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An Analytical Study of Relationships and Impacts between Waqf and Islamic Finance

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Abstract:

This study explores the reciprocal relationship between waqf institutions and contemporary Islamic financial institutions, focusing on their mutual influences and interactions. It highlights the developmental nature of waqf funds in terms of finance, investment, and profit distribution, and examines the reciprocal impact between waqf and various types of Islamic financial institutions. Using an inductive approach to gather information from relevant sources, the study addresses its research problem. Key findings include the developmental role of waqf and waqf institutions, and the relationship between waqf institutions and governmental sector institutions, Islamic banks, zakat institutions, capital markets, the private sector, families and individuals.

Keywords: Waqf Institution; Islamic Financial Institutions; Islamic Banks; Zakat Institution; Islamic Financial Markets.

1. Introduction

Waqf, in its financial context, is among the charitable donations emphasized and encouraged by Sharia law. These donations can include land, real estate, movable assets, animals, cash, or benefits and services. The essence of a waqf donation revolves around a Muslim contributing from their private wealth, ensuring the principal remains intact while the benefits are donated to those specified by the waqif (donor) in the waqf document.

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Initially, waqfs were simple, consisting of farms, trees, wells, and lands designated for essential needs such as mosques, housing, food, drink, and burial sites. As time progressed, Muslims began dedicating waqfs for education, health, and military needs. With the expansion of the Islamic state, waqf assets and their returns grew, prompting rulers to transition waqf management from local administration to independent judicial management. Over time, waqf evolved into an independent institution, comparable to other Islamic financial institutions of the state, with its own system, specialized managers, and workers focused on organizing, protecting, growing, and distributing the benefits of waqf funds to those eligible.

In our era, the development and proliferation of Islamic financial institutions (whether governmental, private, or charitable, including waqf institutions) have led to increasingly complex and interconnected relationships. This interconnectedness has highlighted the efficiency and effectiveness of stakeholders in serving the public good and civil society. Modern communication tools, remote interactions, and the automation of operations, such as fundraising and benefit distribution, have facilitated this process. Innovation has been emphasized through the engineering of charitable financial instruments and the design of waqf programs, enhancing cooperation and linking stakeholders to serve individuals and families in need.

- **Research problem:**

Given the aforementioned context, the central question of this paper is: To what extent has the waqf institution become interconnected and interactive with its counterparts among contemporary Islamic financial institutions, and what are the mutual influential relationships between them?

- **Study importance:**

This study derives its importance from shedding light on the dynamic relationships between the waqf institution and Islamic financial institutions, and their mutual influences. These relationships are crucial for the comprehensive development of the Islamic financial sector. Understanding these interactions can lead to more effective integration of the waqf institution with the Islamic financial industry, elevating practices and promoting diligent efforts to serve the public good. This helps create added value with a positive impact on enhancing financial innovation, investment efficiency, and the sustainability of economic resources based on contemporary, robust Islamic principles.

- **Study objectives:**

Every academic study is based on a rigorous scientific methodology, among the most important elements of which is understanding the researcher's objectives, which

they aim to achieve and seek to reach to determine the effectiveness of their research. Therefore, this academic paper revolves around several key objectives:

- A historical overview of the contributions of Islamic finance and its institutions to contemporary civilization.
- Clarifying the importance of institutionalizing the management of Islamic finance and transforming it into effective, organized, goal-oriented institutions.
- A brief analysis of the current state and international status of the Islamic financial industry.
- Highlighting the developmental nature of waqf and its overall relationship with development.
- Demonstrating the aspects of mutual interaction between the waqf institution and contemporary Islamic financial industry institutions.

- **Methodology:**

Undoubtedly, research methodologies vary depending on the nature and purpose of the research. Since methodologies are the means and tools to achieve research objectives, this paper employs an inductive approach by surveying books and texts and tracking relevant sites related to the topic to find a realistic and scientific answer to the research problem. Therefore, it relies on descriptive and analytical tools appropriate for such academic papers. The descriptive method is used to describe and clarify definitions, real facts, and historical accounts. The analytical method is employed when analyzing the current state of contemporary Islamic financial institutions, examining the development of waqfs, and uncovering the relationship between the waqf institution and other Islamic financial institutions, aiming to highlight the aspects of mutual interaction between the waqf institution and other institutions operating within an Islamic environment that respects modernity and contemporary influences.

- **Literature review:**

The studies that align with our present research varied from theoretical to applied approaches. Among the most significant of these studies, we note the following:

1. Saʿid Adekunle Mikail, Fares Djafri, Mahadi Ahmad (2024). "**Waqf and microfinance integration for enabling sustainable financial inclusion: analysis of sharīʿah compliance**". International Journal of Islamic Finance and Sustainable Development, Volume 16, Number 3, 43-66.

This study explores integrating waqf with Islamic microfinance to reconcile the tension between financial sustainability and social outreach within Sharīʿah-compliant frameworks. Using qualitative methodology, it examines how waqf's endowment structure can support microfinance institutions without sacrificing

their social mission for profitability. The research contributes to Islamic finance literature by proposing a conceptual model that addresses sustainability challenges while maintaining adherence to Islamic principles. The research finds some historical antecedents to evidence the inherent social mission of waqf which, if integrated with microfinance, ensures the sustainability of Islamic MFIs. This affirms that outreach and sustainability may not be mutually exclusive under waqf and Islamic microfinance integration.

2. Khalifa M A Hassanain (2015). "**Integrating zakah, awqaf and islamic microfinance for poverty alleviation: three models of islamic micro finance IRTI**". Islamic Research and Training Institute, Islamic Economics and Finance Research Division .

