds and operating a proper payment system.

5. The net profit generated through its services or by investment of its funds would develop the asset base of the bank, which would be deployed to serve charitable purposes.

6. The bank would be not-for-profit and follow the functions of a social bank (Institute of Social Banking, 2011⁴). Alternatively, it is suggested that the bank could follow and promote the paradigm of social investment⁵.

7. The bank would be interest-free and follow *Shari'ah* principles in its operation.

8. An internal *Shari'ah* Supervisory Board would be installed to advise, supervise and audit the *Shari'ah*-compliance of the bank in its transactions and products.

9. For the purpose of sustainability, a certain percentage of the bank's net income would be put into a special reserve account for contingency.

10. The bank may create a syndicate amongst other *Waqf* institutions and can play the role of asset manager.

11. Providing developmental funding, both in the form of *Qard Hasan* and through joint-venture, to other *Waqf* institutions would constitute the essential objective of the bank.

12. Provision of interest-free micro financing to the poor would be among the primary goals of the *Waqf* bank.

13. The bank may stipulate a nominal service charge on the transactions of interest-free loans.

14. The *Waqf* bank may combine the collection of *Zakat* along with cash *Waqf*, for the purpose of serving the most deprived more effectively. However, it should be noted that the *Zakat* pool and *Waqf* funds would be kept separate.

⁴ 'Social Banking' denotes a banking system which incorporates the social objectives into its operation. It provides financial services to its clients in a way that consequently contribute positively towards "...the potential of all human beings to develop, today and in the future.... In Social Banking, the focus is on satisfying existing needs in the real economy and the society whilst simultaneously taking into account their social, cultural, ecological and economic sustainability" (Institute of Social Banking, 2011).

⁵ Social investment is the use of repayable finance to achieve social as well as financial return."... There is a new social investment market emerging. It is developing ways to connect socially motivated investors with social sector organisations that need capital so they can grow and make a greater impact on society" (BSC, 2015).

Thus, the proposed *Waqf* bank may resolve "... the problem of illiquidity and inadequacy of funds for financing the development of *Waqf* properties specifically" (Sabit, 2011:1). Furthermore, by virtue of possessing a considerably good amount of liquidity, the *Waqf* bank management could aggressively participate in other socio-economic projects as well.

In line with the proposal of Sabit (2011), Mohsin (2009) too has provided crucial guidelines for the establishment of a cash-*Waqf* based financial institution. Though the work by Mohsin (2009) does not provide as detailed a discussion on the structure of the *Waqf* bank as is made by Sabit (2011), her input on the methods and mechanisms of attracting vast amount of cash *Waqf* donations are critically important.

According to Mohsin's (2009) research, mobile *Waqf*, corporate *Waqf*, *Waqf* share, *Waqf* and *Sukūk* are among the modern innovative mechanisms of raising cash *Waqf* funds.

These techniques may be explored further in order to arrange the required capital base for a *Waqf* bank. Mohsin (2009) explains the methods and mechanisms of collecting and managing cash *Waqf* pools by other similar institutions as well. The functions of Dompot Dhuafa Republika in Indonesia, for example, closely resemble the 'Amal Jāriyah model of cash *Waqf*.

The only difference between the two models of 'cash *Waqf* management' is that the collection of Dompot Dhuafa Republika is not restricted only to cash *Awqāf*, but it also accepts *Zakāt*, *Infāq* and *Sadaqah* as well.

Although, different forms of donations are placed into different categories, all are invested and accruing returns are employed for charitable purposes as per their specific *Shari'ah* rulings. In Indonesia, there is another successful model of cash *Waqf* widely known as 'Tabung *Waqf* Indonesia'.

This model also employs various methods of cash *Waqf* donations and specifically aims at tackling the problem of poverty and illiteracy, along with the provision of medical services to the underprivileged (Mohsin, 2009).

In the past few decades, the application of cash *Waqf* has received widespread acceptance in various Muslim and non-Muslim countries. The countries with successful models of cash *Waqf* include Malaysia, Indonesia, Sudan, Pakistan, Singapore, Bahrain, UAE, India, the United Kingdom and South Africa.

The methods of cash *Waqf* management in all countries mentioned are very similar, though there may be some noted differences in the form and mechanism of the fund-raising schemes. In substance however, their structural functions have many similarities (Mohsin, 2009).

In comparison to the models proposed by Sabit (2011) and Mohsin (2009), Karim (2013) emphasises the critical significance of a *Waqf* bank, particularly in the context of Bangladesh. He enumerates the functions of the proposed bank whilst omitting the legal and technical discussion on how it might be structured.

Additionally, Mannan (2011) has advocated the need for and significance of a *Waqf* bank. It was his idea of the *Waqf* bank which after some years, took a practical shape and was implemented as a 'Deposit Cash *Waqf* Model' in Bangladesh.

This scheme requires the donors to deposit cash *Waqf* in the Islamic Bank of Bangladesh, which in the capacity of the Mutawalli would invest the accumulated pool on the basis of *Mudārabah* and would spend the accruing benefits in specific charitable causes.

Summary of the Literature Review

It is evident from the previous discussion that there are various models of cash *Waqf* which are providing some innovative financial services. Nevertheless, there is still no practical example of a fully-functioning *Waqf* bank. The proposal of Tahir (2011) appears close to being implementable, but requires additional scrutiny from several angles, such as the consideration of the legal, financial and regulatory aspects.

Aside from this, empirical studies by Ridhwan, Yusuf and Johari (2014) as well as by Ridhwan and Yousuf (2014) have highlighted the great significance and high demand for a *Waqf* bank amongst university students in Malaysia. In Malaysia, the initiative of the Johar Corporation (JCorp) to manage cash *Waqf* as a professional fund may revive the interest of different stakeholders in this institution.

This initiative might also carry the potential open up other possibilities in the sphere of efficient cash *Waqf* management. The experience of JCorp may additionally provide a crucial guide for the management of funds in a *Waqf* bank (Jalil, 2014; Mohsin, 2009).

Possible Models of *Waqf* Bank

Furthermore a possible model of a *Waqf* bank can be extracted from models such as that of Social Islamic Bank Limited and Islamic Bank Bangladesh. These institutions accept cash *Waqf* deposits and invest the accumulated pool in *Shari'ah*-compliant financial instruments. The returns of investment are disbursed among certain classes of beneficiaries. While selecting the classes of beneficiaries, due diligence must be accorded to the stipulations of the *Waqif* (Chowdhury, 2014).

In fact, similar to a social bank, cash *Waqf* pools can be efficiently utilised for the purpose of extending micro financing schemes to the poor.

Following the literature review, an important observation that can be made is that almost all of the aforementioned suggestions regarding the establishment of a *Waqf* bank come from researchers and contemporary scholars residing in Muslim majority countries such as Malaysia and Bangladesh.

Thus, by implication, their studies and proposals regarding the establishment of a *Waqf* bank have been extended in view of their own jurisdictions and legal environments.

The legal environment of these jurisdictions might be more conducive for the establishment of a *Waqf* bank in comparison to the legal environment of a non-Muslim jurisdiction such as the UK. Importantly, no specific study has been conducted with reference to the possibility and viability of a *Waqf* bank in the context of a non-Muslim jurisdiction.

Literature discussing the various functions and dimensions of cash *Waqf* has grown manifold in recent years. Similarly, studies on the effective and efficient employment of cash *Waqf* has also increased tremendously in recent years.

Implications from the Literature Review

The available literature dealing with the prospects of a *Waqf* bank is limited. In view of the paucity of research on the possibility of establishing a *Waqf* bank in the UK, a fresh study is necessary in order to bridge the gap between theoretical considerations and the practical functioning of such a bank. For this purpose, a comprehensive study addressing the following points may help to understand the prospects for, and challenges of, setting up a *Waqf* bank in a non-Muslim country.

1. Jurisprudential Aspects of Cash *Waqf*: This implies analysing the legal status of cash *Waqf* in the *Shari'ah*. In the classical jurisprudence of *Waqf*, cash *Waqf* in particular has been recognised by only a minority of *Shari'ah* jurists. The study of Sabit (2011) provides a solid base to build upon the further jurisprudential discussion on the *Shari'ah* permissibility of cash *Waqf*.

2. Prospects and Challenges of Cash *Waqf*: An analytical discussion on the prospective advantages and disadvantages of actively promoting cash *Waqf* compared to *Waqf* of real estate would be critical for planning the building blocks of the *Waqf* bank. A study by Ismail, Muda and Hanafiah (2014) partially covers this aspect.

3. Proposed Models of a *Waqf* Bank: In terms of the prospects and challenges, the proposed model of a *Waqf* bank would require critical scrutiny of its viability, feasibility and sustainability.

4. Tools and Techniques of Cash *Waqf* Collection: One of the most important aspects of the proposed *Waqf* bank constitutes the promotion of the concept and arrangement of the required funds for it. A separate study would be required exploring the marketing of a *Waqf* bank and its underlying benefits to society. This in turn, may improve the prospects of funding for the bank.

5. Prospects of issuing *Waqf*-based perpetual *Sukūk*:

A separate study examining the possibilities of *Sukūk* issuance for arranging the required capital for the *Waqf* bank would be vital. The legalities of issuing *Sukūk*, its underlying cost and the required infrastructure constitute the major points to be discussed.

6. Prospects of Integration/Coordination amongst other *Waqf* Institutions:

A survey focusing on the different stakeholders' views about the possibilities of collaboration is vital. The benefits and drawbacks, of such a collaborative programme should be identified. Based upon the conclusions drawn from such surveys, recommendations for policy formulation are to be advanced.

7. Methods of Cash *Waqf* Management:

Research delving deeper into methods of cash *Waqf* management aspects may be recommended. This should be aimed at identifying the different approaches to managing cash *Waqf* compared to *Waqf* of real estate. Also, a critical analysis of the existing methods of cash *Waqf* management alongside their respective strengths and weaknesses would be helpful in devising new policies.

