

“Cash Waqf Model for Skill Development and Empowering Small Businesses”

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Abstract:

Purpose of the study. *The aim of this paper is to examine the applicability of combining the skill development and entrepreneurial views together in Cash Waqf model to benefit the beneficiaries by providing them skills as well as capital for starting their business through Cash Waqf.*

Methodology. *The research methodology of this paper is qualitative in nature. Extensive literature survey of relevant references relating to Cash Waqf models has been analyzed.*

Findings. *The government is not playing its due role in addressing the economic issues of poor due to poor governance and lack of priority setting and planning. Therefore Cash Waqf can bridge this gap by providing skills as well as riba free capital to deprived people for initiation toward entrepreneurship based their skills developed. This will enable beneficiaries to generate economic activities of become productive people of society.*

Keywords. *Cash Waqf, Entrepreneurship, Qard e Hasna, Skill Building*

1. Introduction

Cash *Waqf* is a concept of Islamic finance. It is a movable *Waqf* which is trust of funds made with money for supporting activities for the betterment of humanity. Cash *Waqf*, endowed and the revenue generated out of the investment of this cash is then channeled for charity (Aziz 2013). Though Cash *Waqf* existed before the Islam without any formal structure, it was adopted and developed by the Muslim rulers as institution for fulfilling the needs of various areas of economy like health, education, defense, business and commerce, poverty eradication, creating employment opportunities etc. (Ismail and Mohsin 2013).

According to Global Islamic Finance Report (2015), the Cash *Waqf* structure is use in countries which have large populations where huge numbers of people can contribute significant sums of money thorough their small amounts of contribution. Further these contributions can be invested on long term basis. The benefits of these money can be taken by developing large infrastructure projects like developing rail roads, sea ports, air ports etc. If the long term projects become successful there income generated could be used for betterment of common people and for other beneficiaries by providing them facilities like, education, health, orphanages, *Qard - e - Hasna* for personal use or for microfinance, water and sanitation etc.

In literature, there are many Cash *Waqf* models that have been proposed by various researchers (for example Kachkar, 2017; Aziz, Yusof, Johari, Ramli and Sabri, 2014; Tohirin, 2010; Sadd, Norma, Anuar and Azizah, 2009) for different purposes across

different Muslim countries. Sadd, Norma, Anuar, and Azizah (2009) have presented a model using Cash Waqf structure on Islamic Microfinance for poverty alleviation in Malaysia. Masyita, Tasrif and Telaga (2005) have devised a dynamic Cash *Waqf* model as an alternative tool for reduction of poverty in Indonesia. Aziz et al. (2014) have presented a Cash *Waqf* bank model for financing in the field of higher education. Kachkar (2017) proposed a Cash *Waqf* model on microfinance for refugees having entrepreneurial skills for starting their own businesses. Tohirin (2010) has presented Cash *Waqf* for empowerment of small businesses (SME's). These proposed Cash *Waqf* models differ from each other due to difference of opinion among the *Shariah* scholars about Cash *Waqf* (Sanusi, 2015). Further, there has not been any Cash Waqf model proposed for development of skills as well as for financing the skilled people.

Cash *Waqf* is being used by Muslim Countries around the world but it might be different from country to country. But two things are important here to mention that;

- there is difference of opinion among the Islamic *Shariah* Scholars about Cash *Waqf* (Sanusi, 2015), and
- No Cash *Waqf* Model has been introduced that combine both skill building and entrepreneurial approaches for beneficiaries.

Therefore, there is a potential that a new Cash *Waqf* Model is to be introduced that would be based on *Shariah* scholars thought and existing literature. And also if new model if combined both skill building and entrepreneurship approaches that would put good effect on the economic wellbeing of the beneficiaries and will make them self-reliant and useful individual of the society.

2. Literature Review

In literature various Cash *Waqf* models have been proposed by different authors across the world like Kachkar, 2017; Tohirin, 2010; Abdullah, 2014 or Masyita, Tasrif and Telaga (2005). Here is overview of some Cash *Waqf* models.

Kachkar (2017) presented a Cash *Waqf* model named “Cash *Waqf* Refugee Microfinance Fund (CWRMF) to raise funds and extend microfinance for refugees who got entrepreneurial skills and can do their own business and improve their wellbeing based on Shariah principles. Temporary and Perpetual concepts of Cash *Waqf*s have been introduced in this model. Participant who put their cash share on temporary basis come under the category of temporary Cash *Waqf*. The cash fund is refundable in nature and new Cash *Waqf* donors replace the old donors with appropriate promotion and marketing technique. The accumulated funds are then utilized for refugee entrepreneurs. Whereas the perpetual Cash *Waqf* is based on non-refundable donations which are invested in relatively low risk Islamic investment alternatives. The research is qualitative in nature and extensive literature survey has been done to examine the Cash *Waqf* models especially latest literature on refugees has been used. In order to secure loan takaful unit, assistance, has been introduced in this Cash *Waqf* model. This will enable the refugees to give surety for each other. Further assuring its sustainability the concept of “Reverse Fund” has been incorporated in the model. The model has got practical implications also it can be used by organizations for non-trading concerned like NGOs or INGO’s.