This research aims to present theoretical proposals for an institutional structure within Islamic microfinance by comparing traditional and Islamic microfinance institutions, while highlighting pioneering traditional models that have paved the way for Islamic microfinance development. The study reviews literature on microfinance models that simultaneously address multiple aspects of poverty through integrating waqf and zakat principles, examining three main models: Islamic microfinance institutions based on waqf, a model dependent on zakat and awqaf, and an integrated model combining both mechanisms. Within Islamic finance, zakat and waqf are viewed as optimal tools for assisting poor individuals requiring financing, making them effective means for poverty reduction. The research concludes with recommendations for integrating these microfinance models within comprehensive economic policies to enhance their role in achieving economic and social development.

3. Mohamed Aslam Haneef, Ataul Huq Pramanik, Mustafa Omar Mohammed, Md. Fouad Bin Amin, Aliyu Dahiru Muhammad (2015). "**Integration of waqf-Islamic microfinance model for poverty reduction: The case of Bangladesh**". International Journal of Islamic and Middle Eastern Finance and Management.

This paper aims to develop an integrated waqf-based Islamic microfinance (IsMF) for poverty reduction in Bangladesh, Islamic MFIs have recently evolved with the hope of overcoming these financial, ethical and human capital deficiencies faced by the conventional financial institutions. The research uses survey techniques. A total of 381 respondents were included in the survey. The integrated waqf-based Islamic microfinance model (IWIMM) was earlier on developed using literature and intellectual discussions. The results show that there are significant relationships between IsMF and takaful, waqf resources and human resource development, takaful and human resource development, IsMF and human resource development and, waqf resources and project financing. The results also

indicate that poverty alleviation is possible through the integration of these constructs.

4. Habib Ahmed (2007). "**Waqf-based microfinance: realizing the social role of islamic finance**". International Seminar on Integrating Awqaf in the Islamic Financial Sector Singapore, March 6-7, 2007.

This study investigates the integration of waqf with Islamic microfinance as a solution to the challenge of balancing financial sustainability with social responsibility. Using qualitative research methods, the paper examines historical precedents and Sharīʿah compliance requirements that support this integration model. The research counters the prevailing industry notion that social missions must be sacrificed for profitability, demonstrating that waqf's inherent social orientation can ensure sustainability of Islamic microfinance institutions. The findings suggest that outreach to marginalized populations and financial sustainability need not be mutually exclusive when waqf principles are applied to microfinance operations. This work contributes to Islamic finance literature by providing a framework for socially-oriented financial instruments that maintain both Sharīʿah compliance and operational viability.

- **Divisions and structure study:**

This research paper is founded on three main themes, which constitute the core of this study, with subdivisions as required by the topic:

1. Islamic Finance: A historical overview and examination of the contemporary reality.
2. Aspects of the integrative relationship between waqf and developmental Islamic financial institutions.
3. Exploring the mutual influence relationship between waqf and Islamic financial institutions.

2. Islamic Finance: A historical overview and examination of the contemporary reality

Islamic finance is a component of the Islamic financial system, which is part of the broader Islamic system. This comprehensive system encompasses various sub-systems including the doctrinal, legislative, financial, commercial, political, governance, and social systems, all governed and regulated by Islamic Sharia principles and its rational, logical teachings.

2.1. The Meaning of the Term "Islamic Finance" and a Historical Review of Its Contributions:

At the outset of such discussions, it is essential to present a clear definition to dispel any ambiguity surrounding the term. This will enable the reader to understand the true essence of what this research aims to elucidate.

2.1.1. Definition and Terminology:

The term "Islamic Finance" is a compound of two words, allowing for its definition from two perspectives: as a linguistic composition and as a scientific term.

"Mal" (wealth) in Arabic linguistically means "everything owned," while in Islamic terminology, it refers to "what can be possessed and utilized." This excludes what cannot be legally owned or utilized according to Sharia.

The term "Islamic" implies adherence to Islamic teachings, regulations, and rulings.

Rafiq Yunus Al-Misri defines wealth in his book "Fiqh of Financial Transactions" as:[1] "What has material value among people and is legally permissible to use in normal circumstances, not in dire necessity."

Wealth includes various categories: real estate, movables, usufructs, fungible and non-fungible goods, currency, commodities, personal and commercial property, and usurious and non-usurious wealth.

Islamic Finance as a scientific term can be defined as: "Any current or deferred financial transaction or practice, adhering to Islamic Sharia rules and regulations," regardless of the participant's religion.

Islamic Finance encompasses wealth and related elements, relationships, transactions, products, procedures, and ideas within the Islamic financial system.

It includes public finance, private finance, and charitable finance, each addressing different aspects of financial activities within an Islamic framework.

Islamic financial institutions, which are the focus of this research, are classified into three categories based on their nature: public, private, and charitable institutions. The first category includes entities such as the Bayt al-Mal (Muslim treasury), public treasury, insurance companies, banks, capital markets, and investment funds. The second category comprises private banks, insurance companies, investment funds, and benevolent loans. The third category encompasses charitable associations, zakat institutions or funds, waqf institutions or funds, non-governmental organizations, relief organizations, and others.

2.1.2. A Historical Perspective on the Contributions of Islamic Finance to Contemporary Civilization:

It is a fact that Muslims were pioneers in the field of Islamic finance, excelling remarkably in this and other fields. This space does not allow for an extensive listing and detailed explanation of their achievements. However, to briefly highlight the Muslims' contributions, precedence, and excellence, I mention: medicine, philosophy (theology), logic, history, geography, mathematics (both algebra and geometry), physics (including mechanics or the science of machines), optics, kinetics, chemistry, astronomy (and its instruments), agricultural, botanical, and zoological sciences, along

[1] Expansion refers to: Rafiq Younes Al-Masri, Fiqh of Financial Transactions, p. 39.

with linguistic sciences such as grammar, morphology, rhetoric, literary and scientific poetry collections, encyclopedic works like dictionaries and lexicons, and more.