8. Legal and Regulatory Challenges:

A special study is needed to look into the legalities of establishing a bank in the UK. In addition, the regulatory terms, as listed by the PRA and FCA would require special consideration for the proposed *Waqf* bank.

Interim Recommendations

From the *Shari'ah* perspective, there seems to be no constraint in developing the concept of *Waqf* into a *Waqf* bank. This has been adequately analysed and confirmed by the study of Sabit (2011). Nonetheless, whether the idea of a *Waqf* bank is practically viable remains open to further research. A concrete roadmap for such a bank can be prepared only after determining its exact nature and functions. In general, the establishment of a bank entails a lengthy process of authorisation and licensing. Moreover, it would require significant seed-capital.

According to FCA, "...becoming a bank is usually a large and complex process that can incur substantial start-up costs." In terms of the required capital for the authorisation process, the organisation applying for a license must have more than £5 million (2014).

From a legal perspective, in order to operate in the UK, a bank must be incorporated as a company, and must have its head office and senior management within the country (Wilson, 2012). In terms of regulation, from 2013 onwards, banks in the UK are subject to dual regulation. The Financial Services Authority (FSA), which was previously the sole regulator of financial institutions, has been replaced by the PRA and the FCA (FCA, 2014).

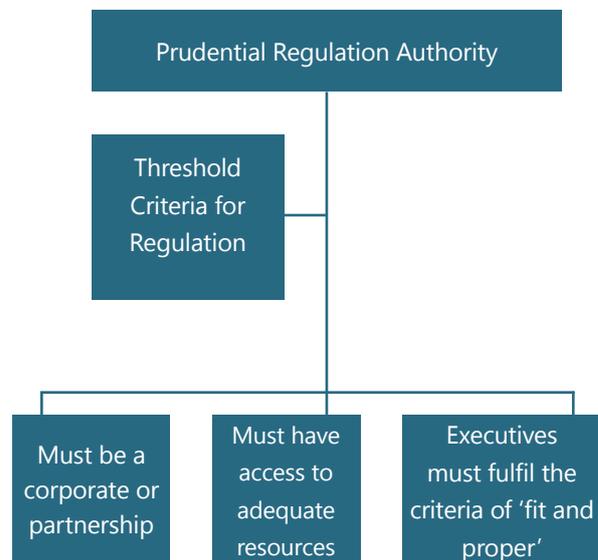
The PRA as a lead regulator examines the proposals for setting-up a bank on the basis of the given business plan, ownership and governance structures, capital liquidity requirements, key senior appointments and so on. Additionally, if the given *Waqf* bank accepts deposits on a day-to-day basis, it will have to follow the requirements of the deposit protection scheme as well (Wilson, 2012).

Additionally, according to the guidelines of the PRA, any firm intending to carry out regulated activities must meet its threshold conditions.

These include the following – as visually demonstrated in Figure 1:

1. It must be a corporate or a partnership
2. It must have access to adequate resources
3. The concerned executives must fulfil the criteria of 'fit and proper' ⁶ (Bank of England, 2015)

Figure 1: Prudential Regulatory Authority (PRA) Threshold Criteria

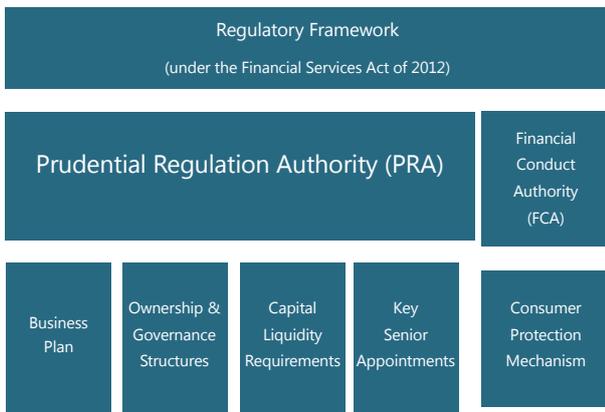


Sources: Bank of England, 2015; FCA, 2014

⁶The FCA examines the competency of executives based on the following criteria: (a) the honesty, integrity and reputation, (b) competence and capability and (c) financial soundness (FCA, 2014).

The regulatory framework for a bank in the UK can be summarised in the following diagram.

Figure 2: Regulatory Framework under the Financial Services Authority (FSA)



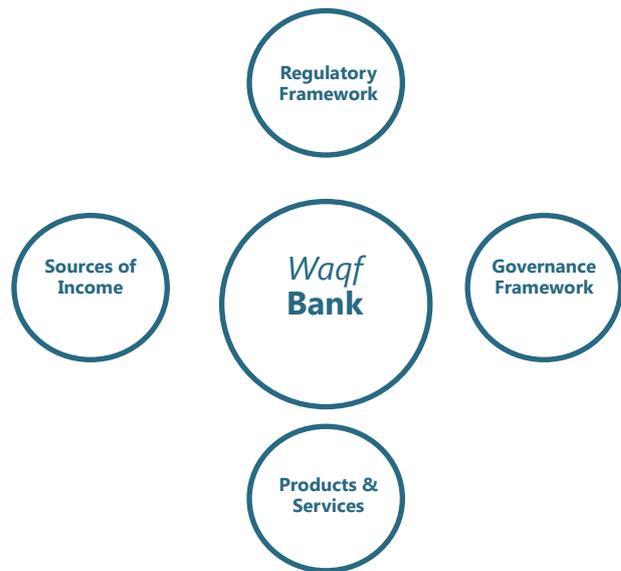
Sources: Bank of England, (2015) FCA, (2015)

The conceptual framework of a *Waqf* bank can only be drawn by taking the following points into consideration:

- Regulatory framework
- Governance framework
- Sources of income
- Products and services

The following diagram illustrates these points.

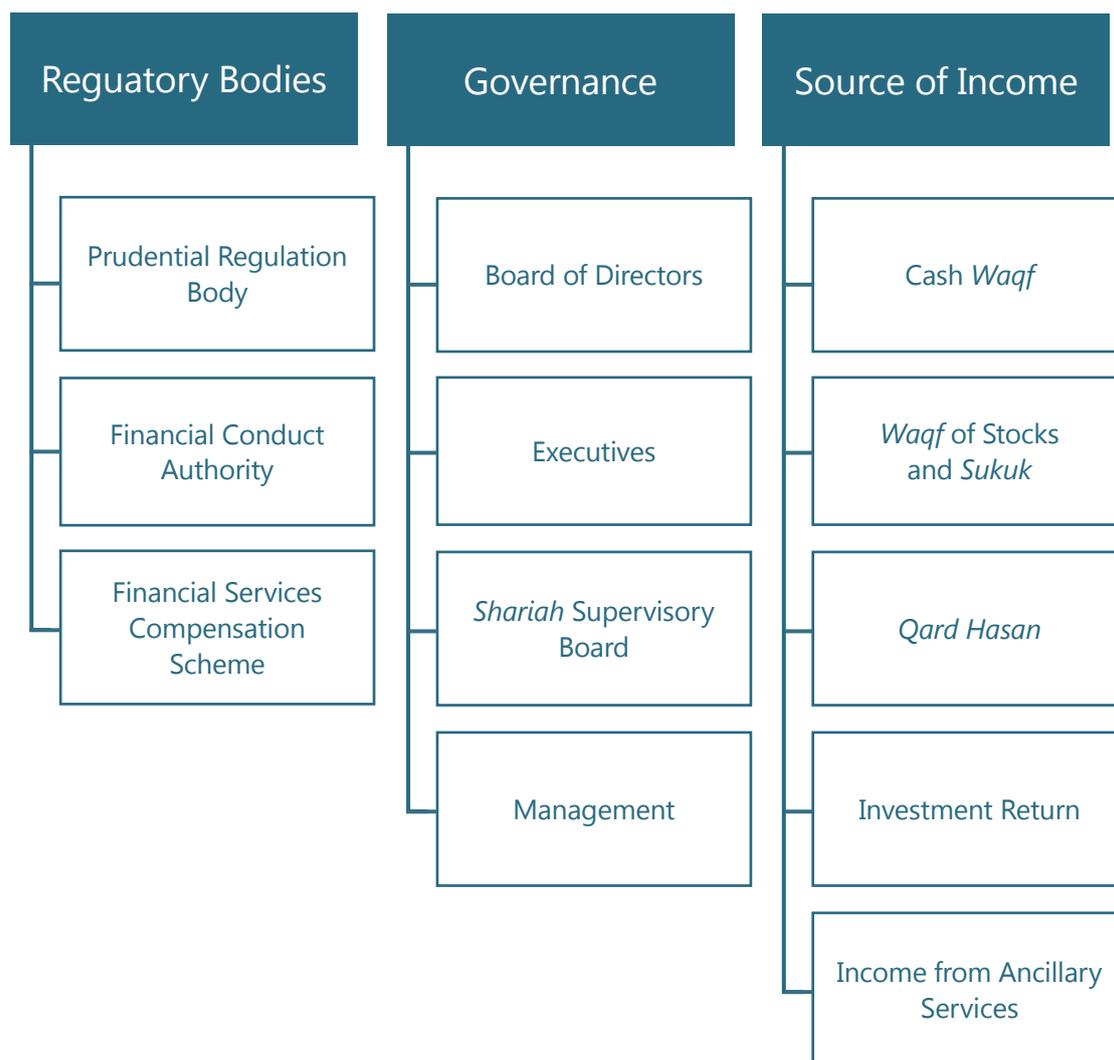
Figure 3: Conceptual Framework of a *Waqf* Bank



Source: Author

These can be further illustrated by the following:

