

# Waqf:

## A Proposed Model for Islamic Finance

Abdullah  
abdullah@pafkiet.edu.pk

### Abstract

*This paper develops a Waqf based financing model in order to facilitate the corporate entities to finance their investments fulfilling the tenets of Halal. The basic objective of this research is to provide financing avenues to unprivileged class of the society, the majority of which cannot fulfill the collateral and other requirements of the banks. We have developed a Waqf based model which would be helpful in achieving the objective of this study. Initially the fund will finance the corporate entities then after the growth of this fund; it will start financing the unprivileged class of the society at a low cost and partnership. When the unprivileged class of the society would get financing they would start their businesses that would ultimately reduce the poverty level, create more employment, increase economic activities and would finally results in the increase in GDP and other social benefits.*

**Keywords:** Waqf, Riba, Musharakah, Mudarabah, Murahaba, Ijarah

### 1. Introduction to the project

“Allah will destroy Riba and will give increase for sadaqat” (Baqra Chapter 2:276)

Welfare of the society is welcomed everywhere since the inception of this universe especially in the area of basic necessities. Physiological needs are the most basic needs which everyone wants to fulfill with self respect. The problem starts with the unequal distribution of money in a society. The main cause of unequal distribution of money is the interest based lending, borrowing and all kind of deal-

ing done through current banking model. Interest based economic system is prohibited in Islam. Islam has defined rules and principals under which one can satisfy the physiological needs, which would ultimately safe guard the interest of other society members in fulfilling their needs. Allah said:

“Those who will eat Riba will not stand except like the standing of a person beaten by shetan leading him to insanity. This is because they say “trading is only like Riba” Whereas Allah has permitted trading and forbidden Riba. So whosoever receives an admonition from

The author is a lecturer at College of Management Sciences, PAF-KIET.

his Lord and stops eating Riba shall not be punished for the past” (Baqra Chapter 2:275)

“O you who believe be afraid of Allah and give up what remains from Riba. If you are really believers” (Baqra Chapter 2: 278)

“And if you do not do it, then take a notice of war from Allah and His Messenger but if you repent, you shall have your capital sums. Deal not unjustly and you shall not be dealt with unjustly” (Baqra Chapter 2: 279)

There are two basic objectives of this paper. The first objective of this paper is to introduce the financing model using Waqf model of Islam for those unprivileged people of the society who cannot afford collateral and other requirements of the bank. The second objective of this paper is to introduce the instruments under the Islamic Financial System so that everyone in the society acts according to the tenets of Islam and can invest in the Sharia compliant instruments to earn pure Halal sum of money.

Most of the countries are facing a crucial economic crisis where the gap between the rich and the poor is widening resulting in unequal distribution of wealth and leading to societal ills. This is only because of current interest based economies. If we get rid of this interest then Allah SWT will help us in flourishing our economy. As He said in His Holy Quran, that he will ruin the economies of those who do not obey his rules and regulation as explained by the verse below:

“But whosoever turns away from my reminder verily, for him is a life of hardship, and

we shall raise him blind in the Day of Judgment.”(Sura Taha Chapter#20, Verse #124)

The scope of this paper is the welfare of those citizens who are unprivileged and living their life below the poverty line. The recommended system will help them overcome dependency on interest based economy to survive and sustain.

In this paper, we have developed a Waqf based financing model by which financing can be done. Initially, corporate entities would be financed which would be helpful in expanding the size of the fund. When the fund grows to the extent, then the unprivileged class of the society would be financed at a low cost so that they can start their own businesses. This would be helpful in reducing the poverty, unemployment and would increase the economic activities resulting in the increase in GDP and other social benefits.

## 2. Literature review

Achmad (2010) in his paper “The Cash Waqf for Empowering the Small Business” focused on the small businesses empowerment through the concept of Cash Waqf. He aimed to generate a pool of fund, which should be managed in such a way, that the original value should grow and perpetuity is ensured (mandatory requirement of Waqf). To achieve this objective, he proposed three steps namely mobilizing donation, utilizing the fund and then finally distribution of income. For mobilizing donation, he proposed to issue instruments, which would be invested in Sharia compliance instruments to enhance the size of the fund; which would be ultimately distributed among

the beneficiaries. The distribution will solely depend on the purpose of the creation of Waqf and kind of Waqf program.

