



## The Role of Waqf in Financing Education: A Case Study of the Waqf Fund of Central Bank of Bahrain

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**Abstract:** This study aims to present the Waqf Fund model or cash Waqf model of the Central Bank of Bahrain (CBB) and illustrate its role in enhancing the Islamic finance industry through its various education related enterprises which were all applied in the Kingdom of Bahrain. The concept of Waqf is an old one in Islam. Deriving from the Arabic notion of holding, Waqf was first used in Islamic estate and has then developed through time to also be used for the well-being of the society, such as the financing of education. The Waqf Fund of the CBB was established in November 2006 in partnership with Islamic Financial Institutions in the Kingdom of Bahrain. With a total contributions amount of US\$ 7.5 million, the Waqf Fund is dedicated to finance education related initiatives that center on Islamic finance. The achievements of the Waqf Fund of the CBB has produced a high level of success and satisfaction for its stakeholders and therefore its cash Waqf model could be a good example for other countries to implement

**Keywords:** Waqf, Cash Waqf, Waqf Fund, Education, Bahrain

**JEL Classifications:** E3, E5

### 1. Introduction

The concept of Waqf is popular in Muslim and Muslim majority countries and has been well implemented even before the rise of the modern Islamic financial system and its Islamic financial services in the 1970's. Termed as Waqf in Arabic Muslim countries, Vakif in former non Arabic Muslim states of the Ottoman Empire; such as Turkey, Bosnia, central Asian countries and Wakaf in South-East Asian countries; a definition of the notion of Waqf, derived from the Arabic language, contains the idea of holding, confinement and prohibition. These ideas clearly explain the definition of Waqf, which is the notion of keeping an asset and holding it in order to make it perpetual.

The legal foundation of Waqf finds is from the Sunnah, as laid down in the following Hadith: Umar, one of the Prophets companions, had once asked the Prophet what he will do with palm orchards he had received from someone who made a will to give it to the Prophet when he dies. The Prophet said to Umar, "If you like, you may hold the property as Waqf and give its fruits as charity". (Narrated by Muslim).<sup>(1)</sup>

Different types of Waqf have been developed throughout time. At the dawn of Islam, the first form of Waqf used was for managing the maintenance of Mosques. Historically, the first Waqf was set in Madinah for the maintenance of the Mosque of Quba in 622. Another type of Waqf was developed then, not to manage estates, but more to support the poor and the needy people in the society. Lastly, another type of Waqf was created to

1 <http://theonlyquran.com/hadith/sahih-muslim/?volume=13&chapter=5>



support small businesses for people in need of funding. This last type of Waqf is related to Islamic microfinance.

Therefore, the utilization of the different types of Waqf gives ample of benefit to the society, the Ummah (the community of Muslim believers), by maintaining religious estates, developing healthcare, contributing to education, and also participating in the development of the economy. By its nature of outcome, Waqf can be split into two kinds: Waqf istithmari and Waqf mubashar. Waqf istithmari literally means investment. Here, assets are managed to produce income that will be used to develop or build estates. Waqf Mubashar literally means directly. This type of waqf directly benefits charity beneficiaries through education (Tahir, 2010).

With regards to Waqf dedicated to education, it is important to note that schools have played a major role for the development of the society. Education is a key factor to alleviate poverty in society and continuously improve its well-being. Education in general has been the second largest user of Waqf revenues (Zheng, 2014). Some governments were even using Waqf to finance education. For example in the construction of schools, assigning a certain property as Waqf for the school, building of libraries, purchase of books, payment of teachers' salaries and other staff, and stipends to students. Awqaf (plural of Waqf) done by the Ayyubids (1171-1249) and the Mamluks (1250-1517), in Palestine and Egypt respectively, were good examples of governments using Awqaf to finance education. The University of Al Azhar is another example. Founded in Cairo in 972, the university was financed by its Waqf revenues until the government of Muhammad Ali in Egypt took control over the Awqaf (Aziz et.al, 2013).

Like other Muslim countries, the Kingdom of Bahrain has been recognizing the important role of Awqaf in the financing of education. The kingdom was one of the first countries where modern Islamic finance was implemented and it is regarded as one of the world's Islamic financial hubs. A Waqf Fund (or called cash Waqf) was set up in 2006 under the auspices of the Central Bank of Bahrain (CBB) in partnership with Islamic Financial Institutions in Bahrain with the aim of financing education related initiatives, particularly Islamic economic and finance education. The fruits of this Waqf have benefited more than hundreds of people and will still benefit new beneficiaries in the future hence giving a positive impact on the development of the Islamic finance industry in the Kingdom of Bahrain.