Figure 4: Possible Structure of a *Waqf* Bank

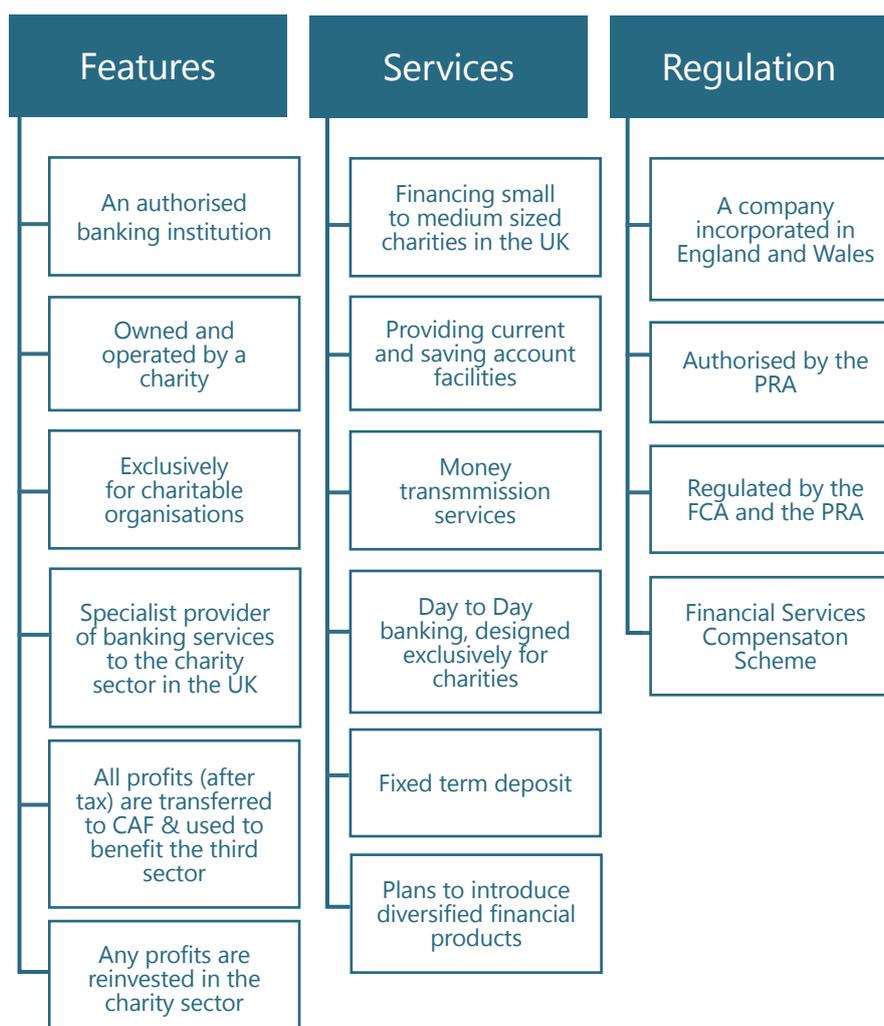


Source: Author

Alternatively, the *Waqf* bank can be structured following the model of a social bank known as the Charities Aid Foundation (CAF) Bank, an owned subsidiary of the Charities Aid Foundation. The CAF provides banking services to UK charities and not-for-profit organisations, principally via the provision of current and deposit account products with associated transactional services and a growing loan book” (CAF, 2015).

The summarized features, services and the regulatory framework of CAF are explained in Figure 5.

Figure 5: Charities Aid Foundation (CAF) Banking Model



Source: CAF, 2015

Apart from this, the models and regulatory frameworks of the following may also be explored and adapted by a *Waqf* bank/institution.

- Credit Union
- Friendly Society
- Co-operative
- Community Development Finance Institution

A Co-operative Bank Model

The model of a co-operative bank could substantially match the requirements and objectives of a *Waqf* bank. The Co-operative is the only bank which offers a current account alongside being an ethical bank. The bank filters unethical investment avenues and explicitly claims not to invest in tobacco, armaments, pornography and nuclear power generation.

Also, it does not have share-holders as it is owned by its members. In many ways, the model of a co-operative is very close to a mutual fund model. The banking products offered by co-operatives include current accounts, saving accounts, personal loans and mortgages (Housby, 2013: 36). The key distinctions of the Co-operative bank lie in its compliance with certain values, corporate social responsibility (CSR) and in being less stringent in terms of provision of financing to all sectors of society.

Given the various similarities between a co-operative bank and the proposed model of a *Waqf* bank, the latter may adopt the model and structure of the former. The key similarities of the two models can be summarised in the table below.

In comparison to the banking model of a Co-operative, the model of the Kingdom Bank also offers great scope for the proposed *Waqf* bank to emulate. The Kingdom Bank was established in 2005 as a subsidiary of the Assemblies of God Property Trust founded in 1954, UK (Housby, 2013). The main objective of the Kingdom Bank is described as 'Church planting' which is the provision of developmental funds for Churches across the UK. The Bank is approved by the FSA and is covered by the deposit protection scheme (Housby, 2013). The Bank's products include saving accounts and insurance schemes.

The Kingdom Bank seeks to fund the development of Churches and other projects to propagate Christian faith-based values. It charges interest on the given loan and provides 2.5 per cent on the deposits for two or more years. Surprisingly, there is no personal loan scheme. Instead, the Bank provides financing to charities and to what it describes as 'social action projects' (Housby, 2013: 36). As far as the provision of financing to institutions is concerned, the proposed *Waqf* bank has a good example in the Kingdom Bank. However, since the Kingdom Bank does not offer financing to individuals, the *Waqf* bank may need to adopt the structure of the co-operative bank in this respect.

Co-operative Bank	Salient Features	<i>Waqf</i> Bank
Objective	Inclusive Financial Services	✓
Structure	Without Shareholder	✓
Function	Banking and Financial Products	✓
Governance	Voting Rights to all Members	✓
Investment	Set Ethical Filtering Criteria	✓
Orientation	Social/Value Based Schemes	✓
Capacity	National Level Operation	✓

Source: Author

Setting Up a *Waqf* Bank in a Muslim-Minority Country

*Prospects and Challenges: Expert Views*⁷

The evolution of modern Islamic banking and financial systems has underlined the possibility of adjusting financial schemes within the realm of *Shari'ah*-rulings. Recent developments in the Islamic Finance Industry have also supported and substantiated the claim that there is huge demand for *Shari'ah*-compliant financial products, not only amongst religiously-motivated clients but also amongst the ethically-orientated masses.

Whether Islamic banks have been able to live up to the expectations tied to them is not clear. Nonetheless the Islamic banks' profit orientation has created a vacuum for a *Shari'ah*-compliant not-for-profit financial model. In this context, the virtues of a charity-based social bank model have been widely endorsed. However, both the feasibility and sustainability of such a model is yet to be established practically.

In the context of a *Shari'ah*-compliant social bank model, the concept of *Waqf* assumes greater prominence partially for being a form of non-obligatory charity and also due to its institutional character. The perpetual nature of *Waqf* enables the institution to function sustainably. From a jurisprudential perspective, there is immense potential for structural innovations in *Waqf*.

The flexible nature of *Waqf* is suited to the requirements of a corporate entity as well as presenting significant possibilities for the development of *Waqf*-based financial products. The possibility of transforming *Waqf* into a social bank is further strengthened by the non-restrictive charitable nature of the institution.

For instance, unlike *Zakāt*, a *Waqf* can be used to pursue any social objective without restriction, except for those which may turn out to be contradictory to the fundamental tenets of *Shari'ah*. Despite all its potential, the idea of a *Waqf* bank, in a strictly technical sense, has not been developed adequately.

Characteristics of a Waqf Bank

To evaluate the practicality of developing a *Waqf* bank, its key characteristics need to be critically examined, namely in ascertaining its nature, precise definition, objectives and functionalities. Precision in the conceptual framework of such a bank may well be the very first step towards its successful implementation. For this, the approach of its stakeholders would determine the capability and capacity of such a bank.

In view of this background, a range of academics, professionals and sector experts were approached for interviews (please refer to appendix 1 for details). In order to gauge opinions and suggestions on the needs and practicalities of such a bank, followed by their prospective proposals on how to implement this, a semi-structured questionnaire was employed.

⁷The complete questionnaire utilised for the interviewa for this project is provided in appendix 3.

In the process of this research, one of the most significant questions focussed on defining the nature, characteristics and objectives of a bank which is set up purely on the basis of *Waqf*. However, determining the nature of these key elements could not have been possible without examining the plausibility of the very idea of such a bank in terms of its conceptual grounding. In view of this, interviewees were asked to share their thoughts on the tenability and practicality of using *Waqf* principles in a banking model. The fact that there were variations in the opinions of the interviewees is indicative of the existing ambiguity in the conceptual dimensions of such a *Waqf* bank. Despite the divergence of opinions amongst experts, an interesting point to note was that almost all of those interviewed expressed their firm conviction in the possibility of *Waqf* being employed as a means to provide the functions of a social bank.

From thirteen interviewees, only two strongly supported the idea of a *Waqf* bank, whilst the remaining eleven either expressed their serious reservations or showed reluctance in supporting the idea. The main proponents of a *Waqf* bank were Professor Humayon Dar and Professor Tahir Sabit. According to Dar, the idea of a *Waqf* bank is both innovative and highly relevant given the diverse financial needs of the community. Similarly, in the view of Sabit, a *Waqf* bank can effectively fill the existing gap between the scarcity of comprehensive public welfare schemes and the reluctance of private sector banks to provide sufficient financing for social as well as charitable purposes. According to Sabit, a *Waqf* bank is necessary as it can help those in hardship to meet their economic needs.