Hamed, Habibullah and Davoud (2010) in their paper “Waqf as Social Entrepreneurship Model in Islam” focused on Islamic and social entrepreneurship model for development and social welfare program. They explained that whenever government and private sector failed to provide means of livelihood to lower class of the society they undertook this mission themselves for the betterment of the society. Studies like Berger (2006), Bekker (2007) etc have found religion as the most powerful intrinsic influencer while studying the intrinsic motivating factors. Islam appreciates Waqf and further, they explained the types of waqf which are Philanthropic Waqf created for the betterment of the society and Family Waqf created by parents to children for poor. They have concluded with strong suggestion to use Waqf as the social entrepreneurship model.

Shahdur, Fahmi and Faisal (2011) in their paper “Economics of Cash WAQF management in Malaysia: A proposed Cash WAQF model for practitioners and future researchers” focused on assessing the existing cash Waqf model in Malaysia and to develop another hybrid cash waqf model. They have proposed a model where Islamic bank will be treated as a trustee. Bank would be responsible for collection, management and distribution of surplus to needy people. The bank must manage it separately. The fund will be ensured by Takaful companies. The SME’s and the poor class can also benefit from the Waqf. After generation of profits, bank would be responsible for its dis-

tribution among the beneficiaries considering the choice of its donors.

Hajah, Abdullah, Ashraf, Hisham, Norhaziah and Synahidawati in their paper “Financing the Development of Waqf Property: The Experience of Malaysia and Singapore” have tried to explain how the waqf property is being financed in Malaysia and Singapore. They have briefed that initially, the colonization was at boom, which affected the Waqf property and its development in a negative manner. During different era, there was no significant improvement in the value of Waqf property, however presently it is being funded and managed very exclusively. Many corporate entities like Jcorp etc are playing their important role in developing the Waqf properties. There are separate government bodies which are specifically monitoring the Waqf property, institutions etc by which the performance have been tropically enhanced.

Rodney (2007) in his paper “Making Development Assistance Sustainable through Islamic Micro Finance” focused on how low income Muslims can get finances through shariah compliant system. He explained micro finance in detail while quoting the example of Grameen Bank where Dr. Yunis has been awarded with the Nobel Global Peace Prize in 2006 because of its success. He introduced an instrument in which the applicant will submit the proposal, which would be assessed for viability and later funded. He proposed five sources from where the revenues could be generated i.e. Donations, Modest fee (application fee), Repayment from debtors and funding from Non Government Organization Funding Agencies.

The Investors will be updated about financial performance periodically. This model is replicated in Wakala Waqf Model in Takaful.

Jennifer (2004) in her paper "Islamic Philanthropy: Reviving Traditional forms for Building Social Justice" focused on how the society can flourish through the charitable organizations. She elaborated that Waqf are the oldest charity mode, which was even used by Hazrat Ibrahim and then fully practiced by our Holy P.B.U.H. The Holy P.B.U.H. instructed Hazrat Umar R.A. that his ownership of land would be transferred for charitable purpose and would not be sold/transferred and remains in same shape until perpetuity. This paper has highlighted the importance of Islamic Philanthropy and the one who is benefiting from this kind of fund should not be seen as a guilty but should be appreciated for improving his life standards through application of innovative ideas.

Habib (2007) in his paper "Waqf- Based Microfinance: Realizing the Social Role of Islamic Finance" focused on the waqf based microfinance. The basis of Islamic Financial System is on social justice and Ehsan. The philosophy behind introducing these concept is to help those who cannot be helped by the market and who cannot play with the economic forces and are unable to avail opportunities which arise from time to time in the economy. The Islamic MFI's is following the conventional model of financing but the model is altered according to the rules and regulations of Islam. The Waqf based microfinance will mitigate the credit risk by default by social collateral in the forms of group lending and through weekly repayments. These Micro Finance schemes will

eradicate poverty.

Norhaliza and Mustafa (2009) in their paper "Categorization of Waqf Lands and their Management Using Islamic Investment Models: the Case of the State of Selangor, Malaysia" has focused on the proper categorization, its impact and the Islamic mode of investment. According to the statistics shown in their paper, 80% of the waqf land has been deployed for religious purposes and the remaining property is held for charitable purpose. There are many instruments, which are being offered in Slangor, but the investors are not being attracted since they perceive it as unproductive. Authors have proposed that the waqf property must be classified properly under different categories. They have introduced new instruments like build-lease transfer; Asset based Mudarabah and securitization of project (Sukuk and Shares). They have also proposed the mode of categorization. Firstly, identify the location of the land and its utility; and later apply suitable instrument for its enhancement. If the process fails than repeat the whole exercise. By doing so, the waqf properties would manage well, the investors are likely to be attracted, and the society would gain benefit.