Tohirin (2010) has developed a Cash *Waqf* model for empowerment of small businesses. The author has presented the concept of Cash *Waqf* organization based on three steps. First the donations should be mobilized as fund raising method. Second the accumulated funds

should be used for generating income through portfolio investment. And third the benefit/income generated is to be distributed among the beneficiaries. The income distribution can be used in many ways. It can be used for charity to needy people. It can also be used for empowerment to businesses having financial troubles by contracting with them for Islamic modes of financing such as *mudharaba*, *musharaka* or *murabaha* etc, or it can be utilized for Human Investment or for infrastructure Investment. The author was of view that that Cash *Waqf* has clear potential by empowering the small business because most of small businesses are not in position to fulfill the loan criteria of formal financial institutions for obtaining funds. Small business role in economy is unquestionable as it engages a large number of labor forces by providing employment opportunities. Due to its important role Cash *Waqf* model can be best source of finance for them under Islamic financial system.

Masyita, Tasrif and Telaga (2005) devised a dynamic Cash *Waqf* model as an alternative tool for reduction of poverty in Indonesia. According to the authors, the government cannot meet the requirements of all needy because poverty alleviation needs lots of funds. Therefore looking for new venues for funds generation is very necessary. That is why Cash *Waqf* management is likely to serve as an alternative tool in reducing poverty. Cash *Waqf* is type of finance which has no cost of capital. It works in a manner that *Nadzir* (Manager of Cash *Waqf*) receives funds from different halal sources *Waqifs* (Payers of Cash *Waqf*) and invests them in Shariah based venues. The profit generated from *Waqf* is then allocated for poverty alleviation programs. *Nadzir* is bound to take care about the *Waqf* money in a manner that it does not go below its initial created amount. *Nadzir* needs to have sound knowledge and experience in handling Cash *Waqf* so that its management is done in better manner. In order to capture dynamic phenomenon of a system, system dynamics

methodology has been used in this paper. According to this method the variables are based on time movements and take values simultaneously as there is change in time. In order to examine the possible implementation of Cash *Waqf*, a survey was carried out in Jawa Barat and Jakarta.

Abdullah (2014) discussed four Cash *Waqf* Financing Models for providing financing alternatives for Halal Investment. The financing models are based on *Musharakah*, *Mudarabah*, *Murabahah*, and *Ijarah*. The main aim of this investigation was to open financing opportunities for poor of the society as many of them are unable to meet the security requirements of the conventional banks. The models work in a manner that first corporate business is financed through fund. When the fund grows through return then the deprived people of society are financed at minimal cost and through partnership. This will become the source of finance for poor to engage in entrepreneurship and as a result the economic activity is started i.e. reduction in poverty, creation of employment opportunities, and at last at macro level it will increase Gross Domestic Product (GDP) and provide other social advantages for the country.

Mahmood and Rahman (2015) presented a Cash *Waqf* Model for financing universities. The research is qualitative nature as exploratory research by finding out the means that can be used as an alternative source of funds of universities termed as *Waqf* University in the context of Malaysian and Turkish higher educational institutions. Data has been collected through interviews, library research and organization data documentation. According to authors higher education is expensive and it has hindered many students from accessing the learning opportunities of higher education. Therefore, *Waqf* university model (endowment) can be solution of this problem. If practiced in Universities, this model can share the burden

of government by increasing higher education literacy rate and strengthen the academic quality.

Aziz, Yusof, Johari, Ramli & Sabri (2014) have presented a Cash *Waqf* Bank Model for financing in the field of higher education with a unique arrangement of financing students fees, accommodation etc. The research is quantitative in nature and is done through questionnaires which were randomly distributed among the 250 Muslim students of Universities in Selangor and Negeri Sembilan. According to authors Cash *Waqf* can be a possible instrument for financing in education in future. Data are analyzed through SPSS 20. Cronbach Alpha has been used to test the reliability of the scale. The results of study are positive and students are in favor of development of Islamic *Waqf* Bank and considered it as a solution for their educational needs.

