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**Article**

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# Towards the establishment of cash *waqf* microfinance fund for refugees

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Cash *waqf*  
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81

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## Abstract

**Purpose** – This paper aims to propose cash *waqf* (endowment) to develop a conceptual model that can be utilised to extend microfinance for refugees.

**Design/methodology/approach** – Qualitative method is used in this research. An extensive review of the literature has been conducted. Latest literature on refugees, microfinance has been critically examined beside the current cash *waqf* models.

**Findings** – Empirical studies have shown that many refugees are equipped with marketable skills and talents that can be utilised to improve their socio-economic situations. The proposed model – cash *waqf* refugee microfinance fund (CWRMF) – is structured to extend microfinance to potential refugee micro entrepreneurs. To address the lack of collateral, which is a requirement to gain any microfinance, CWRMF has been incorporated with a *takaful* unit (cooperation) by which refugees may guarantee each other. Additionally, the model has also been structured to address the challenge of sustainability of the institution that would provide microfinance. Hence, a reserve fund has also been integrated into the model.

**Practical implications** – CWRMF represents a potential model to be implemented by humanitarian non-governmental organisations (NGOs) and aid agencies to support livelihood of refugees in particular for Muslim refugees. Positive outcome is expected from the implementation of this model. This is because of the various advantages of microfinance programs not only on refugees but also on concerned NGOs, host populations and donor parties. Additionally, this paper is a set of primarily thoughts aims to open the door wider for more researchers to explore the potential of cash *waqf* as one of the instruments to finance refugee microenterprises and business activities.

**Originality/value** – Recently cash *waqf* has been into several models for socio-economic development and poverty alleviation. This paper is proposing cash *waqf* as a source for a microfinance fund that can contribute in the improvement of socio-economic situations of millions of refugees around the world.

**Keywords** Refugee, Cash *waqf*, Microfinance

**Paper type** Research paper

## Introduction

The current phenomenal increase in the number of displaced populations and refugees has not been witnessed since the Second World War (UNHCR, 2015). According to the UNHCR report (UNHCR, 2016), a new record of 65.3 million displaced, including 21.3 million refugees, was set at the end of 2015. The length of time that refugees are spending in exile before they manage to return home has also increased to an average of 26 years (UNHCR,



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2016). With the scale of the refugee crisis, the current system of providing for the basic needs of refugees (e.g. food, drink, shelter and, at times, education and health care) is exhausting the resources of the United Nations (UN) agencies and humanitarian non-governmental organisations (NGOs) and is deemed unsustainable in the long term. Even the solutions proposed by the United Nations High Commissioner for Refugees (UNHCR) in the form of repatriation, integration and resettlement have proven ineffective, insufficient and beyond the reach of the majority of refugees. What makes the situation even worse is the fact that over 85 per cent of refugees are hosted by poor developing countries which already have their own development and poverty challenges (UNHCR, 2016). There is thus increasing pressure on stakeholders to find sustainable solutions to the problems faced by refugees.

The economic engagement of refugees in income-generating activities, projects funded by microcredit and microfinance – what is commonly known as livelihood programmes – has been long recognised as an effective means for improving refugees' livelihood and socio-economic situations. This brief paper discusses how the charitable institution of *waqf* (endowment) can be used to develop a sustainable model to promote the economic engagement of refugees. It delves into the establishment of microfinance and start-up funds to promote entrepreneurship among refugees in refugee camps and urban areas. This model is particularly relevant to Muslim NGOs and might appeal to Muslim donors as it uses one of the well-known charitable institutions in Islam that has played a significant role throughout the history of Islamic civilisation in providing for the social, educational and economic welfare of Muslim communities.

### Cash *waqf*

The concept of cash *waqf* can be traced back to as early as the second *Hijrī* century (eighth century CE). Although the fatwa (legal ruling) of Imām Zufar (d. 158 H) is considered the most common reference on the permissibility of donating measurable or weighable properties including money as *waqf* (Cizakca, 2011), another account reveals that the issue of cash *waqf* was discussed among scholars even earlier. Imām al-Bukhārī reported that Imām Ibn Shihāb al-Zuhri (d. 124 H) was asked about the permissibility of a *waqf* in the form of 1,000 dinars held in perpetuity for trade with the profits being assigned to the poor and underprivileged (al-Bukhārī, 2002). Another account relating to cash *waqf* is found in the famous Māliki book '*al-Mudawwanah al-Kubrāh*' which documented the fatwa of Imām Mālik (d. 179 H) that asserted the obligation of *zakāh* on 100 dinars offered as *waqf* to be given as loans to people (Imām Mālik, 1994).

The popularity of cash *waqf* has recently grown rapidly in Muslim societies. Many wealthy Muslims have been giving cash in the form of *waqf* to specific institutions; the funds are used for providing social services to the vulnerable groups of society (Cizakca, 1995).