Tahir (2011) in his paper "Towards an Islamic Social (Waqf) Bank" has focused on how an Islamic Waqf bank can be created. He has suggested solutions two problems, firstly mechanics of raising funds for Waqf, and secondly the ability of the fund to participate in the welfare of the society. There are two banks which are already working on somehow on the same basis namely the Valid Bank of Turkey and Islamic Social Bank of Bangladesh but do not

fully comply to the requirement of Waqf Fund. According to him, the bank should collect the cash from the donors and disburse it to the borrowers for the welfare purposes. Once the borrowers discharge the loan it is offered to someone else as a loan. A meager fee will be charged from the borrowers to maintain, cover the losses and other damages to the fund. A sizeable portion of fund should be judiciously invested by the bank in the Sharia complaint instrument to enhance the capital. The bank can offer the demand and time deposits and other Sharia compliant services to increase their equity. The Waqf Bank operates within the preview of laws and regulation of Malaysia. The conclusion of the paper is that the poor should have access to wealth at a very low cost and the perpetuity of the Waqf maintained to reissue loans to needy borrowers.

### 3. Methodology

#### 3.1. Introduction to Waqf

##### 3.1.1. Definition

The basic definition of Waqf is to transfer own property rights to Allah Almighty. The literal meaning of Waqf is status quo. The Waqif (trustee) uses it for a specific purpose i.e. for charitable purpose. Waqf further reiterates that this donation is for perpetuity. In other words, we can say that Waqf means hold or prohibition, which means that it prohibits the use of the Waqf property other than its use for which it has been dedicated. Waqf is applicable to fixed assets only.

##### 3.1.2. Basic Rules of Waqf Fund

- Waqf Property cannot be sold, gifted or cannot be distributed.
- Waqf Fund is a legal entity and act as a

person

- Waqif is the manager of the Waqf Fund
- Conditions given by Waqif will be treated as the commandment of Allah.
- The usufruct of Waqf Fund must be defined and must be followed

##### 3.1.3. Characteristics

There are three basic characteristics of Waqf Fund:

1. Perpetuity: it means that property or an asset given as Waqf will remain in the ownership of Waqf forever.
2. Permanence of stipulation of the Waqf Founder: The purpose of the Waqf Fund which is decided by the founder must not be changed. If the purpose becomes unfeasible then this can be used for the most nearest reverent purpose.
3. Irrevocability: it means that the Waqf once exit from the ownership of Waqif, cannot be transferred to Waqif's property in any case.

##### 3.1.4. Founder

The founder of the fund must be an adult, wise man and capable of handling the affairs related to Waqf.

##### 3.1.5. Seed Money

The initial investment through which the Waqf is created is called the seed money, which must be maintained forever. This can be invested only in low risk instruments otherwise, it should not be invested.

##### 3.1.6. Ownership of Waqf Fund

The ownership of the Waqf fund can be increased through:

- Profit on seed money: seed money can

be invested into low risk avenues, the profit of which will be used to increase the Waqf fund

- Donation: Waqf fund can accept any type of donation for increasing the ownership of the Waqf fund.
- Zakaat: Waqf Fund cannot take Zakaat directly into its account, but it can be done that Waqf Fund can act as an agent of the poor people and they can sign a Wakalat agreement. Poor will sign on Wakalat agreement in which they allow Waqf fund to collect Zakaat on their behalf and can use this money to increase the Waqf Fund.

### 3.1.7. How Waqf Fund will work

Waqf fund will be created by the investment of Waqif by investing the seed money into the Waqf fund. Once Waqif creates the Waqf fund then the following methodology will be adopted:

