

## Cash -Waqf: New Financial Instrument for SMEs Development in Bangladesh

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### Abstract

*Contemporary Islamic economics has considered the cash waqf as an important financial instrument especially for the small & medium size enterprise. Cash Waqf means the dedication of some money from one's possessions and establishing a Waqf based on that amount and offering it to the benefit of people generally or allocating it to make use of them by some segments of the community particularly. The cash waqf has the potential to improve the domestic economic growth and play a vital role in the socioeconomic development by allowing the SMEs to have access to the financial services. In fact the mechanism of cash waqf even goes further beyond the expectation by providing some interest free loan (qard-e-hasanah) to the SMEs through a safety mechanism discussed in this paper based on trusteeship model, equalization profit reserve, and surplus fund of the cash waqf. The scope of cash waqf channeled to develop the SMEs has very wide business concept and scope which include the most active segments in the market such as banking, finance, takaful, and capital market.*

**Keywords:** cash-waqf, SMEs, cash waqf mobilization etc.

### Introduction

The Small and Medium size enterprises play an important role for overall economic development of a country specially for developing countries like Bangladesh because of cheap labor, rapid employment generation, eradication of poverty and hunger, narrowing the gap of income inequality and women empowerment. As there is no standard definition for SME, different agencies defines SME based on their own criteria, such as annual sales turnover, number of full time employees and shareholders' funds etc. In this paper we refer to the concept and definition of SME in Bangladesh based on the SME department of Bangladesh Bank. Existing definition of SME is recommended by Better Business Forum and accepted as a uniform one by Ministry of Industry and Bangladesh Bank. Criteria of the definition of SME are given below:

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**Small Enterprise:**

Small Enterprise refers to the firm/business which is not a public limited company and complies

the following criteria:

Serial No.	Sector	Fixed Asset other than Land and Building (Tk.)	Employed Manpower
		(not above)	
01.	Service	50,000-50,00,000	25
02.	Business	50,000-50,00,000	25
03.	Industrial	50,000-1,50,00,000	50

**Medium Enterprise:**

Medium Enterprise refers to the establishment/firm which is not a public limited company and

meet the following criteria:

Serial No.	Sector	Fixed Asset other than Land and Building (Tk.)	Employed Manpower
		(not above)	
01.	Service	50,00,000-10,00,00,000	50
02.	Business	50,00,000-10,00,00,000	50
03.	Industrial	1,50,00,000-20,00,00,000	150

**As per Bangladesh Bank's latest guideline it may be summarized as follows:**

Particulars	SMALL		MEDIUM		Remarks
	Manufacturing	Trading/Services	Manufacturing	Trading/Services	
Labor(quantity)	25-99	10-25	100-250	50-100	
Value of the fixed assets(Except Land & building including set up cost)	Tk 50.00 Lac to Tk.10.00 Crore	Tk.5.00 Lac to Tk.1.00 Crore	Above Tk.10.00 Crore to Tk.30.00 Crore	Tk.1.00 Crore to Tk.15.00 Crore	

**The Conception of Cash Waqf**

The Arabic word waqf (plural awqaf) means endowment which is a trust fund established with money to support services to mankind in the name of Allah. The Ottoman court approved these endowments as early as the beginning of the 16<sup>th</sup> century and at the end of the 15<sup>th</sup> century. They had reportedly become extremely popular all over Anatolia and the European provinces of the empire.

In Bangladesh, SIBL has introduced Cash Waqf Certificate in 1995, a new product for the first time in the Banking history of the world so that a new beginning can be made for a participatory economy. This scheme has been well received by the public in general for its

unique features. SIBL as a pioneer of this innovative financial product of social capital mobilization has received both local & international accreditation. By opening a Cash Waqf Deposit A/C someone can get an opportunity to do welfare to the mankind through Sadaka-e-Jariah. SIBL urges to all religious & affluent persons of the society to come forward to mobilize Cash Waqf Deposit so that the profit may be utilized for the well-being of mankind.