It would be advantageous in a country where Muslims are in a minority since the *Waqf* bank can provide capital for loans and *Qard Hasan*. If the need arises, *Zakāt* and *Sadaqah* can be added into separate pools of the *Waqf* bank. Keeping in view the eight categories of *Zakāt* beneficiaries, the usage of *Zakāt* can complement *Waqf*

Although Dar and Sabit vocally advocate for establishing such a bank, they acknowledge the practical complexities in its set-up. According to Dar, the complexity arises when translating this idea into practice. In the same light, Sabit suggests further studies on the regulatory requirements of the UK and how these requirements could be met by such a *Waqf* bank. To a certain extent and in line with the propositions of Dar and Sabit, Dr. Mohammad Kroessin too highlights the need for, and the benefits of, the tentative *Waqf* bank.

However, he does not view the practicality of setting up a fully fledged *Waqf*-based bank. Discussing the need of such a bank, Kroessin points out that the mechanism of cash *Waqf*-based financing systems have been in practice since the time of the Ottoman Empire. Hence, if the need for such a *Waqf* bank/institution was felt some centuries ago, then in the contemporary world its significance must have further increased.

In the opinion of Dar and Kroessin, the functions of a *Waqf* bank would be similar to the functions of a social bank. In comparison, Sabit believes that the model of the *Waqf* bank would be identical to the model of any fully fledged Islamic bank with the only difference that the *Waqf* bank would be free from the ownership of share-holders and all its profit would be used for social and charitable purposes. In contrast, enumerating the technical differences between the products of a conventional bank and that of a *Waqf* bank, Dar cautions:

“One must keep in mind that whatever money goes into *Waqf* cannot come out.”

So it would not be a saving or deposit kind of product which a *Waqf* bank would be offering". He further elaborates that a bank deposit means that the depositor has the right to withdraw his or her money out of the account whenever he or she wishes to do so. However, in the case of a *Waqf*-based account or *Waqf* bank it should be clarified from the outset that contributors would not be able to withdraw their deposited money. Dr. Hisham Dafterdar agrees with Dar in acknowledging the necessity and practicality of a *Waqf* bank.

However, he views the functions of such a bank from a different angle, stating:

"Remember that the bank is not a *Waqf*. It is a business run for profit and for the benefit of *Awqāf*."

According to him,:

"An *Awqāf* bank would be a financial institution dedicated to servicing the *Awqāf* sector. Its services will include financial, advisory and trust services."

The second group of interviewees regard the concept of a *Waqf* bank to be incompatible with the modern banking framework, either due to its perceived impracticality or for the underlying mismatch between the nature of a bank and a *Waqf*.

This group of interviewees includes Professor Habib Ahmad, Professor Maghda Ismail, Professor Monzer Kahf, Sohaib Umar, and Hussain bin Yunus (Professor Murat Cizakca also supported the same view via email). In differing with the views of those who support the idea of a full-fledged *Waqf* bank, this group propound alternative modes of *Waqf*-based financial institutions. For instance, Kahf proposes the concept of a *Waqf* Benefit Deposit Scheme which is a temporary *Waqf* product based on the collaboration of an Islamic bank and a charity organisation. In this scheme, the donors deposit their donations with the given bank for a certain number of years with the provision of its withdrawal at the end of the specified period. The bank employs the given donations for social or investment purposes and benefits the community by its usage. Additionally, Kahf as well as Ahmad stress the significance of a *Waqf*-based credit union.

Kahf, Maghda and Hussain believe that the usage of the term 'bank' should be avoided with reference to *Waqf*. This is because they state that there is a contradiction between the nature of *Waqf* and a bank. While *Waqf* connotes the word charity, the concept of a bank implies for-profit activities and business operations.

Between the above-mentioned two groups of interviewees, a third group consisting of Rodney Wilson, Mohammad Shahid, Tunku Alina and Sohaib Umar underline the existing ambiguity in the definition, objectives and functions of a *Waqf* bank. According to them, the notion of a *Waqf* bank requires further qualification and a precise outline of its functionalities.

Possible Models, Structures and Functions of a *Waqf*-based Financial Institution

The viability of the proposed *Waqf*-based financial institution is highly dependent on the collective efforts of all stakeholders within the institution. Therefore, the first step must be the firm commitment to observe the financial institution-related regulatory sensitivities of the given jurisdictions. Whether, it is a *Waqf* bank/ credit union or another type of *Waqf*-based financial institution, it is critical to identify an existing structure which can accommodate the special nature of a *Waqf*-based financial entity.

According to Dar, within the UK context, "...there is an example of a charitable banking organisation which is already in operation in this country and there is a need to study its model to accommodate a *Waqf*-based entity..." The example of this model is embodied in the existing CAF Charity bank which is similar to a *Waqf*-based bank. Dar explains: "A charity bank actually is a bank which is a not-for-profit organisation, that is, it does not have shareholders. So whatever money comes into the charity bank in the form of capital it does not go away, so the capital of a charity bank is actually like a *Waqf* and over time its capital-base has increased". In the initial phases of such a bank, some organisations should invest money in the form of deposits with the bank, which ultimately becomes the bank's capital.

For instance, with reference to the Charity Bank, other mainstream banks contributed financially and later these deposits were converted into capital for the bank. Thus, the Charity Bank offers an ideal model for *Waqf*. Hence, those who are interested in setting up a *Waqf* bank need to examine this model in detail. The important aspects of this Charity Bank which need further investigation include its structure, functions, licensing procedure and regulation.

According to Sabit, the structure of a *Waqf* bank is not different from the structure of an Islamic bank. Sabit asserts that the *Waqf* bank can attract savings. He further emphasises that the primary focus should be that of setting up a fully fledged *Waqf* bank. However, he elaborates that if for any reason it is not possible to set up this model, then the functions of such an institution may be tailored to match the practicalities of other financial institutions' structures. He emphasises that if a retail bank may not be a possibility, then an investment bank may be possible.

As far as the question of seed capital for the *Waqf* bank is concerned, interviewees including Dar, Hisham and Sabit suggest different mechanisms. According to Dar, to fulfil the capital adequacy requirements of the *Waqf* bank, collective commitments among the various Muslim charities in the UK to donate a certain percentage of their total annual income, may be a viable option.

For instance, if the collective annual donations of all Muslim charities were £250 million, a commitment to pool 10 per cent out from the total to the *Waqf* bank could resolve the capital adequacy problem for the *Waqf* bank.

In contrast, Sabit believes that the capital raised via *Waqf* donations and equity participation should be used to meet the capital adequacy requirements. Compared to this, Hisham holds that, for such a bank, the core capital (Tier-1 capital) will be sourced from:

- *Awqāf* Institutions
- Islamic Banks
- Other Financing Institutions
- Investment Funds
- Islamic Non-Governmental Organisations (NGOs)
- High Net Worth Individuals

With reference to the proposed *Waqf* bank, the suggestions as given by the proponents could be summarised in the following points:

- 1.** The proposed *Waqf* bank is not a charity, but it is a business entity. However, the bank may establish and manage dedicated *Awqāf* funds (for a fee) for charitable causes.
- 2.** A *Waqf* bank is a bank like any other Islamic bank. Therefore it will be licensed and regulated by the same authority that regulates all other banks in the UK (the Bank of England).
- 3.** The idea of a *Waqf* bank represents a new concept insofar as the differences from other banks and financial institutions are concerned (in terms of the aims, policies and mandates, business model and specialised products and services).
- 4.** The proposed *Waqf* bank can follow the precedent of the Charity Bank, which is compatible with the nature of the proposed *Waqf* bank.

5. If the issue of setting-up a *Waqf* bank in the UK is pursued with the right approach and with a proper tentative design, interview responses suggest that it is likely that the Charity Commission and financial regulators might be sympathetic towards the proposal.

6. There are a few critical dimensions which must be highlighted right from the beginning for the successful implementation of the *Waqf* bank ideal. Including:

(a) Discipline in the management of charity money, with the assurance that this would not be misused.

(b) Compliance with the standard audit and accounting principles.

(c) Compliance with the underlying criteria for the executives.

7. A simple charity model has numerous loopholes, because charities are not as rigorously regulated as banking organisations. Therefore, if the *Waqf* bank is set up as a charity bank, this would lessen the burden of the regulatory challenges and additionally encourage other charities to cooperate with such a bank.

8. (a) Governmental support is essential for this idea, since the bank could then initiate the right incentives for donors. For instance, if the government provided tax incentives for those donors who would channel their charity through the *Waqf* bank, it would incentivise the entire community to donate. By virtue of similar schemes, during the previous Labour governments of Tony Blair and Gordon Brown, the Charity Bank received significant financial contributions from the government.

(b) When structuring the model of the charity bank, special consideration should be assigned to align the donations with tax relief schemes.

9. *Waqf* funds should not be combined with *Zakāt* funds, as the two institutions have their own particular nature and jurisprudential requirements, and due to this, it would be difficult to manage them jointly for the purpose of the *Waqf* bank.

10. The idea of issuing *Sukūk* to raise capital for a *Waqf* bank is practically not viable, as in *Sukūk* the issuer is obliged to return the capital after a fixed term, which would go against the spirit of *Waqf*.

11. It would be best that the proposed *Waqf* bank be allowed to operate at a very limited scale in its nascent stages and then expand its functions and operations gradually after its initial start-up period.

12. Initially, donors may remain reluctant to donate towards the *Waqf* bank. However, once it has been set-up and subsequently achieves success, donations would flow in rapidly.

13. For structuring purposes as well as the running the *Waqf* bank, services of banking specialists should be availed. The board of directors or board of trustees can have representation from different charitable organisations but at the operational stage, people with sufficient experience from the banking sector should be employed to run it. The PRA and FCA regulating bodies would not allow anyone without adequate experience in banking to head the operations. Therefore, to secure a banking license, the appointed CEO should have a strong banking background and excellent professional knowledge as well as the required skills.

14. The sustainability of the *Waqf* bank would depend on the principle that sustainability depends on profitability.

15. Beyond the traditional mandate of the money market, investment products and real estate development, the *Waqf* bank will allocate funds for small and medium enterprises (SMEs), venture capitalists, the Halal industry, trade finance and other areas that are usually not pursued by other Islamic banks.