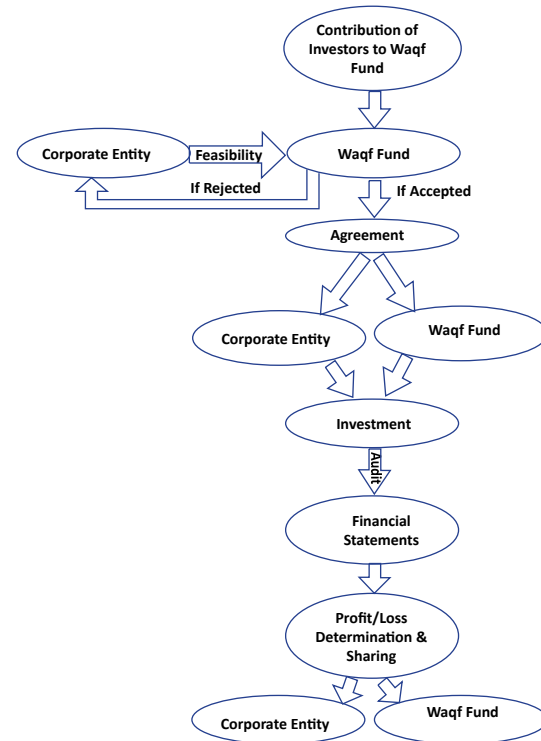
- Waqf Fund will attract investors to invest in Waqf Fund by designing instruments, which are Sharia compliant and approved by contemporary Sharia Advisors. The investors is entitled to profit/ and loss of Waqf Fund.
- Consequently, the profit is distributed between the investor and Waqf Fund.
- The proceeds from the investment will further utilized to invest or to help the poor people of the society.
- The model can be same but the sharing of profit can be done at lower cost so that poor people can flourish their businesses.

The purpose of creating a Waqf fund is to

serve the humanity and to contribute in the betterment of mankind. We can utilize the Waqf fund in different ways to help the humanity. We can grant charity to poor people, we can make contract with the people to help them in flourishing their businesses. The question is from where the Waqf Fund will get the money to help the humanity. This question has been answered partly in the above discussion. The main source which we will be adapting is to finance the corporate entities initially from where the Waqf fund will get share in their profits. We have developed the conceptual frameworks which describes how Waqf fund can finance the corporate entities.

## 4. Discussions and analysis of results

Figure-4.1 Musharkah Based Financing



Musharkah in Arabic means partnership. In the context of business and trade, it means partners form an enterprise in which they share risk, profit and losses. Interest is prohibited in this business financing.

Waqf Fund will precisely define whether it is lending money on humanitarian basis or investing into the business to get share in the profit. Islam has very clear principal on lending. Islam does not allow any claim for extra payment other than the loan amount given to debtor by the financier. There are two kinds of Musharkah; each of them has been defined below:

- Shirkat-ul-Milk: It refers to a joint ownership of any property or asset.
- Shirkat-ul-Aqd: it refers to the partnership affected by mutual contract. There are three types of it. The first is Shirkat-ul-Amwal; this refers to a joint venture in which all partners invest some money in to an enterprise. The second is Shirkat-ul-Amwal, this refers to a contract in which all partners agree to render a service and divide the proceeds between them in a pre decided proportion. The third is Shirkat-ul-Wujooh; this refers to partnership in which partners do not invest but buy commodities at different prices and then sell them on spot price and distribute proceeds in a pre-decided proportion.

All rules valid for any contract must be specified in the contract of Musharkah. This is not so in other contracts. There are sev-

eral rules to Musharkah, which are summarized below:

### 4.1.1. Distribution of profit

The proportion in which the profit is to be distributed must be negotiated and agreed at the commencement of the contract. The decided proportion must be a percentage of the actual profit accrued; and not based on the capital invested. The profit ratio can be more or less than the investment ratio but if any partner has expressed in an agreement that he will remains a sleeping partner throughout the Musharkah period than his ratio of the profit must not exceed the ratio of investment. The violation of these tenets will lead to invalidity of the contract.

### 4.1.2. Sharing of Loss

All Muslim jurists are unanimous on the point that the loss should be shared according to the ratio of the investment. However, the distribution of profit has to be agreed beforehand and is not in accordance to the ratio of the investment.

### 4.1.3. Nature of capital

Most of the jurists are of the opinion that the capital invested in Musharkah must be in the form of cash or in liquid form and not in the form of commodity. This is so because if for any reason, Musharkah is terminated; than the assets are divided and returned according to the amount of investment, which each partner had made. However if the investment is made in the form of commodity this may not be possible. Imam Shafi has elaborated the two types of commodities; firstly, Dawat-

ul- Amsaal which if lost can be purchased e.g. wheat. Secondly, Dawat-ul-Qeema which refers to a commodity cannot be replaced in the same form; e.g. sheep etc. The conclusion of the jurist's opinion is that the capital should be invested in form of cash rather than in form of commodity. It would be prudent if the value of commodity were determined at the spot price on the day of commencement of Musharkah.

