



## MUSLIM

### ISLAMIC CHARITABLE GIVING THROUGH AWQAF

#### *Terms used in relation to Islamic investment*

- Awqaf is the plural of waqf (see below)
- Gharar means uncertainty or financial risk. It is prohibited, as it might be the result of deceptive behavior, causing exploitation and or injustices
- A Hadith is a story of the Prophet
- Riba literally means “excess” but is commonly understood as the interest rate charged by a lender to a borrower. It is prohibited under Shariah
- Sadaqah literally translates as “charity”. It is a voluntary charitable donation of any amount that can be made at any time of the year for any project for the good of the community. It is different from zakat, which is a clear amount of one-fortieth of one’s wealth
- Shariah refers to Islamic law derived from the Quran and Sunnah
- Sukuk are Shariah-compliant bonds representing undivided shares defining the ownership of assets
- Sunnah is the verbally transmitted record of the teachings, deeds and saying of the Prophet Muhammad
- Waqf is the charitable contribution of assets such as the philanthropic endowment of land intended for the good of the community while the asset is held in a trust
- Zakat literally means purification. One of the pillars of Islam, zakat is an annual religious tax of 2.5% of an individual’s wealth that is distributed to the poor. It is a means for both financial and spiritual purification

### *Background*

The giving of zakat is one of the main pillars of Islam. So charitable giving by Muslims has existed for 1,400 years. There has been an understanding from the beginning that assets raised through charitable giving must be used (or in today's terms invested), in a faith-consistent manner, to ensure the fulfillment of a Muslim's religious duty.

Historically, waqf (philanthropic endowments) were made throughout the Islamic world but with the rise of the British Empire these declined when many waqf properties and land were taken over during the colonial period. However today we can see a rise in the practice, as more and more countries are supporting it, and the spread of the internet throughout the world means many more Muslims are finding it easier to give zakat and sadaqah online.

In a 2013 survey of some 4,000 adults in the UK, polling company ICM found that Muslims were found to be the most charitable. Their average annual donations were around £370, while Christian respondents gave around £180 and Jews averaged at around £270.

### *Religious waqf*

The first religious waqf was the land given for the constructions of mosques in Quba' and Madinah (some 400 km north of Makkah) soon after the Prophet arrived in the year 1/622. In one tradition the Prophet desired to buy a particular piece of land which belonged to two orphans. They declined to sell it, and instead donated it to fulfil the will of God. In another the protector of the two boys told the Prophet he would compensate the boys so they would not suffer hardship. In both versions assets are given for the greater good. Land and assets kept in order that their profits should provide revenues to maintain and support running expenses mosques are also in the category of religious waqf.

### *Philanthropic waqf*

A hadith recounts how Umar, one of Prophet Muhammad's senior companions, acquired some land at Khaibar. He went to the Prophet saying this was the most valuable land he had ever owned, and asked what he should do with it. He was advised to keep it, but to give what it produced as sadaqah, or charity. He did this, declaring that property must not be sold, inherited or

given away but that its produce should be devoted to the poor, to the nearest kin, and to the emancipation of slaves. “There is no sin for one who administers it if he eats something from it in a reasonable manner, or if he feeds his friends and does not hoard up goods (for himself).”

The message is that waqf land should be an inalienable public asset and its profits given to charity. Assets under philanthropic waqf should be aimed at supporting the poor, the vulnerable and humanity at large. They include libraries, scientific research, education, health services, care of animals and the environment, micro-lending, parks, roads, bridges, dams, public gardens etc.

#### *Faith-compliant principles which limit areas of investment*

Although Islamic financial institutions are permitted to seek profits [in terms of being permitted to share the profits and losses of their clients] the pursuit of gains from interest, or *riba*, is strictly prohibited. First it is deemed unproductive as it is money earned on money – not resulting from additional economic activity. Second the income is earned from a person of financial strength to a person of weakness and is therefore seen as exploitative.

Another significant prohibition is *gharar*, or risk. Financial transactions involving significant risk are deemed to have an element of dishonesty which may result in inequality, injustice and deception.

As well as alcohol, tobacco, illegal drugs, gambling, weapons of mass destruction and pornography, investments under shariah law are forbidden in companies that work with pork products, cloning, or financial services that charge interest.

Donated property, cash, shares, movable and immovable assets form part of the pooled waqf Funds of Awqaf SA. Where feasible, waqf funds are invested to obtain reasonable returns to provide funding for downstream projects and activities on a sustainable, perpetual basis. The investment strategy guidelines are:

- Location: Combination of community, provincial, national, and offshore.
- Returns: Balance of social and financial returns within constraints of strategy with a bias to maximisation of financial returns.
- Diversification / Risk: Spread risk with bias at low risk, diversified portfolio.

- Investment portfolio: Combination of property, equity (musharaka, mudaraba) and financial (ijara, murabaha, takaful)
- Equity participation: Public/awqaf/institutional partnership possibilities.
- Currency & Inflation: Hedge / factor into strategy.
- Restriction: Awqaf SA may not invest in unethical or Islamically-unacceptable projects.

Current investments of Awqaf SA are focused on Shariah-compliant property.