16. The most suitable country to test the idea of a *Waqf* bank in the field would be Malaysia. Malaysia has a well-developed Islamic finance market with a sound regulatory framework. Bank Negara Malaysia (BNM), the country's central bank, is an internationally respected regulator, particularly in the field of Islamic financial services. The idea of a bank for *Waqf* falls under the Malaysian government's plans to empower the economy through the development of its huge, dormant and idle *Awqāf* properties.

17. Through the funding of a *Waqf* bank, *Awqāf* properties can be developed which will enhance the income and the impact of this sector on the community.

18. For the financial integration of Muslims living in non-Muslim environments, the establishment of a *Waqf* bank is of utmost importance.

19. The benefits of a *Waqf* bank to the global *Awqāf* sector in general and to Muslim communities in particular are enormous. It is expected that a *Waqf* bank would contribute to the development of the *Awqāf* sector in an unprecedented manner in terms of both the social and the economic features.

In contrast to the position of the proponents of a *Waqf* bank, Ahmed, Kahf⁷ and Wilson believe that instead of setting-up a *Waqf* bank, the model of a cooperative/credit union if adopted on the basis of *Waqf*, would be much more practical and easier to establish.

⁷The complete transcript of Professor Monzer Kahf's interview is provided in appendix 4 as a sample.

According to Kahf, the word '*Waqf*' is used as a term for the given bank, but ownership has nothing to do with *Awqāf* as an institution. Furthermore, Kahf elaborates that even if a *Waqf*-based institution or NGO owns a bank's capital, it does not make such an organisation a *Waqf* bank. In Kahf's opinion, there is a greater need for mechanisms of financing under-developed *Awqāf* properties first.

To this end, Kahf holds that the alternative way to benefit *Awqāf* could be achieved by replicating the model developed by the Islamic Development Bank (IDB). IDB designates a large sum for investment in developing lands owned by *Awqāf* in Muslim majority and minority countries. Similarly, Islamic banks in the UK could designate a certain percentage of their assets for the attainment of similar objectives. This kind of *Waqf* set-up could be very beneficial.

Nevertheless, Kahf does not see the benefits of developing a separate and independent *Waqf*-owned or *Waqf*-run banking institution. According to Kahf: "Those who mention the idea of developing a *Waqf* bank have not been able to fully explore the details of how such an institution would actually function. Thus their ideas are somewhat idealistic and not practical."

In agreement with the argument put forward by Kahf, Ahmed argues that there is no specific definition of the term '*Waqf* bank', and together suggest that the term '*Waqf* bank' may imply three possibilities:

1. A bank for which the capital comes from *Waqf* and it is primarily a not-for-profit organisation. Presumably this type of bank would provide special services for socially-oriented programs.
2. A bank which actually funds *Awqāf* property development on a commercial basis. For this, there is already a working model in the *Awqāf* property investment fund run by IDB.

3. A bank which functions parallel to an Islamic bank with all the banking services. However, the main shareholders of this bank would include some major *Awqāf* institutions. The implementation of this last model does not appear to be practically viable, at least in the context of the UK. Compared to these models, Ahmed believes that the model of a credit union is seemingly more feasible to follow.

Ahmed further elaborates that historically there have been *Waqf* funds which were deployed mainly as *Qard Hasan* and to fulfil other types of social objectives in Turkey. But the problem with this mechanism of funding provision is in its sustainability. To maintain the sustainability of a bank, it has to earn sufficient revenue. Ismail also asserts that instead of a *Waqf* bank, cash-*Waqf* financial institutions are needed to serve the financial wants of the society. According to her, the word 'bank' is not a fitting term to be associated with *Waqf*. Similarly, in the opinion of bin Yunis who was also interviewed, a collective pool of *Waqf* may provide alternative means of financing to the community as a whole.

However, the formal conversion of *Waqf* into a banking type of entity does not suit the nature of *Waqf*. Furthermore, bin Yunis cautions that there is already some scepticism and negative perception from the community towards Islamic banks hence if the term bank is associated with *Waqf* it might dilute the sanctity of *Waqf* itself.

In line with the opinions of Kahf and Ahmed, Umar too refuses to accept the need of a *Waqf* bank and argues against its practical viability. He holds that there is not much practical scope for setting-up a separate *Waqf* Bank. In his words, this model of banking is not the ideal way to serve the needs of the community through *Waqf*. He notes that instead of setting up a separate bank, setting up *Waqf* units with the existing Islamic banks can serve the purpose in an easier and more efficient way.

The key suggestions given by those who do not see much scope for the development of a *Waqf* bank can be summarised in the following points:

- 1.** Though the concept of *Waqf*-based financial institutions is very promising, the term 'bank' should be avoided with reference to *Waqf*.
- 2.** The term '*Waqf* bank' is contradictory to the ownership issue of a bank, that is, *Waqf* cannot be owned, whereas banks need their share-holders.
- 3.** Although there is a need for social banking, *Waqf* is a not-for-profit institution and therefore transforming it into a for-profit entity is a challenging task.
- 4.** The transformation process of *Waqf* into the structure of a bank would entail serious regulatory challenges, followed by the risk of ensuing misconception amongst the community towards such an institution.
- 5.** Defining the aims and objectives of such a *Waqf*-based financial entity is crucial for its practical functioning.
- 6.** A non-banking set-up for a *Waqf*-based financial institution may be a good alternative, as it is easier to set up and is relatively less-regulated.
- 7.** A *Waqf*-based social financial model, which can earn profit but maintain focus on the social return, could be a good alternative to a bank.
- 8.** Serving the social needs of society should be the primary objective of a *Waqf*-based financial institution. For instance, providing low-cost housing to the poor in accordance with their financial affordability would be a great social service, alongside securing some financial return.
- 9.** Promotion of cash *Waqf* as well as temporary *Waqf* is critically important for the development of a similar *Waqf*-based initiative.
- 10.** A well-organised awareness campaign is crucial to engage the community and incentivise donors of *Waqf*.
- 11.** Organisational transparency, accountability and good governance of *Waqf* institutions would strengthen the confidence of stakeholders in any of the *Waqf*-based innovative experiments, such as developing a *Waqf* bank type entity.
- 12.** The role of leadership in the successful development of a *Waqf*-based financial institution is instrumental at all levels (be it conceptual or practical).
- 13.** Independence of the organisation is essential and it should not function within the ambit of any religious or charity body.
- 14.** Setting up a *Waqf* bank is challenging from a regulatory perspective and difficult to operate in a sustainable manner.
- 15.** There is not much of a substantial difference between the financial services of a *Waqf* NGO and a *Waqf* bank. Establishing a *Waqf* bank does not change the fundamental functions of *Waqf*, which include the provision of financial support to the needy and funding of welfare developmental schemes.
- 16.** Alternative mechanisms for *Waqf*-based financial institutions that seek to fulfil similar objectives include:
 - (a) *Waqf* Benefit Deposit Scheme with an existing Islamic bank.
 - (b) Co-operative of *Waqf*-based charity organisations, for instance a credit union.
 - (c) *Awqāf* properties fund a model which is currently being used by IDB.

17. Perhaps the proponents of the idea of a *Waqf* bank have not delved into the details of how it would actually function; therefore ideas are somewhat idealistic and not practical.

18. Islamic banks could help *Waqf*-based NGOs whether in Muslim minority or majority countries by assigning a certain part of their investment to developing idle *Awqāf* properties.

19. The mechanism of *Awqāf* deposits should be employed for the benefit of the *Awqāf* as well as of the beneficiaries. For instance, if a donor deposits a certain amount in the *Waqf* account for five years, the return on this deposit would accrue to the *Awqāf* and after five years the owner gets the deposit back. For this mechanism to work there is a need for negotiation between a *Waqf* institution and an Islamic bank.

20. To mitigate the credit risk in *Waqf*-based financial tools, the financing mechanism of the 'Grameen Bank Group' could be adopted.

21. The structure of a credit union is better suited to managing the pool of *Awqāf* resources. In comparison, for a bank, there are numerous regulations which must be fulfilled.

22. There should be a credit union/*Waqf* bank membership program, inviting both individual and corporate donors to become members after paying a certain amount. All members would have voting rights.

23. Lawyers possessing an understanding of the peculiar nature of *Waqf* should be approached and involved in the process of structuring a *Waqf*-bank type entity.

24. *Sukūk* can be issued for raising the required capital base. However, since this is an expensive process, it will be suitable if the *Sukūk* is issued for a large amount.

25. For *Sukūk* issuance, it must be kept in mind that the investors will expect a return.

26. The successful model of Singapore *Waqf-Sukūk* which was issued to develop the *Awqāf* property can be imitated.

27. In comparison to issuing *Waqf-Sukūk*, issuance of *Waqf* certificates could be easier and more viable as a pool of *Waqf* funds. The main difference between the two is that a *Sukūk* is usually issued for five to seven years, and thereafter, the capital must be returned. However, for a *Waqf* certificate, the capital is preserved forever.

28. The model of a cooperative is more suited to the needs of the poor and underprivileged.

29. There must be some strict mechanism in place to control the possibilities of fraud and money-laundering in the name of charity.

30. The models of Muslim credit unions functioning in Trinidad and Tobago and Canada need to be studied and followed in specific aspects. In this context, it is important to note that since Trinidad and Tobago and Canada are Muslim-minority countries their experiences can be easily adapted to the UK context.

31. The mechanisms of crowd-funding and *Sukūk* issuance may be employed to raise funds for the envisaged *Waqf*-based financial house.

Compared to the interviewees of the first and second groups (the proponents and opponents of the *Waqf* bank model respectively), the respondents of the third group lay much more emphasis on the importance of a special survey amongst *Waqf*-stakeholders to identify the underlying needs and expectations of the community from the *Waqf*. For example, Alina argues that surveying the interest of the potential clients of a *Waqf*-based financial institution may enable *Waqf*-stakeholders to better understand which structure would be the most relevant for the development of *Waqf* into a specific model.