#### 4.1.4. Management of Musharkah

In Musharkah, every partner has right to participate and work in for the Waqf. However if by mutual agreement a partner wants to act as a sleeping partner the profit ratio for sleeping partner must not exceed his ratio of his investment as discussed earlier. When all partners decide to work for a Musharkah, they all will be treated as an agent of each other and any decision taken by partner shall be deemed as authorized by other partner.

#### 4.1.5. Termination of Musharkah

Every partner has the right to terminate the Musharkah at any point of time but he has to give the other partner, a notice to this effect. When the Musharkah is terminated, the assets of the mutual enterprise will be distributed back on the pro rata basis. The assets can be distributed after the liquidation or if the partners agree than the assets can be distributed in non-liquid form. In case, either partner dies than Musharkah stands terminated.

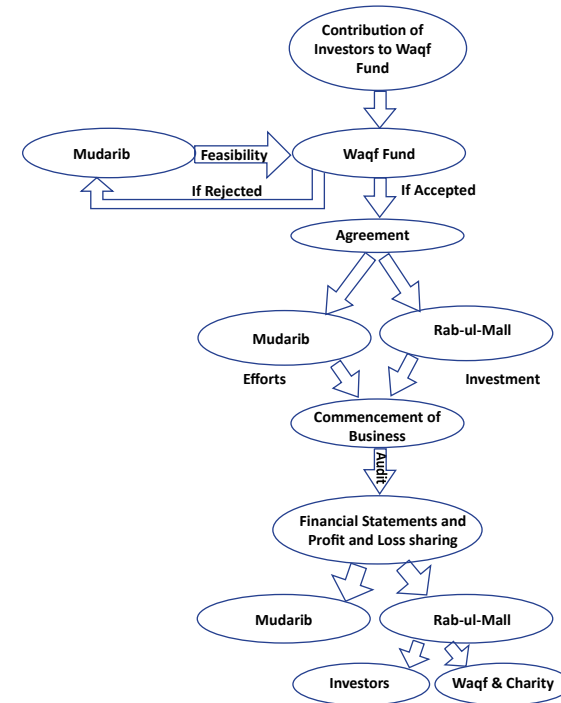
#### Musharkah in Waqf Fund

The above discussion of Musharkah has defined the rules and principles under the

Islamic jurisprudence. These rules and principles are the benchmark in making any contract of Musharkah. Moreover, when Waqf Fund uses this mode of financing similar rules will apply to Musharkah. The flow chart shown in the above diagram amply covers the process however; the under-mentioned clarifications are added:

- Waqf fund will collect the funds from the investors on terms and conditions which are applicable to Waqf Fund.
- Waqf Fund will introduce the financing contract and attract the corporate entities for investment. These corporate entities will be asked to present the feasibility for which the financing is being done. After analyzing the feasibility from all perspective, the plan will be approved or disapproved.
- After the approval, the detailed clauses would be mutually decided between Waqf Fund and the corporate entity. The comprehensive agreement must be in cognizance with the principles defined in the first part of Musharkah.
- Once the agreement is solemnized, Waqf fund and the corporate entity will invest in the project according to the agreed proportion.
- After passage of certain period, a financial audit will be conducted of financial entity to determine its financial health.
- The profit/loss will be distributed amongst the partners.

Figure-4.2 Mudarabah Based Financing



Mudarabah is a special kind of partnership in which one partner enters with his skills, knowledge and competence (Mudarib) to execute the viable business while the other partner (Rab-ul Maal) invests/finances the business.

There are several differences between the Mudarabah and Musharkah. The investment comes from all the partners in Musharkah while in Mudarabah; the investment is made only by Rab-ul-Maal. In Musharkah, all partners have the right to participate in the business while in Mudarabah; Rab-ul-Maal has no right to interfere in running the business. The liability in Musharkah is unlimited but in Mudarabah, the liability is limited to Rab-ul-Maal only.

#### 4.2.1. Business of Mudarabah:

In Mudarabah, Rab-ul-Maal has full authority to direct the area in which Mudarib will invest his money and is called al-Mudarabah-al-Muqayyadah. If the Rab-ul-Maal has not restricted the Mudarib to invest in any specified area the Mudarib has the autonomy of selecting the business as he deems fit and will be called al-Mudarabah-al-Mutlaqah (unrestricted Mudarabah).

Rab-ul-Maal can contract more than one Mudarib for a single transaction.