History, and indeed the testimony of fair-minded Westerners themselves, bears witness to the profound impact of Islamic jurisprudence, particularly the Maliki school, on European legislations, especially French law. The French historian Gustave Le Bon noted in his book "The Civilization of the Arabs" that the famous French general Napoleon Bonaparte, upon returning to France from Egypt in 1801, took with him a jurisprudential book explaining the Maliki school titled "Al-Dardir's Commentary on the Mukhtasar of Khalil." This Maliki jurisprudence was the first Islamic jurisprudence to accompany the Europeans. Le Bon stated that Bonaparte used this jurisprudential book as a basis for the French legal system, which significantly contributed to Europe's renaissance, particularly in the area of judgments, contracts, and obligations. Thus, Islamic jurisprudence, especially the Maliki school, had a significant impact on French legislation, particularly the civil code known as the Napoleonic Code. This code influenced administrative, commercial, and agricultural laws, individual relationships, citizen-government relations, and international relations, becoming the foundation of all modern Western European laws.[1]

In the same context, the English historian H.G. Wells in his book "The Outline of History" remarked, "Europe is indebted to Islam for the greater part of its laws of administration and commerce." The prominent jurist Henry de Bracton said, "Islamic jurisprudence is so vast that I am astonished that you have not derived systems and rulings from it suitable for your time and country." Edmund Burke stated, "The Muhammadan law is binding for all, from the king to the lowest subject, and this law is woven with the most precise legal system. Islamic Sharia is the greatest just legislation that the world has ever seen, and no system like it has ever existed nor will exist in the future." The Austrian Orientalist Alfred von Kremer, the former consul of Austria in Egypt and Beirut (1889–1928), highlighted the superiority of Islamic jurisprudence from a legal perspective, saying, "Islamic jurisprudence is the greatest legal work in world history, surpassing Roman law and Hammurabi's Code, due to its divine wisdom and enormous logical structure. However, jurisprudence did not record the Sharia in fixed legal articles to avoid rigidity and the need for change; instead, it kept general principles and rulings, making it applicable to all people at all times and places."[2]

[1] Ahmed Abada, Lectures on Comparative Legal Systems, p. 62.

[2] Abdul Mutal Muhammad Jaber, Islamic Civilization and Culture in the Pens of Christian Philosophy, p. 21.

I have mentioned this to illustrate the precedence of Islamic civilization, its jurists, thinkers, and scholars in producing essential intellectual works, purposeful knowledge inventions, and profound scientific writings across various legislative, rational, experimental, human sciences, and fields of life and civilization upon which countries and cities are built. This includes the field of finance or Islamic finance, as evidenced by the testimonies of Westerners and Orientalists.

2.2. Institutionalization of the Contemporary Islamic Financial Industry:

Research into the first financial institution within the Islamic financial system leads to the conclusion that Bayt al-Mal (the Treasury) is the earliest and most suitable entity that can be described as a financial institution, characterized by organization, record-keeping, accounting, and auditing. According to contemporary standards, Bayt al-Mal was considered a public financial entity with revenues, expenditures, and management, including workers, accountants, and a spender (the Prophet, peace be upon him), and executors (the Companions, may Allah be pleased with them).

In the early Islamic state, although resources were scarce, there was still organization, with revenues coming in and expenditures going out, according to flexible, realistic, and fair prophetic standards. Some contemporary scholars suggest that the birth of Bayt al-Mal dates back to Gazouat Badr, after Muslims acquired significant spoils distributed according to divine revelation to the Prophet (peace be upon him). The Prophet's Mosque served as the repository for state funds, including spoils, alms, and fay', until their lawful distribution .

During the early Islamic state, all revenues received by the Prophet (peace be upon him) were distributed on the same day to meet public interests and the people's need for cash and goods. The Prophet employed individuals to count people, estimate palm trees, record alms, debts, and transactions, indicating the prevalence of record-keeping and accounting during his time.

Thus, the Prophet (peace be upon him) laid the foundations and principles of state institutions serving the public interest, enacting their regulations and guiding their directions. His Companions (may Allah be pleased with them) followed suit, adding what necessity and interest required. For instance, Abu Bakr (may Allah be pleased with him) designated a specific place for Bayt al-Mal due to increased revenues and expenditures. After him, Umar ibn al-Khattab (may Allah be pleased with him) further organized Bayt al-Mal, linking the diwans (bureaus) to it and establishing branches across the expanding Islamic territories, especially with the increased conquests and financial flows .

Bayt al-Mal was not the only organized institution managed prudently and realistically; there were many other diwans, such as the Diwan al-Jund (Army

Bureau), Diwan al-Rasa'il (Correspondence Bureau), Diwan al-Kharaj (Land Tax Bureau), Diwan al-Zakat (Alms Bureau), and Diwan al-Awqaf (Endowments Bureau).

Regarding Islamic banking, the first idea and the original seed for its institutionalization according to Islamic principles came from the Algerian scholar Sheikh Ibrahim Isa Hamdi Abu al-Yaqzan. He called for the establishment of an Algerian bank based on Islamic frameworks named "The Algerian Islamic Bank," as published in an article in the Wadi Mzab newspaper on June 29, 1928, during the French colonization. This idea was well-received, and by 1929, the Sheikh began preparations to establish the bank, drafting its bylaws and collecting capital from wealthy individuals and major businessmen in Algiers. However, the French colonizer rejected the idea and thwarted the project in its early days .

Nevertheless, success finds a way despite obstacles. In a study published in the Journal of Economic Sciences and Management, researcher Hamza Chouddar mentioned that from the 1960s onwards, the idea of interest-free banks began to crystallize again in the Islamic world. This idea was realized with Dr. Ahmad al-Najjar's establishment of "local savings banks" in the Dakahlia Governorate of Egypt in 1963, aiming to encourage individuals to contribute to capital formation used to finance projects, distributing returns to contributors based on profit and loss sharing. This was followed by the establishment of Nasser Social Bank in 1971, operating on the principle of non-interest transactions, marking a significant contemporary beginning for a new, distinct Islamic banking system.