Given the important role of Waqf in financing education and the commitment shown by the CBB towards human capital development through the establishment of Waqf Fund, this study aims to achieve these two following objectives:

1. To present the Waqf Fund model of the Central Bank of Bahrain as a case study.
2. To present the feedback from of some Waqf Fund stakeholders on the current implementation of the model.

This study is expected to benefit Islamic economic and finance stakeholders in general since it presents a case of how an Islamic economic instrument, namely Waqf, can be used to support the development of the Islamic finance industry through the financing of education related initiatives. The Waqf Fund of CBB can be used as an example for other countries to follow. This study is organized in five sections, the first section introduces the study, it presents the background of the study, its framework, and the objectives of the study. The second section concerns the literature review. Section three describes the research methodology. Section four presents and analyses the Waqf Fund model of the Central Bank of Bahrain. Lastly, section five concludes the study with an overall conclusion and suggests some recommendations.

## 2. Brief Review

Available literature reveals that there are several previous studies that discuss about cash Waqf. Wafa (2010) outlined the benefits of using cash Waqf through a qualitative research approach. After



explaining the new trend of Waqf from the fixed asset model to the cash model, this study showed the potential products of Waqf for education. Furthermore cash Waqf can also promote Islamic Economics and establish economic activities through initiation of projects and businesses.

Masyita et al. (2005) made a study on cash Waqf model management to alleviate poverty in Indonesia. After describing thoroughly the cash Waqf model, this study then explained the necessity of the availability of sufficient funds for public needs through a Waqf Fund sourced from people's donation, where people donate their money in the cash Waqf through the purchase of a cash Waqf certificate. Using the system dynamics methodology, Masyita et al (2005) also tried to offer a design of a cash Waqf management system.

Tahir (2010) in an oriented Shari'ah study, assessed the permissibility of establishing a Waqf in Islamic law. He explained the main features of a Waqf and explored many views of Muslim jurists regarding the validity of cash Waqf to the permissibility of a Waqf bank. This study concluded that by its essence, Waqf is able to generate income through its projects, and therefore, a Waqf bank can be a bank focused on the poor and underprivileged, ensuring that financial inclusion is achieved.

Focused on Waqf for education purposes, Aziz et al. (2013) made a study on Waqf models proposed by Muslim scholars that can help establish Waqf for the financing of education. This study underlines that the research on Waqf models for education are scarce. However, the study found that there is a possible structure of Waqf instruments that can be implemented in the future for the financing of education. This Waqf model would be done with the involvement of an Islamic financial institution.

Herianingrum et. al (2016) explained how two Waqf organizations in Indonesia namely Badan Wakaf Indonesia (BWI) and Tabung Wakaf Indonesia (TWI) support the education sector in the country. Using qualitative research method, the study found that both Waqf organizations integrate the cash Waqf model to improve the quality of education in Indonesia. However, it is still not executed optimally as there is a lot more potential that has not been realized. Therefore, synergy between the two organizations needs to be further enhanced in order to reach the optimal level of achievement.

### **3. Research Methodology**

This study is a qualitative research done through the analysis of relevant documents and the conducting of personal interviews with relevant stakeholders. Qualitative descriptive analysis is used to explain how the Waqf Fund of the CBB model finances its education related initiatives in the Kingdom of Bahrain. The respondents of the personal interview are stakeholders of the Waqf Fund of the Central Bank of Bahrain consisting of 2 senior employees who are involved in both the teaching and the management of the programs funded by the Waqf Fund, 1 senior employee of the CBB who is in charge of the management of the Waqf Fund, and 1 former student who benefitted from the Waqf fund sponsored programmes at BIBF who is now working as a Shari'ah Auditor at Kuwait Finance House (KFH) Bahrain. The sampling technique used by this study is convenience sampling since the researchers have the access to directly approach the respondents due to personal relationship.

### **4. The Waqf Fund Model of the Central Bank of Bahrain**

This section comprises of two subsections, namely the presentation of the Waqf fund model of the CBB and feedback from the stakeholders of the fund on the current practice of the fund.