#### 4.2.2. Distribution of Profit:

Sharia has given autonomy in deciding the proportion of profit distribution amongst the partners. They can share profit equally or can decide by mutual understanding the percentage of the profit. The core thing is that the decided proportion must be a percentage of actual profit and not a lump sum. Islam does not permit to tie up the profit distribution to capital invested by any partner but it must be based on the actual profit earned by the business.

#### 4.2.3. Termination of Mudarabah:

The contract of Mudarabah can be terminated at any point of time by either of the contacting party. The requirement of termination is just to give a notice to other partner. The profit earned up to that level of time will be divided in the decided proportion.

The freedom to terminate the Mudarabah at any point of time seems to create difficulties in the present circumstances as present

day business need time to bear fruit/dividend. If the Mudarib has put all his effort and Rab-ul-Maal terminates the contract in the middle; the Mudarib will be at loss. Islam does not restrict/bind partners to the business enterprise unless it is specifically a clause in the contract.

#### 4.3. Mudarabah in Waqf Fund

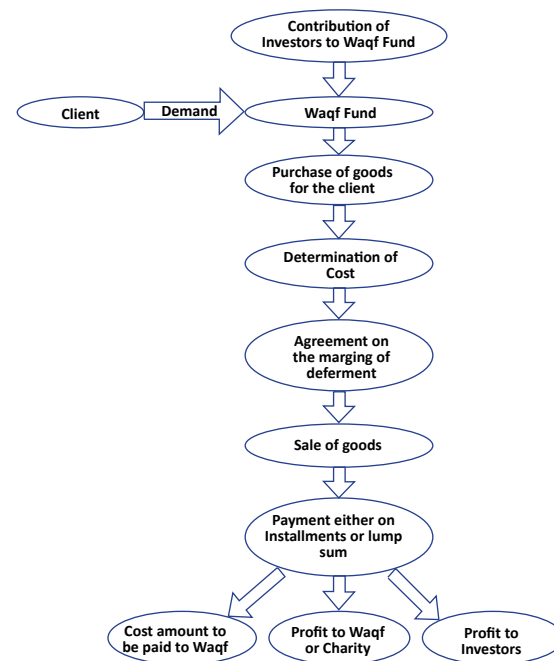
Waqf Fund will act as Rab-ul-Maal and the Mudarib will approach the Waqf fund for financing. The rules defined above will be the benchmark in Mudarabah contract. Beside these rules, the rules of the Waqf fund will also apply simultaneously. The detailed process how the Mudarabah will be done through Waqf fund is discussed below:

- Waqf fund will invest the fund under the terms and conditions of Waqf Fund.
- Mudarib will approach the Waqf fund with feasibility and skills. The feasibility provided by the Mudarib will be analyzed and the approving authority will declare the decision whether to invest or not.
- If the feasibility is accepted, a contract is made under which each clause will be mentioned and these clauses must be alleged with the rules defined for Mudarabah in Islamic jurisprudence as defined above.
- After agreeing, Mudarib will put efforts and Rab-ul-Maal will provide finances to the business.
- After some time, the financial audit will be conducted to prepare the financial statements of the business and profit or loss will be distributed between the Mudarib and the Rab-ul-Maal in the propor-

tion as mutually agreed in the contract.

The contract can be terminated at any point of time under the terms and conditions mutually agreed and the principles governing Mudarabah in Islamic jurisprudence. If the contact is terminated then the liquidation of the asset will be done under the rules of Islamic jurisprudence as described in the first part of Mudarabah.

Figure-4.4 Murabahah Based Financing



In today's world, Murabahah is used as a mode of financing but in real sense it has nothing to do with financing. Islamic banks are investing huge amount of money in this mode of financing since it is the need of time. Murahaba means a sale where seller has agreed to sell a product to a purchaser; adding a certain margin added to his cost. The specific condi-

tion for Murabahah is that the seller discloses the actual cost and the margin added, to the purchaser. The margin/profit could be in lump sum or as a percentage of cost. Murabahah is just a sale but the underlying feature of Murahaba is the disclosure of cost to the purchaser.