Researcher Hamza Chouddar added that with the growing trend towards establishing non-usurious banking institutions, the influence extended from the private sector to the public sector, reaching the level of Islamic governments. These governments translated this influence into the decision to establish an international bank operating according to Islamic financial principles. This materialized in 1975 with the signing of the agreement to establish the Islamic Development Bank under the Organization of the Islamic Conference. The bank's charter explicitly stated adherence to Islamic Sharia principles in its first article: "The purpose of the Islamic Development Bank is to foster economic development and social progress of member countries and Muslim communities individually and collectively by the principles of Sharia".

In the same year, a private Islamic bank, the Dubai Islamic Bank, was established. Islamic finance then took on a new dimension with its focus on the insurance industry, leading to the establishment of the first model of Takaful (Islamic insurance) in Sudan's Islamic Insurance Company in 1979. Subsequently, numerous Islamic banks and financial institutions were established, marking significant milestones in the development of the Islamic financial industry.

2.3. Examination of the Current State of the Islamic Financial Industry and Its current International Position:

There is no disagreement that the inception of Islamic finance coincided with the emergence of Islam itself, as it represents the divine law and the law of the prophets since our Prophet Adam, peace be upon him. This implies that Islamic finance has been known in its fundamental and legislative form since the first divine message on this earth, regulating and elucidating simple financial transactions such as sales, exchanges, donations, and loans, among others. However, the comprehensive and complete formulation of the Sharia and its rulings was not realized until the advent of the final, pure, and complete Muhammadan Sharia. It is in our contemporary times that the organization, systematization, and institutionalization of Islamic finance have taken shape, as will be evident in the sections discussing the institutionalization of modern Islamic finance .

According to the 2022 State of the Global Islamic Economy Report, the value of Islamic finance assets reached USD 3.6 trillion in 2021. This is expected to grow by 8.0% in 2022 and reach USD 4.9 trillion by 2025, with a compound annual growth rate of 7.9% over four years.

In practical terms, the report indicated a rise in Islamic finance activities, noting that the number of Islamic finance-related deals increased from 38 deals worth USD 4.9 billion in 2019/20 to 57 deals worth USD 17 billion in 2020/21. This represents a 246% year-on-year increase in deal value, with Indonesia leading with a total of 12 deals, followed by Saudi Arabia with 9 deals, and Egypt with 6 deals, all within the Islamic financial industry.

A recent development in the contemporary scene is the introduction of the Islamic Finance Development Indicators (IFDI), a weighted composite index measuring the overall development of the Islamic finance industry. The data is comprehensively gathered from a set of 135 countries and measured across more than 10 key metrics, including knowledge, governance, corporate social responsibility, and awareness.

The Refinitiv Islamic Finance Database provides participants in the Islamic finance markets with :

- Over 9 years of Islamic finance industry data.
- Financial data on more than 520 Islamic banks.
- Takaful insurance operators' data for over 320 companies.
- Sukuk issuance data for more than 12,000 sukuk from 24 countries and in over 12 structures.
- Islamic funds data for more than 1,700 funds from 32 countries.
- Data on Sharia scholars and their representation on boards.

- Information on providers of education in Islamic finance.
- Information on Islamic finance events.

3. Aspects of the integrative relationship between waqf and developmental Islamic financial institutions

As the waqf institutions grew materially through increased revenues, expanded activities, and broader benefits, and morally through increased desire for, support of, and engagement with waqf, they became independent entities in the form of bodies, bureaus, directorates, or ministries. With this transformation, their responsibilities expanded, their relationships broadened, and their influence deepened, making their voice and impact significant when needed or during times of prosperity and stability.

We will clarify the highlight the manifestations of the complementary relationship between waqf and development institutions, focusing on the developmental nature of waqf and its relationship with developmental activities and institutions.

Although the primary intent of waqf is worship, it can also aim at its developmental impacts, considering it as an economic resource: directly and indirectly, economically and socially, individually and collectively. Thus, waqf has been and continues to be a crucial support for society and a fundamental pillar of local and national development. Moreover, mutual cooperation between economic institutions and waqf can expand, given the ongoing need for collaboration between the two parties through shared goals and mutual activities that collectively serve the interests of community members.

Hence, we aim to elucidate the relationship between waqf and development, and the nature of their relationship, along with mentioning some aspects of integration between waqf and development entities.

3.1. Highlighting the Developmental Nature of Waqf:

The waqif (endower), when offering a waqf to the waqf institution, seeks to gain the promised reward from Allah and His Messenger (peace be upon him) for charitable waqf deeds, contributing to the benefit of those in need, whether in religious, educational, health aspects, or public utilities such as wells, roads, cemeteries, hospitals, and schools. Undoubtedly, some waqf funds require investment and care, such as fruitful trees and agricultural lands, to spend on the beneficiaries. This investment and care signify the developmental nature of waqf. If the waqf consists of money, the matter is clear through its investment and efforts to generate profits for distribution to the deserving.

In contemporary times, waqf has emerged as an essential source of funding, with cash waqf becoming one of the most prominent types of waqf. Accumulating capital has become easier with some effort and motivation. The financing process itself is a

manifestation of financial development and the inclusive charitable nature of waqf among individuals and institutions, especially with the availability of electronic financing from the accounts of remote waqifs. After gathering these assets, they are undoubtedly directed towards productive fields under an investment formula to optimally utilize them, and then the net profits are distributed to the deserving according to the waqif's conditions and directives.

All of this occurs under the watchful eyes of government bodies, the private sector, the third sector, and individuals in general, allowing for the attraction and expansion of the base of contributors and partners with the waqf sector. Some endow to the waqf institution, others invest with it, and some benefit from it, and so forth.

One might ask, "Explain this relationship you are referring to, how does it manifest? Does it originate from developmental institutions towards waqf, meaning do developmental institutions affect the waqf and waqf institutions, or is it the other way around where waqf, waqf funds, and waqf institutions influence developmental institutions?" The answer will be detailed in the following paragraphs.