Wilson too proposes ground research among the potential stakeholders of *Waqf* prior to a final decision on the establishment of any such institution. Wilson argues that it is a worthwhile idea to explore the nature and scope of community needs before setting up a *Waqf* bank, credit union or some other similar form of institution in the UK.

Additionally, Tunku believes that even if the results of the survey confirm the need of a *Waqf* based banking setup, it will be apt to adopt the model of a social bank for *Waqf* and not the model of a fully fledged conventional bank. Tunku argues that a social bank model is closest to the nature of *Waqf*, and it would be difficult for the *Waqf* bank to meet the criteria of a proper banking model. Wilson stresses the significance of determining the primary beneficiaries of any such *Waqf*-based financial institution.

Similar to the concerns of Wilson and Tunku, Shahid Malik underlines the existing ambiguity in the conceptual framework of a *Waqf* bank. He asserts that the very first step towards the practical implementation of any such *Waqf* bank model constitutes defining the objectives, structure and functions of such a bank in a clear and concise manner.

Also, according to Malik, the practicality of a *Waqf* bank is highly dependent on the empirical surveys which can confirm the demand, feasibility and sustainability of this model. In his words, "Though it is an interesting idea, the practicality requires further research."

The essential suggestions made by this group of interviewees can be summarised in the following points:

- 1.** There is a critical need for empirical surveys to ascertain the demand, interest and support of the stakeholders of *Waqf*.
- 2.** The potential sources of funding for such a *Waqf*-based financial institution are to be identified in advance.
- 3.** If the function of the *Waqf* bank is similar to an Islamic bank, it would not be possible to benefit the poor and the most disadvantaged.
- 4.** *Sukūk* issuance is not a viable idea for the purpose of setting up a *Waqf* bank.
- 5.** *Zakāt* can be used with *Waqf* if its special nature and criteria are adhered to.
- 6.** To incentivise donors, awareness of the need and significance of a *Waqf* institution should be raised through various community programs.
- 7.** Tax relief provision on *Waqf* donations may further incentivise donors.
- 8.** There is some scepticism about Islamic banking. Hence using terms such as '*Waqf*-based Islamic bank' might dilute the reputation of *Waqf*.

9. Initially, the *Waqf*-based financial institution should be established on a small scale and subsequently its scale of operation expanded gradually according to the need and response of the community towards it.

10. If the model of a *Waqf* bank or *Waqf* based financial entity is to be implemented a high degree of transparency needs to be maintained, as the success of this model will be equally dependent on the underlying confidence of the community.

11. To run the institution successfully, professionals of high calibre (i.e. those that possess extensive knowledge of financial markets, institutions and products, as well as sufficient practical experience of running a bank) must be employed. Complete reliance on religious scholars without any professional banking experience to manage and oversee the *Waqf* entity may be unwise.

12. A *Shari'ah* board should be called upon for advice on *Shari'ah* aspects but since it is not particularly a religious affair to run a financial institution, more focus should be assigned to the economic and financial aspects of the organisation.

13. For the purpose of sustainability, an adequate risk management mechanism should be employed. A nonchalant risk-reward attitude towards *Waqf*-based financing may have serious implications for the sustainability of the *Waqf* institution.

14. The *Waqf* funds deployed for micro-financing purposes must be repaid or resources would be gradually exhausted or depleted entirely.

15. Through proper structuring of the model, there is a need to ensure that the *Waqf*-based financial institution is regulated by the Charity Commission and not by banking regulators.

16. The *Waqf*-based financial institution must be closely supervised to maintain efficiency so as to prevent any potential damage to its reputation. This could have massive repercussions for the entire institution supporting it.

17. In hindsight, there is little prospect of collaboration amongst the various Muslim charities, at least in terms of their financial contribution to a common *Waqf* pool.

Summary of interviewee responses

A summary of some of the major issues highlighted by the interviewees is provided in the next three figures.

Figure 6: Interviewees in favour of the term *Waqf* Bank versus those who were not:



Source: Author

Figure 7 : Interviewees in favour of setting up an Islamic Credit Union:



Source: Author

Figure 8: Major concerns for establishing a *Waqf* Bank

Major Concerns of *Waqf* Bank in terms of Interviewee Responses



Source: Author

Case Studies

With reference to developing *Waqf*-based financial institution, some successful case studies of innovative *Waqf* models can be taken into consideration. For instance, in Singapore and Malaysia, the mechanism of *Waqf* has been employed to develop different innovative models. Following are three such relevant examples.

Case Study 1: New Zealand Awqāf

The New Zealand (NZ) Awqāf was established in February 2011.

Objective: To collect the unclaimed parts of the Qurbani (sacrificed animals) during Eid and sell them (by converting them into products such as wool and leather) in order to collect revenues that will be deposited into the *Waqf* fund.

Mechanism: It is estimated that there are almost fifty million Muslims in the western world and they make almost five million Qurbanis each year. In general, the wool, skin and bones of the sacrificed animals are unclaimed. NZ *Awqāf* attempts to collect these unclaimed parts of the Qurbani animals and by selling/recycling them, generates revenues which are deposited into the *Awqāf* Bank and used for charitable purposes.

NZ Awqāf began with an Adahi (Qurbani) project and from this came to developing something close to an '*Awqāf* Bank'. Therefore, it may be that *Awqāf* can interlink the Islamic Profit and Not-for-Profit Sectors of the Islamic Economy.

Further goals: The project seeks to claim the wool, skin and bones of the animals slaughtered by international aid agencies and to produce blankets and Halal gelatine from them. The incurring revenues through this exercise would become part of the *Waqf* bank.

Revenue estimation: On average each NZ sheep provides 5.6 kilograms of wool and the price of each kilogram of wool is NZ\$2. The total Qurbani in the western world is almost worth NZ\$5 million. Thus, 5,000,000x5.6x2 means that the *Waqf* bank can potentially make NZ\$56,000,000.

Source: IRIN News March 2011

http://www.irinnews.org/pdf/Awqāf_new_zealand_short%20profile.pdf

Case Study 2: *Waqf* account facility by Maybank Malaysia

Established in 1993, the Maybank Islamic transformed into a full-fledged Islamic Bank in 2008. The bank made a collaboration with Yayasan Waqaf Malaysia, a foundation established by the department of *Awqāf*, Zakāh and Hajj under the Prime Minister's initiative to collect cash *Waqf* donations on behalf of the latter.

Objectives: To collect cash *Waqf* donations, on behalf of the Yayasan Waqaf, through a wide network of the bank and to provide for (1) social welfare, (2) education, (3) healthcare and (4) public amenities (shelter/lodging).

Mechanism of Waqf Collection: The bank provides a separate *Waqf* account which invites cash *Waqf* from the corporate sector, institutions and individuals. Any of these entities can deposit a contribution from as little as RM10 (Malaysian Ringgit).

A potential *Wāqif* can use either of the following four methods to donate into the account: (1) Deposit at bank branch (2) Through an ATM (3) Via internet banking (4) Auto debit services. The *Waqf* collections are employed in investment, for financing projects and *Awqāf* development. Thereafter, underlying revenues from these donations are used to further the charitable purposes.

Main Features of Maybank: (1) Public confidence (2) Easy to donate (3) Minimal administrative cost (4) Transparency (5) Accountability (6) Supervision.

Source: Maybank, 2015

<http://www.maybank2u.com.my/Islamic/en/personal/index.page>

Case Study 3: *Waqf Ilmu* Singapore

Majlis Ugama Islam Singapore (MUIS), also known as the Islamic Religious Council of Singapore, was established in 1968 to work with the community to develop the Islamic agenda and forge the Singaporean Muslim Identity.

Objective of Waqf Ilmu: In order to preserve the spirit and legacy of Islamic knowledge, the existence of the Madrassa system is critically important for Muslim communities. Additionally, to maintain the sustainability of Madrassas, a consistent flow of income is instrumental. In line with this objective, MUIS has created a special *Waqf* fund called Ilmu.

The word 'Ilmu' means knowledge. The objective of this *Waqf* fund is to ensure sustainability of Islamic education in Singapore, specifically through full-time and part-time Madrassas. The significance of this *Waqf* fund can be gauged by the fact that most of the existing Madrassas rely on *Infāq*-based and *Sadaqah*-based funding for their functioning. However, these sort of donations are not of a perpetual nature and the long-term sustainability of these Madrassas are dependent upon the mercy of the donors. To bridge this gap, MUIS has adopted the mechanism of Ilmu *Waqf*.

Mechanism: Contributions to this fund can be made via (1) Pledge form (2) Planned giving (as *Wasiyyah*) (3) CIMB (Commerce International Merchant Bankers) bank (4) Online payment (5) MUIS office (6) MUIS mosques.

Source: *Wakaf-Your Legacy, Our Future*. 2015.

<http://www.wakaf.sg/Our-Wakaf/wakaf-ILMU.html>

Final Recommendations

1. The Proposal of a Waqf Bank: The idea of a 'Waqf bank' is still vague and it requires further elaboration, more so in practical terms. It needs to be jointly discussed by the banking experts, law professionals and people from a *Shari'ah* background. Also, there is a perceived dichotomy between the charitable nature of *Waqf* and the for-profit orientation of a bank. Joining the term 'bank' with *Waqf* is not preferable.

To avoid any unsolicited connotations of the term 'Waqf bank' (which may cause scepticism about the agenda of such an entity), terms such as 'Waqf Investment House', 'Waqf Fund', 'Waqf-based co-operative' or *Waqf* investment account could be substituted for 'Waqf bank'. The remainder of this study will continue to use the original term for consistency.