The payment in Murabahah may be on spot or may defer to a time frame mutually agreed upon by the parties. Sale in shariah is defined as "the exchange of goods of value by another good/form with mutual consent." There are several rules defined by Shariah for a contract of sale, few rules are defined below:

- The goods or an object that is the subject of a sale must exist at the time of the contract. Both the parties must be in physical possession of it.
- The sale must be instant and absolute. If the sale is attributable to future date than the sale is void.
- The good being sold must be identified and known to buyer.
- The delivery of sold good must be certain and not left to chance.
- The selling price must be certain otherwise the sale is void

As discussed earlier that Murabahah is not an actual mode of financing but it is just adapted to get rid of the prevailing interest in the economy but scholars have allowed Murabahah as a mode of financing as a transitory step. There are several features of Murabahah and these features must not be overlooked when it is used as mode of financing. A few of them are discussed below:

- It must not be overlooked that Murabahah is not a loan given on interest but this is a sale of good or a commodity on deferred payment, the cost and the profit has been disclosed.
- Murahaba cannot be used where the client needs the funds or needs the payment of already purchased commodity. It is a real sale transaction.
- The seller in this contract must have an ownership of the commodity or the good. The commodity must come into the ownership of the financier and the risk must be transferred within a short period.

#### 4.5. Murabahah in waqf fund

Waqf fund will act as a financier in the Murabahah contract. The rules prescribed for Murabahah will be strictly followed which have been described in Islamic jurisprudence and discussed above. The detail process which will be followed during the Murabahah is as follows:

- Waqf fund will collect fund from the investors. The investors will submit the funds under the terms and conditions, which apply to Waqf Fund.
- The client will approach the Waqf Fund for purchase of the good or commodity.
- When the client approaches for purchase, the Waqf fund will purchase the good for the client. There are two options, which can be adopted by the Waqf Fund. The Waqf fund can ask the client to buy the commodity or good, which is demanded by him on behalf of

the Waqf fund as an agent or the Waqf fund, can buy the said commodity or good by themselves and handed over to the client.

- Once the commodity is purchased, the cost will be disclosed to the client along with the margin of profit.
- Once the whole payment is received, the cost amount will be returned back to Waqf Fund and the margin or earning will be distributed between the investor and the Waqf Fund.

asset or property against which the owner of the asset or property will claim rent. In the first type, the employer is called Mustajir and the employee whose services have been hired is called Ajir.

In the second type, the person to whom usufruct has been transferred or the lessee is called Mujir and the owner or the lesser is called Mustajir. Both of this type has been discussed in Islamic jurisprudence but for the purpose of this research, we are considering only the second type of Ijarah for financing through Waqf Fund.

Ijarah is similar to sale transaction. Both of these instruments are not a mode of financing, however, due to certain reasons Sharia scholars have allowed Ijarah as a mode of financing with some pre-conditions. The rules of leasing are as under:

- Lease is a transaction where an owner agrees to transfer the usufruct of an asset or property for a certain period under agreed considerations.
- The leased asset remains in the ownership of lesser. The leased asset must be having usage other than its consumption. For example, one cannot take the benefit of household staples unless this has been consumed; these types of assets cannot be leased out.
- The leased asset will remain in the ownership of lesser therefore the liabilities emerging from its ownership will be borne by the lesser and the liabilities arising from the usage of the leased asset or property will be borne by the lessee.
- The period of the lease must be deter-

mined in the clear terms.

- The lessee cannot use the leased asset other than the usage described in the lease contract. If the contract of lease does not contain any terms related to its usage then the lessee is allowed to use the leased asset or property for the normal course but if the lessee is using the leased asset for an abnormal usage then lessee has to take permission from the lesser for the usage.
- An asset or property that is jointly owned by more than one owner can be leased out and the rentals can be divided in accordance with the proportion of the ownership.
- An asset which owned by more than one person can be leased out only to its co-sharer not to any other person.
- The rental must be determined for the whole period of lease.
- The lesser cannot increase the rentals under the period of lease.
- The lease period commences from the date of the delivery of the asset to lessee.
- If the leased asset or property has lost its utility than the lease contract will be terminated with effect from the day when it become redundant.
- The forward sale is prohibited in Islam but unlike sale, forward leasing is allowed in Islam. It is allowed in the case that lesser and lessee has made an agreement of lease but the lease period will be effected after the delivery of the leased asset.