3.2. The Overall Relationship between Waqf and Development: Activities and Institutions:

The integration between waqf funds and developmental aspects on one hand, and between waqf institutions and developmental institutions on the other, provides a clear model of social and economic synergy aimed at achieving positive and commendable development and change among individuals and institutions in the country. This integration manifests in two distinct directions, reflecting the reciprocal impact and dynamic relationship between these two vital entities.

In the first direction, the impact of waqf on development is evident across its various dimensions and levels, albeit sometimes relatively small. The essence of waqf, derived from the spirit of Islamic Sharia, which encourages solidarity and compassion, prioritizes the needs of individuals and families for necessities and basic life requirements. Waqf directs its resources towards the immediate surroundings, thereby enhancing the social and economic fabric and building stronger, deeper, and more trustworthy relationships.

There is no doubt that the contemporary waqf institution, whether it is an independent body, bureau, or government entity (as seen in ministries of waqf), maintains relationships with its counterparts and peers, allowing it to collect and invest funds and benefit from them by distributing profits to serve the goals of social service organizations. For example, if a waqf institution needs funding to build a primary school in a remote area, it can gather waqf capital from wealthy and ordinary individuals and private institutions (as part of social responsibility). This capital can be invested for a specific period. During this investment phase, the institution may enter

into a partnership or Mudarabah contract with a financial entity such as a financial market, Islamic bank, commercial or industrial, or agricultural institution to achieve profit and build the desired school. Once the profit is sufficient for construction, the school is built or handed over to the Ministry of Education. The capital remains invested to cover the school's ongoing needs, such as teacher salaries and operational expenses.

Consider the number of institutions involved in this simple example. If we delve deeper, we could highlight other institutions such as tax authorities, brokers, commercial entities, marketing agencies, industrial contractors, and more.

On the other hand, waqf financing and subsequent waqf investment are two fundamental pillars for establishing direct or indirect projects with significant economic or social impacts, such as schools, healthcare facilities, cultural and commercial centers, and roads. These projects directly contribute to improving the living standards of the population, enhancing development, and raising the quality of life for individuals in their country.

Let us move to the second direction, which involves the impact of development on the waqf system, its finances, products, effects, and relationships. When local populations achieve a decent living standard that allows them to finance waqf and contribute to the charitable construction of communities, this leads to an enhancement of waqf assets and an increase in the number of donors from charitable associations, commercial, agricultural, industrial, and governmental institutions. Consequently, there is an expansion in waqf assets and an increase in charitable funds supporting social services and fulfilling essential needs with positive and commendable effects. It is also important to note that the presence of local dynamism and economic, social, and cultural activity strongly incentivizes the increase of waqf and its services, creating new and innovative fields for waqf work and charitable construction.

It is noteworthy that improving living standards and rising individual incomes directly lead to the growth of waqf funds. Conversely, income is one of the most significant variables influencing the developmental process. This improvement in living standards opens the door for the emergence of new waqifs if conditions of interest, motivation, desire, perceived need, and the presence of a gap that needs to be filled by waqf are met. This dynamic strengthens the (Waqf-Development) duality in society, establishing a reciprocal, expanding, and continuous relationship.

4. Aspects of the integrative relationship between waqf and developmental Islamic financial institutions

Islamic financial institutions are numerous and diverse in their sectors. Consequently, their relationships, interactions, and impacts are varied. From this perspective, I will highlight the benefits the waqf institution receives from Islamic

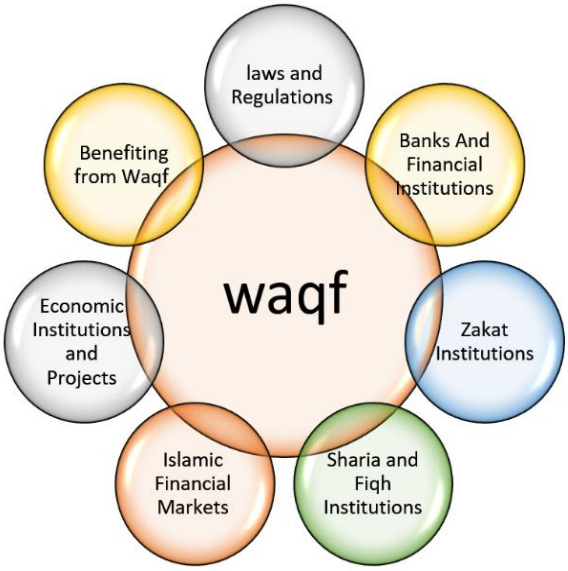
financial entities and what it provides in return. Furthermore, I will explore what the waqf institution gains from and grants to other entities, emphasizing the main aspects of this exchange as much as possible. My focus will be on identifying the key elements and relationships to facilitate understanding and accessibility.

Waqf and waqf institutions are not isolated from this interaction and influence. Therefore, in the following section, I will aim to clarify the key relationships between waqf and Islamic finance. I will identify the entities involved and the nature of their bidirectional relationships. I do not claim to cover all aspects and entities, nor all effects and relationships. Rather, this is a modest attempt that I hope will be accepted and expanded upon further.

It is well known that the waqif (donor) can be an individual or an institutional entity (public, private, or charitable), and that the waqf process goes through various stages and steps. The types of waqf assets and their investment forms vary accordingly. Given this, Islamic finance allows various active institutions in its field to either receive waqf funds or act as waqifs themselves, whether they are governments, banks, insurance companies, profit-oriented industrial, agricultural, educational, or health institutions, among others. These are well-established facts, and what is well-known requires no proof.

The following figure shows the overall actors and interactions with the waqf institution, including Islamic financial institutions, entities, and individuals

Fig.1. Conceptual Diagram of the Relationship between the Waqf Institution and Islamic Financial Institutions



Source: Prepared by the researchers

The accompanying figure summarizes the main entities, elements, and institutions active in Islamic finance and their respective fields, which are affected by and affect

waqf and its institutions. It highlights the interactions and exchanges between them and their components.