2. The Need for a Waqf Bank in the UK: The need for establishing a *Waqf* bank has to be rigorously examined. Additionally, the need for such a *Waqf* bank has to be established by surveying the community to find out their expectations from such an institution (please see a sample questionnaire in Appendix 2 for such a survey). After ascertaining the need for such a bank, the next step should be taken for its establishment.

3. Objectives of a Waqf Bank: The underlying aims and objectives of the proposed *Waqf* bank must be articulated in clear and concise terms. It is only by determining the objectives of a *Waqf* bank in concrete terms that a final roadmap for its implementation can be drawn. On the surface, it seems that the underlying objectives of an envisaged *Waqf* bank can be fulfilled through other mechanisms as well.

For instance, a *Waqf*-based credit union can accommodate many of the objectives which are perceived to be fulfilled by a *Waqf* bank, with the advantage of being less strictly regulated by financial authorities.

Similarly, the mechanism of a *Waqf*-based Deposit Account which operates in collaboration with an Islamic bank and a *Waqf* institution can be an easier and smarter alternative to a *Waqf* bank.

4. Possible Structures for a Waqf Bank: There is huge ambiguity in the underlying structure of the proposed *Waqf* bank. Whether the *Waqf* bank should follow the model of a charity bank or a conventional Islamic bank needs to be determined. The features, characteristics and structure of a charity bank are more amenable to the nature of *Waqf* than the structure of a full-fledged conventional bank. For this purpose, the charity bank as run by CAF in the UK provides a good model to be replicated.

5. Functions of a Waqf Bank: The functions of the proposed *Waqf* bank should be clearly articulated. For instance, whether the bank will provide complete banking services including current, saving and fixed accounts etc. along with draft facility, ATM service and money transfers must be explicitly determined. Also, whether the *Waqf* bank will focus primarily on the social return by the provision of micro-finance, micro *Takaful*, micro credit, *Qard Hasan* and so on, or on financial return by investing in more profitable avenues, is not very clear.

Additionally, in the context of the UK, whether the services of the *Waqf* bank would cover Muslim and non-Muslim clients equally, or concentrate on one group requires further clarification. Importantly, prior to finalising its functions, it must be noted that the sustainability of the bank depends on its profitability, which is only possible by maintaining a proper balance between its social and financial aspects.

6. Cost-Benefit Analysis: Prior to initiating the implementation of the *Waqf* bank model, a cost-benefit analysis must be conducted. It is worth highlighting that the proposal of a *Waqf* bank entails a unique model which has no practical example anywhere in the world, hence a cost-benefit analysis must be carried out to confirm whether the model is viable or not. To this end, the cost and benefit of the proposed financial products and the ancillary banking services of the bank should be considered rigorously.

7. Capacity: It is highly important to ascertain whether the *Waqf* bank would provide services in the capacity of a national or an international bank. International donors may be less interested if the function of the proposed *Waqf* bank is limited in capacity or scale and operates within the boundaries of a certain jurisdiction.

8. Feasibility: In view of the reviewed literature and responses of the interviewees, the prospects and feasibility of a *Waqf* bank does not seem to be very promising, particularly in the UK context. Hence, there is a pressing need for a separate feasibility study of an alternative *Waqf*-based model, which moves away from the associated challenges of a bank-structure.

The study should incorporate the strengths, weaknesses, opportunities and threats (SWOT) analysis of the model and should confirm its feasibility by exploring the various components such as the target clientele, legal /regulatory requirements, sources of funding and sustainability of the bank.

9. Collaboration: The idea of a *Waqf* bank requires collaborative efforts on the part of all stakeholders of the institution. However, based on interviewee responses, in hindsight, the prospects of collaboration amongst the different Muslim charities in the UK are minimal, particularly with respect to pooling capital for the *Waqf* bank. Alternatively, there might be a possibility of collaboration with other international organisations such as the IDB, Jeddah, and International *Shari'ah* Research Academy (ISRA), Malaysia.

Apart from this, as suggested by some interviewees, there is great scope for collaboration with Muslim governments (such as those in Malaysia, Qatar and Turkey) that are keen on initiating comprehensive welfare schemes for the benefit of the Muslim Ummah.

10. Legal and Regulatory Requirements: Given the strict legal and regulatory requirements of a fully fledged bank, it seems that it would be difficult for the *Waqf* institution to meet such criteria at this point in time. For instance, the financial regulators of the UK (PRA and FCA) require £50 million as capital for granting a license. Moreover the requirements of 'soundness of the given proposal' and fit and proper criteria for the executives, entail strict regulations and in order to fulfil them, the *Waqf* institution would be required to undergo some expensive undertakings.

Furthermore, if the bank accepts deposits, it would be required to guarantee its protection through the 'Deposit Protection Scheme' (DPS), which does not seem to be a feasible option for a *Waqf* bank. Finally, in case of liquidity shortage, the *Waqf* bank would need to turn to the 'Lender of Last Resort' which is the Bank of England in this case. However, whether the terms and conditions of this mechanism are suitable for a *Waqf* bank is not entirely evident.

11. Sources of Funding: Based on the interviewees' answers, identifying the main sources of the seed capital for a *Waqf* bank is one major challenge. As far as the proposal of *Sukūk* issuance to raise funds is concerned, it does not seem to be a viable option for a number of reasons. These include, amongst others, the underlying high cost of issuing *Sukūk*. Instead of *Sukūk*, perhaps the mechanism of *Waqf*-based crowd-funding can be employed to raise the capital. Also, various corporations can be approached to provide funds as part of their commitment to CSR. In addition, special *Waqf* certificates can be used for raising the needed amount to fulfil the financial needs.

12. Marketing: Since the concept of a *Waqf* bank is quite innovative, there is a need to develop some pioneering marketing strategies to promote it. In light of the given suggestions of the interviewees, it may be stated that involving the mosques and Islamic religious centres for marketing the spiritual merits and the social benefits of a *Waqf* bank could be an ideal approach.

13. Governance and Management: Since the idea of a *Waqf* bank has its own unique features, such as being an ownerless (no share-holder) not-for-profit institution, which is accountable to the entire community and has its own religious orientation, the governance structure and management of this entity would entail special requirements. For this purpose, a further study is needed to identify the appropriate structure of governance for such a *Waqf* bank. In a conventional banking corporation, the Board of Directors consists of the representatives from the shareholders as well as from the management to ensure the best interests of both.

However, this is not the case for a *Waqf* bank type of corporation. In effect, since the interest of the entire community is vested in the *Waqf* bank, representation-for-all would be necessary on the Board.

Additionally, since the concept of shareholders is not applicable to the *Waqf* bank notion, its governance structure would be distinctive.

14. Challenges: Along with the legal and regulatory requirements, there is a need to separately examine political will, leadership commitment and the behaviour of the market prior to the implementation of a *Waqf* bank in the UK. Possibly, a roundtable conference could be organised to discuss such issues in more practical terms and selected qualified individuals from different walks of life could be invited to share their views and concerns on the subject.

15. Other Concerns: *Waqf* is as much a source of 'expressing one's religiosity and spirituality' as it is an institution of social and financial provisions. Hence, in the process of developing a *Waqf* bank or any other *Waqf*-based financial institution it is imperative that the religious and spiritual nature of the institution is not diluted. This possibility becomes likely if the underlying philosophy, agenda and objectives of *Waqf* are overlooked for the purpose of transforming it into a replica of a for-profit financial institution. Similarly, the spirit of *Waqf* may become dented if the *Shari'ah*-compliance criteria are compromised for the purpose of maximising return.

Finally, it is worth noting that if the experiment of the *Waqf* bank is unsuccessful for whatever reason, it may rupture the prolonged confidence of the community in this institution and adversely affect future efforts in this direction. Therefore, a great deal of care is needed to work out each step of the operation of such an entity before it is made into a living reality in UK.

Conclusion

Waqf is a distinctive form of Islamic charitable institution. The major distinction of *Waqf* compared to other similar charities lies in the possibility of its adaptability to various financial and non-financial structures. In view of its underlying scope to function within several settings, the proposal of setting-up of a *Waqf*-based bank has been advocated by some eminent academics. It is argued that the development of such a bank would be highly beneficial for those marginalised people for whom it is not possible to secure a loan and who lack access to other financial services from conventional or Islamic Banks (partially due to their inability to meet the set borrowing requirements of such institutions).

Moreover, since the primary objective of conventional banks is to maximise financial returns, serving the needs of the poor is not a key part of their mission. In such an environment, a *Waqf* bank could play an instrumental role and may flourish to grow into a fully functioning welfare institution. Due to being charity-based, the proposed *Waqf* bank could accommodate the needs of deprived segments of society more effectively.

Additionally, by concentrating more on the social return compared to financial return, a *Waqf* bank could provide funds to those charitable and social institutions which are underperforming either due to being in the nascent stages of their development, or lacking the capital to grow as an institution. Finally, according to the expectations of the proponents of a *Waqf* bank, the *Waqf* bank can equally fulfil the needs of other *Waqf* and Muslim charity institutions in terms of providing them with the needed liquidity on a priority basis.

This study has attempted to examine the viability and validity of the proposal of establishing a *Waqf* bank, principally in the context of the UK. Based on the literature review and the responses of interviewees, it can be stated that the idea of a *Waqf* bank, though strong in its concept, is weak in terms of the practical considerations that apply to it.

Thus, the feasibility of such a proposal needs to be further established, with special emphasis on the financial, legal and structural factors. For this purpose, all relevant stakeholders (as discussed in the recommendations) need to be collectively engaged in a well thought out discourse process to decide on a feasibility study to take the idea of a *Waqf* bank further.

In light of the above, this study asserts that the model of a *Waqf* bank should be re-examined in practical terms, perhaps by testing the idea in the field on a small-scale basis. Therefore, it is critical to define the nature, objectives and functions of the given *Waqf* bank followed by a survey of its need and some subsequent feasibility testing.