#### 4.7. Ijarah in Waqf Fund

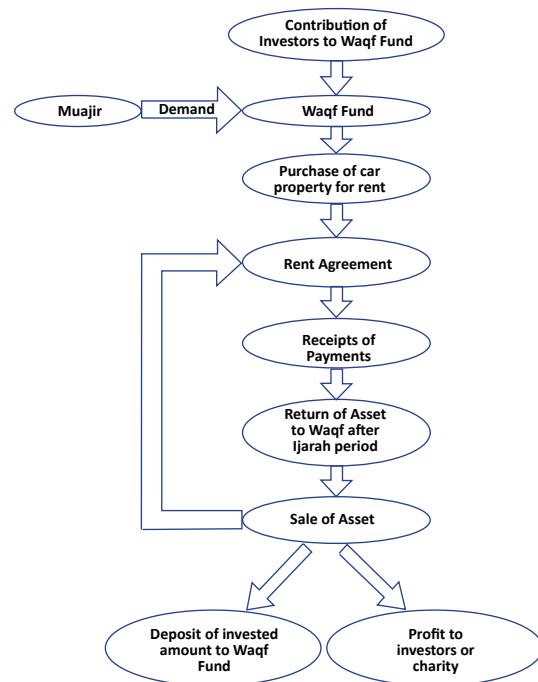
The principles defined in the Islamic jurisprudence will be strictly followed while making Ijara contract. The following step will be followed while making Ijarah contract:

- Investors will contribute to Waqf Fund with their investment.
- The client will approach Waqf Fund, who will purchase an asset for the client.
- After purchasing an asset, Waqf Fund will make an agreement with the client in which all essentials clauses will be mentioned which have been discussed above.
- After the delivery of an asset, the lease period will start and the decided payment will start coming into the account of Waqf Fund.
- Once the lease period ends or the Majir terminates the lease, in both the cases the asset will be returned back to Waqf Fund.
- When the asset is returned back to Waqf Fund, Waqf fund will decide whether to sell the asset or to make another contract with the other client for the same asset.
- The proceeds from selling the asset will be distributed back among the investor and the Waqf Fund.

#### 5. Recommendations & conclusion

The objective of this research is to develop a model from which the corporate entities can get their financing done in accordance with the Sharia compliance. The Waqf Fund will use the proceeds/profits to help the humanity special-

Figure-4.6 Ijarah Based Financing



Ijarah in Islamic jurisprudence means to rent out an asset. There are two types of Ijarah, the first one is to hire the services of an employee for which he will be paid and the second type is to transfer the usufruct of an

ly those who are below the poverty line. Waqf Fund will be beneficial for people who do not have the power to fulfill the requirements of the collateral and desire a Sharia compliance financing.

We have developed the model whereby this objective can be achieved. Waqf Fund will attract the investors to invest in the Waqf Fund adopting different modes of Financing including Musharkah, Mudarabah, Murahaba

and Ijarah. The rules of these contracts and the rules of Waqf Fund will apply to the investment. The proceeds will be used for helping the poor people of the society offering them financing at lower cost. Resultantly entrepreneurs would be cultivated, motivated and encouraged to put their energies into real entrepreneurship activities to generate employment opportunities for the betterment of society while also fulfilling the commandments of God and Islam.

---

## References

- Achmad. (2010), "The Cash Waqf for Empowering the Small Business," *Seventh international conference, Bangi, 2010*.
- Ahmed Habib (2007), "Waqf based Microfinance: Realizing the social role of Islamic Finance," *International Seminar Singapore March 6-7, 2007*.
- Hajah, Abdullah, Ashraf, Hisham, Norhaziah and Syahidawati, "Financing the Development of Waqf Property: The Experience of Malaysia and Singapore," *Working Paper University of Sains Islam Malaysia*.
- Hamed, Habibullah and Davoud (2010), "Waqf as a social entrepreneurship model in Islam," *International Journal of Business and Management, Vol. 5, No. 7, pp.179-186*.
- Mhar and Ahmed (2011), "Conceptual and operational differences between general Takaful and conventional insurance," *Australian Journal of Business and Management Research, Vol. 1, No. 8, pp.23-28*.
- Mufti TaqiUsmani, (2006). *Islamic Finance, Karachi*
- Rodeny (2007), "Making Development Sustainable through Islamic Microfinance," *IUM Journal of Economics and Management, Vol. 15, No. 2, pp.197-217*.
- Shahedur, Fahmi and Faisal (2011), "Economics of Cash WAQF management in Malaysia: A proposed Cash WAQF model for practitioners and future researchers," *African Journal of Business and Management, Vol. 5(30), pp.12155-12163*.
- Tahir (2011), "Towards an Islamic Social Waqf Fund," *International Journal of Trade, Economics and Finance, Vol. 2, No. 5, pp.381-386*.