Thus, if it is confirmed that waqf is linked to Islamic finance and vice versa, it is evident to anyone with sound reasoning and clear understanding that there are connecting bonds and ties. These bonds and links, which can be considered shared and extended, include aspects such as Sharia, law, customs (i.e., traditions), history, geography, and administration. Remarkably, these links influence and are influenced by each other, creating a complex web of relationships between institutions and parties, constants and variables, spreading and intertwining.

To begin with, waqf must be based on a set of juridical rulings and fundamental Sharia principles, from which it cannot deviate according to any school of thought. It is well-known that most rulings concerning waqf are subject to ijtihad (independent juristic reasoning), allowing flexibility as long as it aligns with the principles and rules of the respective school of thought. Notably, the Maliki school is the most comprehensive, flexible, and perceptive among these schools. They were pioneers in permitting the waqf of money and usufructs, accepting temporary waqf, and allowing the endower to retract the waqf if stipulated. This flexibility is significant in contemporary institutions and entities, adhering to principles such as "Wherever the benefit is, there lies the law of Allah", and "There is no liability on the benefactors," and "The default in customs is permissibility."

Conversely, waqf and its associated institutions, researchers, specialists, and practitioners contribute to enriching juridical rulings. They derive and infer rulings from texts and consensus, compile, arrange, summarize, and explain them, making them more accessible. This is particularly evident in contemporary issues and new developments in waqf transactions, such as the waqf of electronic money or the trading of waqf certificates.

The same can be said for laws and regulations. Waqf enriches the legal system, research, literature, and knowledge that benefit both domestic and international contexts. In return, it interacts with general laws, legislative texts, practical regulations, and framework guidelines, aiding waqf institutions in attracting, managing, and developing waqf assets—especially new ones—while handling various relationships with stakeholders.

4. 1. The relationship between waqf institutions and public sector institutions:

There is interaction between waqf and government entities, as seen in our contemporary era. The government often manages and operates waqf assets through ministries of awqaf and public waqf authorities, granting them financial and administrative independence to oversee management, maintenance, protection,

investment, accounting, oversight, and other aspects of modern, prudent administration of waqf assets. On the other hand, waqf contributes to the establishment of governmental entities, including their departments, employees, and tangible and intangible resources, ensuring proper management and addressing any issues.

Moreover, waqf significantly supports the state budget, either by reducing public expenditures or increasing public revenues, directly or indirectly. Examples of this are numerous and well-documented.

The evidence for this is that the majority of state governments have managed waqf properties through their central ministries, directorates, or subsidiary departments across their national territories. Our ministry in Algeria, with its waqf directorates across the national territory, serves as an example of this. The same applies to other Islamic countries, some of which still have their Ministries of Awqaf managing the waqf, like Morocco, Tunisia, Jordan, and Bahrain, while in others, the waqf is managed by independent public bodies both financially and administratively, such as in Sudan, Libya, Yemen, Egypt, Malaysia, Saudi Arabia, Kuwait, and the UAE. Moreover, these ministries or bodies maintain relationships with public institutions closely related to the waqf, such as healthcare institutions if the waqf is health-related, educational institutions if the waqf is education-related, or agricultural institutions if the waqf is agriculture-related, and so forth.

4. 2. The Relationship Between Waqf Institutions and Zakat Institutions:

Regarding zakat institutions, the Maliki school holds that the original waqf asset remains under the ownership of the endower, whether temporarily or permanently. Therefore, they believe that the waqf asset should be included in the endower's zakat calculation as long as the conditions are met, regardless of whether the asset is intended for lending or investment. The zakat is paid by the endower or the waqf administrator, such as the waqf institution, acting as an agent. This shows that waqf contributes to zakat resources, enhancing the funds available for zakat distribution and supporting the activities of zakat institutions through legal and Sharia-based connections.

Conversely, zakat institutions also contribute to waqf, as the beneficiaries of waqf may belong to the eight categories eligible for zakat, thus being entitled to zakat rather than waqf. This eligibility for zakat might exclude them from waqf benefits, allowing the waqf yield to be distributed to others, thereby expanding the reach of waqf benefits to new individuals.

One significant contemporary contribution of zakat that requires further theoretical and practical exploration is the use of zakat funds through the category of debtors. This applies to individuals who are unable to repay loans taken from waqf institutions

dedicated to lending (not investment). If they meet the Sharia conditions, such as being unable to repay despite efforts and having borrowed for necessity rather than sin or luxuries, this represents a critical aspect of the synergy between waqf and zakat institutions in Islamic finance.

Considering the functioning of the Islamic Ministries of Awqaf, you will find that they often combine the management of awqaf and zakat within a single ministry. This combination is a clear argument for the interconnectedness and strong reciprocal relationship between them, as previously mentioned. There is no difference whether the ministry remains a public sector entity or has become an independent body or council; the situation remains the same as long as the affairs of waqf and zakat are managed and administered by the same minister and ministry.

4. 3. The Relationship Between Waqf Institutions and Financial Markets:

On the other hand, financial markets[1] emerge as one of the most important institutions in Islamic finance for attracting capital and mobilizing surpluses and savings. They facilitate indirect investment opportunities in an environment that aggregates various types of funds, including governmental, private, and charitable sector funds, such as Awqaf, these markets operate under strict supervision, regulatory frameworks, and defined conditions, involving individuals and institutions both locally and internationally, with information dissemination, forecasting, brokerage, and portfolio management. Within this framework, Islamic financial markets offer waqf institutions opportunities to invest and grow their assets through financial instruments like sukuk, stocks, investment funds, and portfolios. These investments can be structured using various Sharia-compliant modes such as mudaraba (profit-sharing), musharaka (partnership), or wakala (investment agency), adhering to commercial and investment norms.