As there is not a sufficient study available in this area therefore a proper mechanism of *Waqf* financing needs to be devised by the Islamic Financial Institutions so that funds are used effectively. Education is considered important in attainment of welfare of human being, society and a nation. Therefore, a concept of Islamic *Waqf* bank for financing in education seems very appealing in this regard.

Saad, Norma and Anuar, Azizah (2009) have presented Cash *Waqf* model that can be used as a new mode of Islamic microfinance that is in accordance with the Islamic guidelines. This concept and application of Islamic microfinance has capacity to meet the requirement of the needy and bringing economic development to the muslim world. The study is based on analyzing the characteristics of the microfinance mechanism used by Malaysian Commercial Banks only. For this sample of the nine Malaysian Commercial Banks have been taken their characteristics of microfinance mechanism

were analyzed like type of loans, their size, targeted customers, sector of economy, eligible customers and required documents.

Further the authors have highlighted the limitations that the microfinance practiced by Malaysian banks like tough credit analysis process and neglecting the real poor who need these finances. Loans are focused on individual needs rather on development purposes. In order to overcome mentioned weaknesses the authors proposed Cash *Waqf* model. Therefore the author has proposed *muḍārabah*, *murābahah*, *qarḍ al-ḥasan* and *tawarruq* based modes of financing as alternate to conventional micro financing offered by commercial banks. This will enable poor to get financial assistance in Islamic way.

Hosseini, Salari & Abadi (2014), have presented a Cash *Waqf* model for examining the impact of Cash *Waqf* on poverty alleviation as a case study of Iran. The research methodology which is used survey-analysis depending upon covariance matrix analysis by utilizing SEM (structural equations modeling). Data has been gathered through questionnaire from 110 economic experts, religious experts, professors, and administrative experts in Mashhad city, Iran. Snow ball sampling technique has been used with analysis tools like AMOS v.20 and SPSS v.19. As per their findings the Cash *Waqf* is a good mean of investment especially for Islamic contracts. Eventually this will boost investment in the country. If the returns from this investment are properly used for poverty reduction this will be very helpful in eradicating this evil from Islamic society.

Salarzahi, Armesh and Nikbin (2010) presented a model on social entrepreneurship in Islam. The authors have discussed on the importance of *Waqf* used in development sector. It has been observed from the experience of Islamic countries that *Waqf* distributes the wealth in society in better manner which enables the needy to access development opportunities. As

government has limited resources to meet the requirements of vulnerable, the *Waqf* can be proved to encourage entrepreneurship and profits generated can be used for eradication of poverty and for social welfare of needy. The role of NGOs will be crucial in this regard. Practice of patronage charities and Ehsan are discussed this paper. Further, critical descriptive and analytical approach has also been used for elaborating Islamic, invulnerable social entrepreneurship model.

All of mentioned authors have developed their models of Cash *Waqf* with great effort which have the important implications in the field. But none of them have focused on skill building of the beneficiaries. There are needy people who have capacity of becoming skillful through training. And same can establish their business based on their skills developed.