The management of Cash-Waqf has a unique characteristic that conceptually is different from the management of foundation, charities or donation fund. The history of development of cash waqf is as follows:

- \* Initial root of *Cash-Waqf* returns back to 8<sup>th</sup> century in Islamic era.
- \* Approval of cash waqf by ottoman courts between 15<sup>th</sup> & 16<sup>th</sup> century.
- \* Social Investment Bank Ltd (SIBL) started operation as on 22 November 1995 with three sector Banking model such as formal, non-formal (SME & micro finance) & Voluntary Banking (cash waqf) in Bangladesh.
- \* Professor M.A. Mannan (Founder Chairman of SIBL) presented a research paper regarding cash waqf deposit & Voluntary Banking in 1999 at the third Harvard University Forum conference.
- \* Islami Bank Bangladesh limited (IBBL) started cash waqf product in 2007.
- \* Malaysian Islamic National Council has given ruling (Fatwa) in April 2007 to allow the practice of cash waqf and implemented this idea for social fund development in several states through religious councils, Banks, Zakah management centers & Islamic Missionaries.
- \* Al-arafah Islami Bank Ltd started cash waqf deposit in 2008 and First security Islami Bank Ltd started cash waqf deposit in 2009 Other Islamic bank and Islamic banking window in Bangladesh started cash waqf product recently.

### **Objectives of the study:**

Objective of the study is to evaluate recent performance of SME financing activity of Islamic Banks. In this concept, Mutawalli (Cash-Waqf Fund manager) collects the fund from Waqif and invest the money in the real sector (mainly Small & Medium-sized Ventures) and in any Shariah based investment. He (Mutawalli) is obliged to maintain the amount of fund in such a way that does not go below the initial amount. Therefore, Mutawalli not only should be highly capable but also needs a financial institution which has been proven to be experienced, highly capable and effective in opportunities helping SMEs development efforts.

### **Methodology:**

The study mainly depends on available information at hand. Sources of secondary data are Islamic Books, Annual Reports, Publications, Websites and other sources. Information was also collected from face to face and telephonic discussion with some top level bankers of Social Islami Bank Limited, Islami Bank Bangladesh Limited and Al-arafah Islami Bank Limited.

### **Literature review:**

The witnesses of 21<sup>st</sup> century signify the revival of *Waqf Institution* in many Muslim countries and the creation of *Movable Waqf* especially *Cash-Waqf* in large extent. Some models for the creation of *Cash-Waqf* which has been practiced in Muslim countries. They are known as *Waqf Shares Model*, *Corporate Cash-Waqf Model*, *Deposit Product Model*, *Cooperative Model*, *Waqf Mutual Fund Model* and *Wakalah with waqf fund Model*.

Dr abulhasan M.Sadeq in his paper presented in the year 2005 in the publication of International Islamic University Malaysia regarding “ Socio economic Development Role of Waqf in the 21<sup>st</sup> Century and Restructuring of its Administration with Special Reference to Bangladesh” expressed that in Bangladesh 8000 educational institution and more than 123000 mosques are based on waqf. In almost every muslim country there is a department incharge of waqf administration and even some of the nonmuslim countries have offices like that to maintain synagoge and church. Other than religious and educational sector cash waqf fund ,may be utilized for all socio economic purpose.

A study for SME Foundation Dhaka by centre for development studies Dhaka,June 2010, Mr.Naeem Chowdhury,DDE,PhD, team leader and his team found in their research that SME foundation and other financing authority should have informal partnership with the trade bodies that have done the most for empowering woman producer. Actions must be taken to enhance affordable supply of credit to SME specially for micro and small firms in the country.

### **Findings of the study:**

#### **1. Process of cash waqf for Micro, Small and Medium Enterprise financing:**

SMEDU Stand for Small and Medium Enterprise Development Unit(Bangladesh)

Phase 1: Establishment of the cash waqf by SMEDU

Phase 2: Appointment of trustee by the SMEDU/ founder of the cash waqf(fund management to invest the capital)

Phase 3: Fund mobilization (start from SME members in SMEDU, NGO, financial institution, Government, etc.)