#### **4.1 Presentation of the Waqf Fund model of the Central Bank of Bahrain**

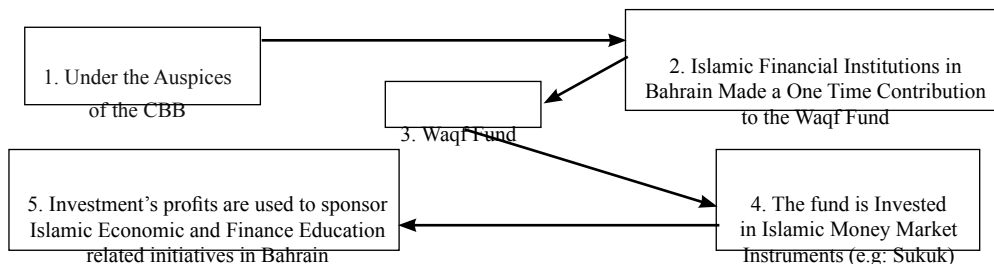
The Kingdom of Bahrain is a small island located in between the two Arabian gulf states of Qatar and Saudi Arabia. Bahrain hosts a majority of Muslim population and a minority of non-Muslim population, who are mainly expatriates. Bahrain is a major Islamic financial hub alongside Malaysia.



The Kingdom of Bahrain was one of the first countries that welcomed Islamic banking, most notably when Bahrain Islamic Bank was established in 1978 and became the second Islamic bank in the world after Dubai Islamic Bank in 1975. Furthermore, The Kingdom of Bahrain hosts a majority of the existing Islamic finance infrastructure institutions in the world such as the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), the international Islamic financial market (IIFM), the International Islamic Ratings Agency (IIRA), the General Council for Islamic Banks and Financial Institutions (CIBAFI), and the Liquidity Management Centre (LMC) (Hidayat et.al, 2014). Many major Islamic finance conferences also take place each year in Bahrain. One of the oldest and most popular is the World Islamic Banking Conference (WIBC). Hence, Islamic finance has a chosen place in the Kingdom of Bahrain.

In order to support human capital development within the Islamic finance industry, the Waqf Fund was established in November 2006 under the auspices of the Central Bank of Bahrain (CBB) in partnership with Islamic Financial Institutions in Bahrain. Over twenty Banks are registered by the CBB in Bahrain, operating either as a wholesale Islamic bank or a retail Islamic bank. To name a few, Bahrain Islamic Bank, Al Baraka Islamic bank and Kuwait Finance House are amongst the most famous ones. Besides full-fledged Islamic banks, there are also a handful of Islamic windows and subsidiaries that are part of conventional banks, such as Standard Chartered Bank's Sadiq and Ahli United Bank's Al Hilal. The full-fledged Islamic banks, made a one-time contribution to the Waqf Fund's corpus which is invested in Islamic money market instruments such as short-term Sukuk (Salam and Ijarah) which are relatively safe and provide a stable return. Any return on the investment is utilized to finance the fund's various education related enterprises. The amount of the contributions has reached US\$ 7.5 million by 2016. The diagram 1 below illustrates the Waqf Fund model of the CBB.

The board of the Waqf Fund is composed of 14 members. 11 members come from the Islamic financial institutions and 3 members are independent. Every single decision from the board is taken in a collegial way; all of the members have an equal right of vote. The aim of the Waqf Fund establishment is to continuously enhance and develop the Islamic finance in Bahrain through education. This aim takes form into three aspects, first to provide Islamic finance educational programs, to give Islamic finance training and to develop Islamic finance from a Shari'ah standpoint. As an example of the first aim, providing Islamic finance educational programs, the Waqf Fund's pioneering initiative was the provision of scholarships for eligible individuals to pursue a 9-month post-graduate diploma program at the Bahrain Institute of Banking and Finance (BIBF) naming it the Waqf Fund Graduate Sponsorship Program, which has continued until now.



**Diagram 1.** The Waqf Fund of the CBB Model

BIBF is the official training arm of the CBB. It serves to provide young and qualified Bahraini graduates and junior staff of Waqf Fund member institutions with an orientation to Islamic finance to



be able to study BIBF's Advanced Diploma in Islamic Finance (ADIF), which has already graduated 650+ individuals for the past 15 years of its establishment and is one of the oldest Islamic finance professional qualifications in the world. The ADIF program is made up of 6 subjects that represent the key areas related to the Islamic finance industry: Islamic Commercial Jurisprudence, Islamic Banking Operations, Islamic Treasury and Capital Markets, Islamic Accounting, Auditing and Governance, Islamic Insurance, and Islamic Banking, Trust, and Business Law.