Additionally, Islamic financial markets allow the endowment of stock returns for charitable and waqf purposes, as seen with the well-known Emirati waqf stocks. Conversely, waqf institutions invest their capital and assets in Islamic financial markets, according to the aforementioned or other suitable modes, ensuring governance, risk management, and caution to protect waqf assets from risks of loss, devaluation, or reduced returns. This enables those in need of funding, particularly

[1] And similarly, specialized commercial markets and commodity exchanges such as currency exchanges, gold exchanges, petroleum exchanges, coffee exchanges, sugar exchanges, and others, all provide avenues for commercial transactions for institutions and those in need or surplus. These serve as outlets and markets where Waqf institutions engage using Waqf funds under strict conditions and regulations that prevent harm and safeguard interests. This includes considerations of Waqf conditions, investment, commercial, Sharia, legal, and customary aspects.

those seeking finance within Islamic financial markets, to benefit from these investments.

What unites waqf activities and financial markets is the practice of cash waqf, which can be either perpetual or temporary. Notably, key forms of cash waqf include waqf shares, waqf bonds, and waqf sukuk. These resemble financial securities, are issued in Islamic financial markets, traded, and extinguished if they are temporary.

The experience of Egypt in launching waqf funds in the Egyptian capital market is a prime example of the interaction between these two institutions. In 2016, for the first time, charitable investment funds were introduced in the Egyptian capital market after the Financial Regulatory Authority issued the necessary regulatory decisions to activate these funds, following amendments to the executive regulations of the Egyptian Capital Market Law. These funds were established to direct surpluses to charitable and social purposes, thereby providing a means for projects and NGOs to benefit from the returns on funds. The chairman of the Authority issues the model statutes for these funds, and their documents are not registered on stock exchanges.

The Authority's Decision No. 17 of 2016 states in its first article that the founders of the investment fund company must include waqf bodies, associations and NGOs, companies as permitted by the governing laws, and legal persons whose statutes allow such activities, as well as natural persons willing to contribute to the establishment of these charitable funds.[1]

The funds are financed through public subscription donations in the Egyptian capital market, with the value of the documents considered as shares in the capital of the fund company.[2]

Profits are distributed to the entities for which the fund was established, confirming their nature as charitable waqf sukuk, since contributors or donors do not receive a share of the profits. Profit and returns from the fund's investments are distributed exclusively through one of the public bodies or government agencies or one of the NGOs (Non-Governmental Organizations) licensed by the Ministry of Social Solidarity, as stipulated in Article 2 of Decision No. 19 of 2016. The same decision regulates the expenses of charitable funds, limiting them to one or more of the following areas: education and training, social care, and healthcare.

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[1] Keddaoui Abdelkadir, Requirements for Mobilizing Resources of Waqf Funds as a Mechanism to Enhance the Developmental Role of the Waqf Sector in Algeria, pp. 172-174.

[2] General Authority for Financial Supervision, Board Secretariat, Egyptian Capital Market: Board Decision No. 17 of 2016.

4. 4. The Relationship Between Waqf Institutions and the Private Sector:

There exists a strong relationship between productive economic institutions—whether commercial, industrial, agricultural, or service-oriented—and waqf institutions. These interactions involve mutual benefits and exchanges. Waqf institutions use these economic entities as platforms to grow their endowment assets through Islamic investment modes such as mudaraba (profit-sharing), musharaka (partnership), muzara'a (sharecropping), musaqat (irrigation partnership), investment agency, murabaha (cost-plus financing), salam (advance payment), and ijarah (leasing), in line with suitable and compatible economic activities.

From the perspective of the waqf institution, it provides endowment assets such as cash, land, usufructs, services, and movable properties for investment and development within these economic entities, both locally and internationally. The establishment of productive companies by waqf institutions (leaders in the charitable sector) can contribute to a competitive market with private sector companies. The benefits of competition include improved quality and competitive pricing of goods and services, job creation, enhancement of human capital, stimulation of consumption and investment demand, and improvement of the trade balance by increasing exports and reducing imports. This, in turn, can strengthen the national currency and attract foreign currency, creating a dynamic and interactive competitive environment between waqf institutions and other sectors.

Both of Dr. Monzer Kahf and Dr. Muhammad Mustafa al-Zuhayli have mentioned that among the revenues of waqf funds are contributions from institutions and companies from both the private and public sectors, such as social development institutions, pension funds, insurance institutions,[1] and others. This illustrates the interaction between the waqf sector and the private sector, a well-known theoretical concept and a practical application in waqf institutions and bodies in Islamic countries.

4. 5. The Relationship Between Waqf Institutions and the Financial Sector:

Financial institutions, whether banking (such as commercial banks, investment banks, or exchange offices), quasi-banking (such as social security institutions, insurance companies, mortgage institutions, and financial consulting firms), or non-banking (such as leasing companies, brokerage firms, car finance companies, NGOs' investment companies, credit insurance companies, and mortgage companies), have

[1] See on: Mondher Kahf, Islamic Endowment: Its Development, Management, and Development, p. 303. And: Mohammed Mustafa al-Zuhaili, Contemporary Waqf Funds: Adaptation, Forms, Rulings, Issues, p. 9.

financial or quasi-financial relationships with waqf institutions. These interactions include managing funds, benefiting from their financial and commercial advice and services through Islamic financing methods, letters of credit, and agency services.

Waqf institutions contribute by providing capital, land, and movable assets to existing or newly established financial institutions. The latter include takaful (Islamic insurance) institutions managed on a waqf basis using the agency model, as established in Pakistan and South Africa, or waqf banks, which are financial institutions blending charitable and profit-oriented sectors. The idea of waqf banks has gained significant importance, especially after the successful establishment of the "VakifKatılım Bank" in Turkey, an Islamic bank officially operational since 2016. With long-term facilities of $300 million provided by the Islamic Development Bank to the Directorate General of Foundations, guaranteed by the Turkish government, the bank operates on a mudaraba basis. By 2019, the bank employed over 1,300 people, had more than 100 branches, $4.8 billion in assets, and over 270,000 customers. In just three years, by 2019, the assets of VakifKatılım Bank accounted for 10.6% of the total Islamic banking assets in Turkey.[1]