Because of its distinct advantages in fund mobilisation and its liquid and flexible nature, cash *waqf* has recently been integrated into several models that have been developed for improving socio-economic development and poverty alleviation. The following are some examples of the use of cash *waqf*:

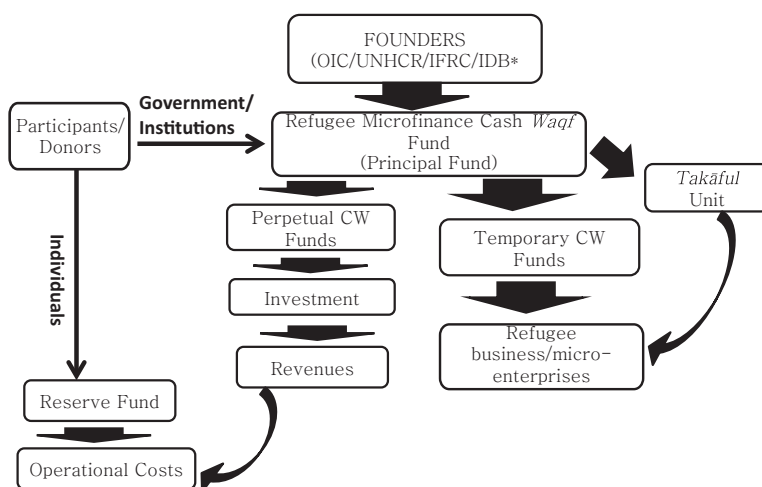
- for small- and medium-sized enterprises (Asmy, 2015; Lahsasna, 2010; Tohirin, 2010);
- for education (Aziz *et al.*, 2013);
- for microfinance (Alpay and Haneef, 2015; Nadwi and Kroessin, 2013; Masyita, 2012; Ahmed, 2007; Zarka, 2007);

- for economic development (Ibrahim *et al.*, 2013);
- for use by financial institutions (Haji Mohammad, 2011; Abdel Mohsin, 2007);
- for use by non-profit financial intermediaries (El-Gari, 2004);
- for poverty alleviation (Hassan and Ashraf, 2010);
- for microenterprises (Kahf, 2004; Ahmed, 2002); and
- for health care services (Ahmed, 2013).

### Proposed model

A cash *waqf* refugee microfinance fund (CWRMF) is proposed to provide Islamic microfinance and microcredit facilities to refugee entrepreneurs who have the potential to run their own businesses and to support themselves. This model utilises the concept of cash *waqf* to raise funding required to provide these facilities.

As illustrated in Figure 1, two types of cash *waqf* are used, namely, temporary as well as perpetual cash *waqf*. The temporary cash *waqf* aims at targeting participants who would like to contribute funds to the model on a temporary basis. The funds are directed towards financing microfinance programmes for refugee micro-entrepreneurs. It is worth mentioning that it might be challenging for the management to keep finding temporary cash *waqf* donors to replace the old donors. However, this challenge can be overcome with proper marketing and promotion techniques. The second type is the perpetual cash *waqf*, comprising non-refundable donations. This type of cash *waqf* will be invested in relatively low-risk Sharī'ah-compliant investments, such as company shares or government *ṣukūk*. The profits generated from the perpetual cash *waqf* investment will be channelled to the



**Notes:** \*OIC (Organisation of Islamic Cooperation); UNHCR (The United Nations High Commissioner for Refugees); IFRC (The International Federation of Red Cross and Red Crescent Societies); IDB (Islamic Development Bank)

**Source:** Author

**Figure 1.**  
Cash *waqf* refugee  
microfinance fund  
(CWRMF)  
(conceptual model)

reserve fund which will be used to cover the operational expenses of the model. The process of fundraising can also include the issuance of *waqf* certificates (*şukūk*) to participants or donors who can benefit from tax exemption as a form of incentive to encourage them to invest in the cash *waqf* fund.

As in the above self-explanatory model, the fund could be founded and monitored by well-established organisations such as the OIC, UNHCR, IFRC or IDB. Contributors and participants could also include governments, institutions, companies and banks. In this model, it is proposed that large contributions are dedicated to form the principal fund – the CWRMF – whereas individual contributions can be directed to the reserve fund.

#### *Reserve fund*

The reserve fund has been incorporated in the model to ensure its sustainability. In addition to the profits generated by the perpetual cash *waqf* investment which are channelled to it, it will also include funds/charities collected from individual donors. These donations are expected to be accepted throughout the year and will be in small amounts. The reserve fund is expected to contribute to the operational expenses of the model in case the profits of the investment could not cover all the costs and expenses. Such expenses may include staff salaries, utility bills, office rents and others. The reserve fund would, in addition, keep the potential surplus amounts if there is any remaining from the investment revenues after settling the operational expenses.

#### *Takāful unit*

This unit would be integrated into the model to provide guarantees for refugee microenterprises. Each and every new participating refugee should join this unit before applying for any financial assistance. This unit is considered essential in the absence of any financial collateral and with the considerable ineffectiveness of social collateral in the refugee camp setting. Accordingly, new refugee entrepreneurs are required to obtain signed recommendations from older members of the *takāful* unit or the operating organisation. Additional functions of the *takāful* unit could include providing compensation for any default in the payment of refugees/participants for any reason of underperforming business or unexpected illness or death.

#### **Conclusion**

The refugee phenomenon has been widely perceived as a temporary problem; however, the statistics of the UNHCR confirm that nearly two-thirds of refugees are usually stuck in protracted situations, helpless and hopeless (UNHCR, 2016). Accordingly, temporary solutions have become ineffective and insufficient. This research note attempts to combine the advantages of microfinance and cash *waqf* to provide microfinancing facilities to refugees. The model uses two types of cash *waqf*, namely temporary and perpetual to be as accessible as possible to all potential participants. The model incorporates some risk management measures, in particular, the reserve fund to cover the operational expenses and the *takāful* unit to address the issue of adverse selection and default risks. It is important to note that although the model is proposed for refugees, it can also be utilised to cater for microfinance programmes for all displaced and war-affected populations. Nonetheless, it is admitted that the model needs further refinement and that a number of issues need to be discussed such as the details of the modes of financing for refugees and the issuance of *waqf* certificates (*şukūk*).

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