Phase 4: Investment of the fund in debt financing (low risk investment: murabahah, Ijarah, Istisna)

Phase 5: Profit generated from investment (Channel in parallel: for building reserve, building qard-e-hasana account, profit distribution to SME according to their terms).

Phase 6: Accomplishment of building: Equalization Profit Reserve & Qard-e-hasanah account.

Phase 7: Investment of the fund in equity financing & providing qard-e-hasanah(High risk investment: Mudarabah & Musharakah)

Phase 8: Distribution of the profit according to SMEDU member’s terms and according to theaccounts of cash waqf management.

### 1.1. Cash waqf mobilization from the society

This is a very important stage in the structure of the cash waqf, it is basically the starting point

towards the financial dimension of this product. The mobilization of the fund for the cash waqf is based on the prearrangement agreement between SMEDU and SME members. However we have to mention that the cash waqf should be established for the business community of SMEDU in order to meet their financial needs. Followings are the important participants from the society that makes successful mobilization of Cash waqf:

**A. Individuals:** The participation of the individual can be part of the contribution by having a cash waqf certificate which represents a financial contribution to the fund of cash waqf, this cash will be located to the cash waqf funds, and channeled to one of the available model provided by the funds management. Participation in the creation of cash waqf by seeking the reward from Allah Taala in the hereafter. Per capita fixed assets are decreasing day by day and liquid assets (Cash, Bank balance, share etc.) are increasing in the present economic system. Maintenance of Waqf property is now critical in the society. Cash waqf is the easiest way to contribute any amount by the individuals as perpetual endowment.

**B. Organizations:** The organization is a very important part of the creation of the cash waqf, regardless whether the organization is NGO or government, and regardless of the nature of their activities. The organization will be treated as a separate identity for the cash waqf, and all the terms and conditions apply. The contribution of the companies can be as CSR activity for the benefit of the needy SME enterprise which is facing a financial difficulty.

**C. SME members:** The companies of SME represent the core of cash waqf, they are behind the creation of the cash waqf, therefore they should be very active participant in the creation of the endowment, they can contribute to the growth of the cash waqf by directing their business activities to the cash waqf. On the other hand the SME will be an important partner for the funds management who run the cash waqf, whereby the investment of the cash waqf in the market will be through the SME members as well.

**D. Government:** The government is the key player for the successful of the cash waqf operation, the importance of the government can be observed in the following:

\* Supporting the cash waqf as unique instrument and approach in the industry by allowing it as taxfree donation.

\* Facilitate the legal framework of the cash waqf by operating in the financial market, and be part of the national business activities.

\* Regulated the function of waqf by putting shariah standards that governs the waqf, this include shariah aspect, financial aspect, accounting aspect, and managerial affairs accurately.

\* Amend the existing legal framework to suit the cash waqf business operation.

\* The government has the full responsibility to safeguard the interest of cash waqf of the nation not by managing the cash waqf but by facilitating the cash waqf operation in the industry.

\* Full responsibility of standardized method to manage the waqf marketing, information related, managerial, fees payment, compensations expenses which could be used for auditing, investigation and rating.

\* The government agencies related to SME can contribute to the cash waqf for the benefit of the SME, the cash waqf can be channeled to any particular aspect of their needs and activities according to government agencies plan and programme.

### **1.2. Investment of Cash Waqf money**

The purpose of the cash waqf is to channel the funds to the market for investment to contribute to the economic growth and generate profit to fulfill the will of the participant provided in the policy of cash waqf if any. The funds management has the full responsibility as professional and trustee to employ their best and effort for the success of the investment. There are some important guidelines must be observed in order to ensure the safety of the investment of the cash waqf, these guidelines have been mentioned by the international Islamic fiqh academy in its resolution No. 140 (15/6) as follows:

\* From Islamic point of view Cash waqf is permissible because its objective is to restrain the property and to channel its usufruct to the beneficiaries with the original property protected.