3. Proposed Cash Waqf Model

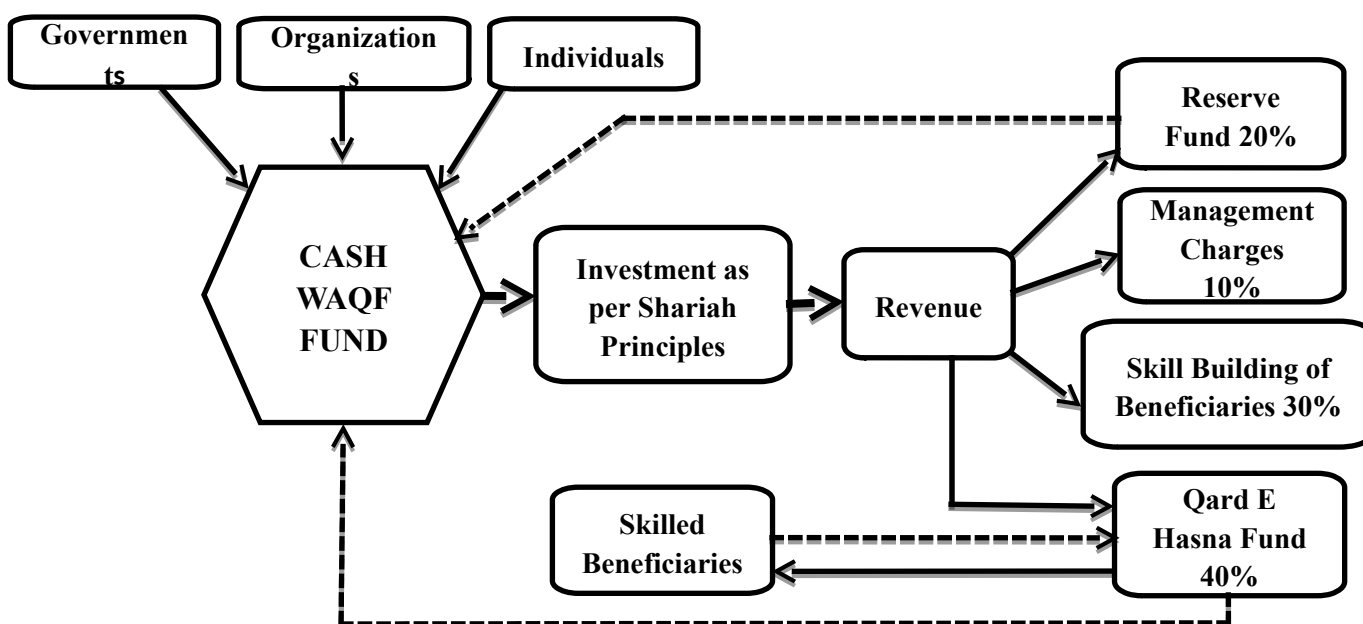


Figure: Proposed Cash *Waqf* Model Structure and Operations:

The proposed *Cash Waqf* Model works in a manner that first funds are collected from different donors like Individuals, Institutions and Government. The donors are fully aware about the venue of their funds being utilized. Through collected funds *Cash Waqf* is created. After creation of *Cash Waqf* fund, it is invested in businesses according to Shariah. The business options can be like *Mudabah and other low risk Islamic venues of investment*. The revenue generated can be utilized in the following ways.

First, 20% of revenue is accumulated in **Reserve Fund** with aim to meet the deficiency of *Cash Waqf* fund and also it is to be used as safe guard in the time of emergencies. Second, 10 % of revenue is used for **Management Charges** for managing the affairs of *Cash Waqf* fund by paying its expenses like salary of personnel (*Waqif / Trustee*) and other applicable expenses. Third, 30% of revenue is allocated for **Skill Building of Beneficiaries** through some technical training or vocational training institute by paying the fee and purchasing the any tool kit required for the training. The institute can be private or Government. Beneficiaries are those people who are deprived in society. These can be baggers, widows, orphans, refugees, unemployed poor youth, etc. Here skill means that some adroitness which make the beneficiary able to start his/her own business. The skills can be like: Tailoring (both for male or female), Plumbing, Home Electronic Appliances repairing, Electrician, Mobile / Computer repairing, Auto repairing, Hairstyling or Beautification, Handicraft skill development, etc. At last fourth stage the 40% of revenue is allocated for provision of ***Qard-e-Hasna*** to skilled beneficiaries. When the beneficiary

becomes trained in his or her field then he/she is provided financing in the form of *Qard-e-Hasna* for establishing his/her own business based on his/her developed skills. This financing will be free of any charge with condition that the beneficiary will return the amount of *Qard-e-Hasna* when his or her business starts giving returns. This will enable the beneficiaries to become productive member of the society as well as become a cause of economic development in the country.

4. Research Methodology

The research methodology of this study is qualitative in nature. The researcher analyzed extensive literature relevant to Cash *Waqf* models. Based on the thorough analysis of Cash *Waqf* models in literature, the researchers proposed a new Cash *Waqf* model which will be utilized for skill development of needy people Quetta city. According to this model, the beneficiaries will also be provided financial assistance in the form of *Qard-e-Hasana* to start their own businesses after getting skills.

5. Conclusion

In this study we as researchers had an objective of critically analyzing the different *Cash Waqf* models proposed by different researchers. Therefore the features of different models

were examined in detail. We analyzed their applicability and their role in the betterment of beneficiaries. Our study found some shortcomings in the models proposed by different researchers in this regard. We found that most of the models had suggested direct assistance to needy in form of money. They had neglected the skill building and empowering of beneficiaries for becoming productive citizen of society.

Given these weaknesses, our study proposed the new concept of combining skill building with empowering of beneficiaries in new *Cash Waqf* model. Therefore, the investment of *Cash Waqf* fund in Islamic venues for income generation had been suggested. The income generated from these investments can be utilized for developing the skills of needy as well as for providing them *Qard-e-Hasna* for starting their own businesses. The perpetuity of original *Cash Waqf* fund had been kept intact. At last it can be concluded that *Cash Waqf* can effectively be used for developing the skills of needy and empowering them for initiating toward economic activity by starting their own businesses based on their skills. As a result the beneficiaries become productive member of the society as well as become a cause of economic development in the country.

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