In Malaysia, initially, waqf funding was conducted in a traditional manner where donors had to visit the offices typically located within waqf institutions to make cash contributions. However, this practice was deemed inconvenient for donors. Consequently, waqf institutions evolved towards collective participation methods that make donation easier, faster, and more efficient. These methods include bank deposits, online payments, checks, salary deductions, Financial Process Exchange (FPX), and others.[2]

Only two waqf institutions in Malaysia, namely the Pahang Islamic Religious Council (MAIP) and the Selangor Islamic Religious Council (MAIS), have implemented salary deduction methods. This method was established through agreements between waqf institutions, employers, and employees, stipulating a fixed monthly donation to the waqf fund. Additionally, other methods are used by the Johor Islamic Religious Council (MAIJ), such as Visa or Mastercard payments, checks, bank deposits, and online payments (FPX). In Malacca (MAIM), alternative methods

[1] For further reading, see the Islamic Development Bank website, section on "Participatory Waqf Bank," written by Ali Reza Qayar and Hamdallah Bouriyev: https://www.isdb.org/ar/qss-alaml-walabtsamh/bnk-alwqf-altsharkyw, (consulted on March 27, 2022).

[2] Aminah Binti Mohsin, Mohammad Tahir Sabit Hj Mohammad, The Effectiveness of Saham Waqf on Adequacy of Funds for Development Projects in Malaysia, p.20.

include money transfers, postal payments, and appointing agents to receive public donations on behalf of the Islamic Religious Council.[1]

These diverse methods provide a significant opportunity for the public to contribute to waqf funds conveniently and comfortably at any time and from anywhere, thereby facilitating and popularizing the donation process among waqf donors.

4. 6. The Relationship Between Waqf Institutions and Families and Individuals:

Families, individuals, and specific groups of Muslims, whether designated beneficiaries or not, receive various benefits from waqf institutions. These benefits can be in the form of cash distributions or non-cash benefits, such as the produce from a specific orchard or a house for rent (usufruct) or residence (use). Individuals and families, whether within or outside financial institutions, contribute to waqf institutions through various accepted forms of endowments, loans, donations, gifts, and bequests. Their charitable activities can also be administrative, advisory, investment-related, or otherwise, depending on their position and capacity.

Without exception, all waqf institutions affiliated with ministries or independent bodies resort to individuals and rely on public crowdfunding for charitable financing in general, and waqf financing in particular. This is facilitated through waqf shares (or sukuk or waqf bonds), as seen in Malaysia, Sudan, Kuwait, UAE, and Qatar, or through waqf funds issued by Oman, Kuwait, Malaysia, UAE, Sudan, and Saudi Arabia.

Moreover, there are other interconnected factors between waqf institutions and Islamic financial institutions, characterized by strong and complex linkages and profound impacts. These include the exchange of expertise, consultations, information, knowledge, and skilled or basic human resources, whether voluntarily or for a fee. Such interactions illustrate the influence of one variable on others and the impact of a single institution on others, a well-established concept in economic sciences.

5. CONCLUSION

In conclusion, after reviewing the key points that clarify the relationship between waqf and Islamic finance institutions and highlighting their mutual financial and developmental impacts, the following are the main findings*:*

1. The works of Islamic scholars have significantly contributed to the European Renaissance, including aspects of Islamic finance, as acknowledged by Western historians such as the French historian Gustave Le Bon, the English historian

[1] Aminah Binti Mohsin, Mohammad Tahir Sabit Hj Mohammad: **opcit**., p.20.

H.G. Wells, the writer Edmund Burke, and the Austrian Orientalist Alfred von Kremer.

2. The development of contemporary Islamic financial institutions has positively impacted the industry, leading to the emergence of specialized, organized institutions with clear plans, goals, and visions. These institutions interact and collaborate to serve their interests and those of individuals and society, including contemporary institutions like Islamic banks, insurance companies, and Islamic capital markets.
3. The 2022 Islamic Economy Report indicated that the value of Islamic finance assets reached $3.6 trillion in 2021 and is expected to grow by 8.0% in 2022. This growth rate suggests that the value of assets will double in about 13 years.
4. The developmental nature of waqf and waqf institutions is evident in their ability to collect waqf funds and invest them in profit-generating productive fields, benefiting individuals, institutions, and society. However, these impacts vary from direct to indirect, and their intensity differs from one entity to another, depending on factors such as the nature of the relationship, efficiency, effectiveness, and the duration of dealings.
5. The relationship between waqf institutions and government sector institutions is well-established and widely recognized, but presenting evidence was necessary for the sake of argument.
6. The study showed that zakat institutions could support waqf institutions, especially for those who borrow and then are unable to repay, as they can find support from zakat institutions to fulfill their financial obligations towards waqf institutions.
7. The study also detailed the interactions between various financial institutions and waqf institutions, as well as the relationships with the private sector, individuals, and families

- **Recommendations*:***

1. Work towards liberating waqf institutions from governmental control to mitigate its negatives and seek the positives of independent administrative and financial management. Numerous contemporary waqf bodies serve as examples for those seeking evidence.
2. Develop a comprehensive legal and regulatory framework that enables the formulation and implementation of policies and legislation supporting collaboration and interaction between waqf institutions and Islamic financial institutions.

3. Encourage waqf institutions and other charitable organizations in Algeria to enter into agreements with private and public institutions, especially industrial zones and Islamic banks, to enhance financing and investment partnerships.
4. Activate practical relationships between waqf institutions and all Islamic financial institutions through the exchange of expertise, consultations, and mutual benefits.
5. Formulate and implement laws and policies that support cooperation, interaction, and integration between waqf institutions and Islamic financial institutions.
6. Promote charitable awareness and philanthropic culture among individuals, institutions, and society as a whole, supporting and disseminating it across all societal sectors and entities.
7. Encourage scientific research and support studies specializing in exploring and studying the relationships and interactions between waqf institutions and other Islamic financial institutions, aiming to expand mutual benefits and cooperation.

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