As an example for the aim of giving Islamic finance training, the Waqf Fund financed the development of a course on Business Ethics for Islamic Bankers. The Waqf Fund sponsored the development of this course through the BIBF and has made the course mandatory to take for all junior and intermediate level employees of Islamic banks to attend.

As an example of developing Islamic finance from a Shari'ah standpoint, the Waqf Fund sponsored Shari'ah scholar sessions. In 2013, the Waqf Fund started a regular session with leading Shari'ah scholars in the Islamic finance industry whereby they address the Internal Shari'ah Reviewers of Islamic financial institutions in Bahrain on specific topics, followed by an extensive questions and answers session.

#### **4.2 Feedback from the Direct Stakeholders of the Waqf Fund of the Central Bank of Bahrain**

The feedback were directly collected through interviews of the stakeholders of the Waqf Fund from both the CBB itself, BIBF, and a form student of the Waqf fund sponsored programmes. Alfatih Gessan Pananjung and Dr. Ugi Suharto are both faculty members of the CBB sponsored programs taught at BIBF. Alfatih also managed the Waqf fund sponsored programmes at BIBF from 2009 to 2016. They both assert that the curriculum and support materials utilized for the sponsored programs are of the highest standards. The text books that are used for the ADIF for example, have been developed specifically for the program by prominent academicians and industry practitioners who are specialists in Islamic finance. The development of these books were also sponsored by the Waqf fund. In addition, according to them, there are already 250+ students that have benefited from the CBB Waqf Fund scholarship and most of them are very satisfied with the benefits that they have gained thus far, which include employment at Islamic financial institutions, for those who were fresh university graduates, and career progress, for those who were already working for Islamic financial institutions.

From inside the Central Bank of Bahrain (CBB), Sohaib Umar Muhammad, the Islamic financial services development advisor, who has a direct exposure with the Waqf Fund of the CBB, expresses a high degree of satisfaction with the operating of the Waqf Fund and its use. He stresses that there is a good understanding and harmony among the members of the Waqf Fund in the way they take the decisions and operate the Waqf Fund. Sohaib Umar Muhammad also notices a positive outcome on the development of the Islamic finance in the Kingdom of Bahrain through the direct contribution of the Waqf Fund of the CBB.

Hussain Mattar has successfully completed at least 4 of the Waqf fund sponsored programs or initiatives and is now the assistant manager in the Shari'ah department of KFH. He explains that the Waqf fund programmes that he attended focused on both theoretical and practical aspects of the area of specialization being taught. Because of the practical knowledge he attained, he was able to implement it at work, affecting his work performance positively. The programmes have also given a very progressive influence on his career development. It was being one of the students of the 1<sup>st</sup> batch of the Waqf Fund Graduate Sponsorship programme at BIBF where he had the opportunity to do mentorship and



eventually work at Gulf Finance House's Shari'ah Department.

## 5. Conclusion and Recommendations

This study achieved its objectives of presenting the Waqf Fund model of the Central Bank of Bahrain, and presenting the feedback from the selected Waqf Fund stakeholders on the current implementation of the model. This study outlined how the CBB Waqf Fund is constituted, how it operates, and what its purposes are. The study also highlights how the Waqf fund contributes to the Islamic finance industry in Bahrain through its education related initiatives. Then, the study presented the feedback of the direct stakeholders of the Waqf fund. From the interview, it can be concluded that the direct stakeholders are satisfied with the outcomes of the Waqf Fund since it has been helping many Bahrainis to attend various Islamic finance programs in the Kingdom, where some programs have also been developed through the Waqf fund funding itself. Therefore, the Waqf Fund of the Central Bank of Bahrain can be a good model to be copied and implemented by other countries.

Based on the interview results and the current implementation of the Waqf fund of the CBB, this study has come out with the following recommendations:

1. The Waqf Fund of CBB can be used as a good example of a contemporary model of Cash Waqf for education model. Therefore, other Muslim countries should develop similar Waqf Funds in their respective countries.
2. This study has proven qualitatively how the Waqf Fund of the CBB gives positive impacts on the development of Islamic economic and finance related education in the Kingdom. Further studies should empirically examine the influence of the Waqf Fund into Islamic economic and finance related education in the kingdom

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