\* Cash waqf can be created for *qard hassan* (benevolent loan), for investment either direct investment or musharakah investment through fund investment or through issuing of cash waqf shares. This will encourage the establishment of cash waqf from all people.

\* When cash waqf is invested in acquiring tangible assets such as buying real state, or made an Istisna contract, the acquired asset or the assets of Istisna cannot be considered as waqf property and it can be sold cash or reinvested but the original cash waqf amount must be preserved.

### **2. The role of Cash Waqf in financing Micro, Small and Medium Enterprise**

The waqf can be defined as: The confinement of property, movable or immovable, from the founder (Waqif) and the dedication of its usufruct (according to founder's condition) in perpetuity for the welfare of society". The general concept of waqf is grounded on the above definition; however the concept of cash waqf should be more oriented towards financial and economic dimension in order to suit the corporate need in the industry. Therefore the cash waqf can be defined as: diverting funds (and other resources) from consumption and investing them in productive assets that provide either usufruct or revenues for future consumption by individuals or group of individuals. This definition seems to be inaccurate because the essential element of perpetuity of the waqf is not mentioned, this gives some reservation on the definition from As per shariah point of view, the appropriate definition will be: cash waqf is mobilization funds from donors base on perpetuity and investing them in productive assets that provide either usufruct or revenues for future consumption by individuals or groups by taking into account the policy and guideline provided by the donors and receivers. This definition for cash waqf is more conducive to the shariah concept of waqf and it is financially driven through different modes of financing.

## **2.1 Cash Waqf in SME financing**

The commercial aspect in cash waqf has a multiple objectives, which can be described as follows:

\*The cash waqf with its commercial and finance aspect will be more productive for the benefit of SME particularly, and for the society in general especially at macroeconomic level.

\* The benefit of cash endowment will include the donor himself at the first place who will be one of the beneficiaries of the waqf.

\* Cash endowment creates a great opportunity for SME by getting financial reward and profit which can be channeled to their needs according to their terms during the establishment of the cash waqf.

\* Cash endowment increases the accumulation of liquidity and capital in the industry and creates more business opportunity.

\* Improve the market by increasing more business activities.

\* Enhancing the domestic economic by providing the following:

- Liquidity to the business sector.
- Financing the SME in the industry.
- Circulating the fund in the market.
- Creating more employments.

## **2.2. Cash Waqf in micro financing**

Cash waqf is very reliable source for micro credit and micro financing at lower rate of service charge or free of charge. The operational costs of NGO are relatively high and salaries and administrative cost form the major proportion of operation cost, nevertheless forming only a small portion of assets. With a fixed administrative charge, they do not cover their operating costs and could not be sustainable and self-dependent. Thus, in the above situation it is very crucial and important to think to explore and determined how the NGOs clients benefited from the participation of cash waqf system to alleviate poverty, employment generation and ensure the women (Borrowers) empowerment in the society. The cash waqf can contribute to the improvement of the performance of the micro industry through the assistance provided to the micro enterprises.

## **2.3. Cash waqf in debt financing**

The debt financing has low risk compare to equity financing, therefore the cash waqf can be invested in this business sector, especially in the first year of investment, the fund management should be very careful in the investment to safeguard the capital of the waqf. SMEDU members will play a vital role in making this type of financing successful. On one hand they are the participants of the cash waqf and from the other hand they are the investor of cash waqf, it is their duty to safeguard the capital at the initial stage and at the ultimate stage as well. There are many types of debt financing, we just mention few of them, but the funds management can engage in many other type of investment in the debt financing provided, there is profit to be generated, and it is low risk investment and shariah compliant.

Some of them are Murabahah financing mode, *Salam* financing, Istisna' Mode financing, Bai' Bithaman Ajil (BBA financing), Ijarah Mode etc.