On the surface, it may be stated that the proposal of a full-fledged *Waqf* bank seems to be less practical than that of the development of a *Waqf*-based charity bank. This research establishes that in the initial phase, instead of developing a full-fledged *Waqf* bank model, one of the following three alternatives could be explored further and adopted:

- (a) A *Waqf*-based Social/Charity Bank: The structure and functions of this model would be very similar to the charity bank as run by CAF in the UK.
- (b) A *Waqf*-based Credit Union: In this model, the structure of a co-operative can be imitated, albeit, with the observation of *Shari'ah*-compliance for its operation.
- (c) *Waqf*-based Investment Account: This model would follow the functions of an investment fund for *Awqāf*.
- (d) *Waqf*-based Savings Account: The mechanism of this model can be adapted from the Malaysian Maybank Islamic which collects the *Waqf* donations on behalf of the Yayasan Wakaf and thereafter invests in profitable avenues to generate returns on them. Afterwards, the bank dispenses the accruing profits for charitable purposes.

Finally, this study highlights an existing gap in the current proposal of a *Waqf* bank model and underlines the need for further research to bridge this gap. This is a unique study in the sense that it extracts and synthesises the opinions of a large number of specialists in the field of Islamic Finance and Economics and provides a micro lens to view the topic from several different angles.

Last but not least, this research proposes that a separate empirical study which takes into consideration the practicalities of an Islamic Social Bank, especially in the UK setting, should be conducted.

Through further research and feasibility studies, many of the uncertainties surrounding the viability of such a bank in UK would be eliminated.

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Appendices

Appendix 1

Names of interviewees, institutional affiliations and date of interview (Names are provided in alphabetical order according to the first name).

Names	Institutional Affiliation	Date of Interview
Professor Habib Ahmed	Durham University	February 3, 2015
Dr. Hisham Dafterdar	Unicorn Investment Bank	April 22, 2015
Professor Humayon Dar	Edbiz Consulting	March 6, 2015
Mr. Hussain Bin Yunus	New Zealand Awqāf	April 20, 2015
Professor Magda Ismail	International Centre for Education in Islamic Finance (INCEIF)	March 23, 2015
Dr. Mohammed R. Kroessin	Islamic Relief Worldwide	March 18, 2015
Professor Monzer Kahf	Qatar Foundation	May 6, 2015
Professor Murat Çizakça	INCEIF	Interview conducted via email
Professor Rodney Wilson	INCEIF	February 20th, 2015
Mr Shahid Bashir	Muslim Hands	March 3, 2015
Mr Sohaib Umar	Central Bank of Bahrain	March 13, 2015
Professor Tahir Sabit	UTM Malaysia	March 21, 2015
Dr. Tunku Alina	INCEIF	March 23, 2015

Appendix 2

Client Questionnaire

Study title:

The Validity & Viability of a *Waqf* based banking model in the UK.

What is the purpose of this study?

Waqf offers significant opportunities for charitable organisations such as Islamic Relief to provide meaningful and lasting assistance to vulnerable communities across the globe. Effective investment and management of *Waqf* funds can ensure a long-term and sustainable means of generating income for organisations which are then able to invest this back into the community in the future.

However, collective saving accounts from multiple charitable organisations can offer an even more effective and efficient means through which funds can be managed collectively under an independent entity – perhaps in the form of a '*Waqf* Bank'.

Questions

Question 1: Do you feel that a *Waqf* bank dealing with your *Waqf* funds would allow you to better monitor and track how your funds are being used for charitable purposes?

Question 2: If given an option, would you prefer to donate your money into a pool of Awqāf funds for different charitable causes or to directly invest in a charity/charitable cause?

Question 3: Do you have any services in mind which such a *Waqf* bank could provide to you?

Question 4: If you any other thoughts regarding your need for such a bank, please elaborate.

Thank you very much for your time.

Signature of participant:

Appendix 3

Informed Consent Form

Study title:

The Validity & Viability of a *Waqf* based banking model in the UK.

What is the purpose of this study?

Waqf offers significant opportunities for charitable organisations such as Islamic Relief to provide meaningful and lasting assistance to vulnerable communities across the globe. Effective investment and management of *Waqf* funds can ensure a long-term and sustainable means of generating income for organisations which are then able to invest this back into the community in the future. However, collective saving accounts from multiple charitable organisations can offer an even more effective and efficient means through which funds can be managed collectively under an independent entity – perhaps in the form of a ‘*Waqf* Bank’.

Please tick

1. I confirm that I have read and understood the participant information sheet for the above study and have had the opportunity to ask questions.

2. I understand that my participation is voluntary and that I am free to withdraw at any time without giving a reason.

3. I understand that all the information I provide will be treated in confidence

4. I understand that I also have the right to change my mind about participating in the study for a short period after the study has concluded (until 18th December 2014).

5. I agree to complete an audio recorded interview as part of the research project

6. I agree to take part in the research project

Name of participant: _____

Signature of participant: _____

Date: _____

Name of Researcher: _____

Signature of researcher: _____

Appendix 4

Interview Guide

Good morning/afternoon _____ from _____ organisation and _____ designation. Thank you for your participation in this research carried out by Islamic Relief Research Academy. This interview is mainly to identify the current status of the *Waqf* Bank and whether it is a feasible proposition to develop a *Waqf* Bank in Muslim minority countries. Depending on the nature of questions this interview will last approximately 40 to 50 minutes.

1. Do you think that there is a need for a *Waqf* bank? If yes, what do you think would be the significance of such a bank?
2. How practical, according to you, is the idea of setting up a *Waqf* bank?
3. What could be the envisaged functions of such a *Waqf* bank according to you?
 - Do you think it should be responsible for providing full-fledged banking services or partial services? (b) What could be the potential sources of capital for such a bank?
- 4)
 - Are you aware of any existing *Waqf* bank in Muslim or Non-Muslim countries?
 - Could you provide any examples in the context of any country which could fulfil the criteria of a full-fledged or partial *Waqf* bank?
5. What according to you would be the major legal issues in setting up of this *Waqf* bank?
6. If this *Waqf* bank was to be formulated in UK, what do you think would be the major challenges faced in terms of (i) implementation (ii) functioning and (iii) regulation by the Charities Commission and FSA?
7. How can the *Waqf* bank be made sustainable?
 - According to you, can alternative sources of funding for *Waqf* bank such as issuing *Sukūk* and direct fundraising from individuals and institutions be used?
 - Do you think *Zakāt* / *Sadaqah* funds could be used in addition to a *Waqf* funds for running the bank?
 - How would we incentivise donors for funds?
8. How could other Islamic aid agencies in UK and Europe support this *Waqf* bank if it were to be set up in UK?
9.
 - What would be the major leadership/skill challenges in running this bank?
 - If this bank was operating in UK, who should be heading the bank and to which individuals/organisations should this bank be reporting to?

Thank you very much for your open participation in this interview and if you have any other further questions, please do not hesitate in asking.

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Sameen Zafar, University of Nottingham, UK

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Professor Zafar Iqbal , Fast-NUCES, Lahore, Pakistan.

Professor Mervin Lewis, University of South Australia.

Professor Monzer Kahf, Qatar Foundation

Professor Murat Çizakça, International Centre for Education in Islamic Finance (INCEIF)

Professor Rodney Wilson, INCEIF

Professor Habib Ahmed, Durham University, UK

Professor Magda Ismail, INCEIF

Professor Humayun Dar, Edbiz Consulting

Professor Tahir Sabit, Universiti Teknologi Malaysia, Malaysia

Dr. Hisham Dafterdarı, Unicorn Investment Bank

Dr. Tunku Alina, INCEIF

Dr. Mohammed R. Kroessin, Islamic Relief Worldwide, UK

Mr. Hussain bin Younis, New Zealand Awqāf

Mr. Shahid Bashir, Muslim Hands, UK

Mr. Sohaib Umar, Central Bank of Bahrain

About Islamic Relief

Islamic Relief is the largest independent Muslim charity in the world with 30 years of experience in serving humanity in more than 40 countries.

We respond to disasters and emergencies, help people in crisis and promote sustainable economic and social development by working with local communities to eradicate poverty, illiteracy and disease.

Islamic Relief mobilises human and material resources, develops partnerships and builds capacity to enable communities to mitigate the effect of disasters, prepare for their occurrence and respond by providing relief, protection and recovery.

We promote integrated development and environmental custodianship with a focus on sustainable livelihoods, and support the marginalised and vulnerable to voice their needs and address the root causes of poverty.

Islamic Relief is registered with the UK government's Charity Commission, has consultative status with the UN Economic and Social Council, works closely with institutions such as the EC and OCHA, has membership of BOND (British Overseas NGOs for Development), is a member of the Disasters Emergency Committee, is a member of the Muslim Charities Forum, the Gender and Development Network, as well as other networks and global initiatives.

For more information visit: www.islamic-relief.org

About Islamic Relief Academy

Islamic Relief Academy is the learning, research and leadership development hub of Islamic Relief, with a mission to build and improve capacity and make a significant contribution to the whole aid sector.

The Research & Development Department at Islamic Relief Academy offers credible Islamic perspectives on humanitarian relief and development through the publication of empirically sound research. Researchers wishing to benefit from opportunities to participate in our research can email their enquiries to: research@iracademy.org.uk, or for further details, visit: www.iracademy.org.uk.

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The Validity & Viability of a Waqf based banking model in the UK.

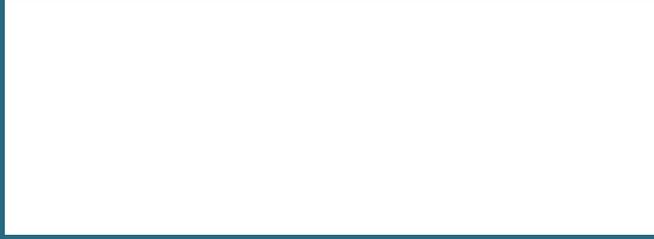
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