#### **.2.4. Cash waqf in equity financing**

It is the only financial model which can accommodate this type of investment without any accountability in front of the shareholders. However at any circumstances the trustee is required to act in the industry with a business identity to generate profit, the fund manager can engage actively in the market for business venture as far as the principles of shariah in business are fulfilled. This investment will give a special consideration to partnership business, since the Islamic banks yet not financing to the partnership model such as mudarabah and musharakah, the cash waqf can take the initiative to play this role to enhance this type of business sector in the industry and shows some good positive indication in the market. It should be noted here that the challenges that the cash waqf is taking does not mean exposing the funds and capital to risk due to the high risk of capital in this type of investment, but the objective is to activate this business sector in micro and SME financing, and improve the performance of the enterprise in order to encourage the Islamic banks to follow the same path. Since this type of investment has a high risk, the issue may arise regarding the safety of the cash waqf, and the possibility of deficit of the capital which create a shariah issue in the cash waqf. We suggest an approach to overcome this problem which is as follows:

- \*The trustee should allocate portion of the profit generated from the business activities, and create a fund reserve.
- \* As we know the profit from shariah point of view is not a waqf, but it is property owned by the waqf, therefore different rules can be applied to govern the profit generated.
- \* The profit can be channel to different business activity which includes high risk investment and social investment.
- \* In order to ensure the shariah compliant regarding channeling the surplus funds to different business activities, consent of the participant can be obtained during the creation of cash waqf.
- \* Therefore the surplus of the cash waqf will be invested in high risk investment for the benefit of the Muslim entrepreneurs and enterprises, which is a part of the social responsibility.
- \* Similar consent can be obtained from the creator of the cash waqf that portion of the profit will be located as qard-e-hasanah for the small and medium enterprise, who cannot get this facilities from the Islamic banks.
- \* This scheme is for the benefit of SMEDU members, and the investment will be channel to them.
- \* This approach will enhance the application of the partnership in the industry (musharakah, mudarabah) and help the small business man to get interest free loan, however if there is loss the capital, the reserve fund will absorb it, and the cash waqf will stay save and intact and will not be affected because there serve will be a coverage for any loss may occur.



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## Recommendations

This study concludes with some finding and recommendations as follows:

- \*Cash waqf is a very powerful tool for fund mobilization and investment.
- \* The cash waqf should function on trustee concept and act as financial institution.
- \* The participants involve in the creation of cash waqf can be individual, family, groups, firms, companies, NGOs, governments.
- \* The model provided can be customized base on SMEDU requirement, or any other business or social organization.
- \* The cash waqf can accommodate the terms and conditions of waqif within the shariah rules and framework.
- \* Cash waqf management should provide a policy as guideline to govern therelationship between the participant and the cash waqf.
- \* Cash waqf can play a crucial role in the improvement of the industry, financial system and the economic growth.
- \* The investment of cash waqf be dedicate to debt financing which has a low risk investment to generate profit and expand the fund of cash waqf, and can be expanded to equity financing as well to assist the medium size enterprises in micro credit and micro financing.
- \* The cash waqf is able to enhance the partnership business organization inbanking and finance.
- \* The cash waqf must create a reserve for the purpose of capital safety and allocate fund for high risk investment and qard-e-hasanah.
- \* Cash waqf can easily demonstrate the social responsibility in its businessactivity.
- \* Cash waqf is always guided by the shariah advisory to ensure shariah compliance in the various business activities.
- \* Cash waqf based SME and commercial organizations are different from social business concept considering the return in the hereafter as per declaration of Allah Subhanahuwatala.

## Conclusions:

Based on historical literature, the waqf plays an important role in socioeconomic life of Muslim societies. One of the types of Waqf is Cash-Waqf that revived in recent century. Cash waqf is different from trust, sadaqah, and donation. This is a perpetual endowment in the name of Allah. Here principal amount always retained by the mutwali (Bank/Organizer) and profit distributed each year/month as per instruction of the waqif for which waqif will be rewarded even after his death. As discussed in the study if Cash waqf applied properly in every sector of the economy it will contribute to alleviate poverty, generate employment and ensure the development of a society.

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