



**IDB Prize Winners' Lecture Series
No. 4**

TABUNG HAJI AS AN ISLAMIC FINANCIAL INSTITUTION

**THE MOBILIZATION OF
INVESTMENT RESOURCES IN AN
ISLAMIC WAY AND THE
MANAGEMENT OF *HAJJ***

**ISLAMIC RESEARCH AND TRAINING INSTITUTE
ISLAMIC DEVELOPMENT BANK .
JEDDAH, SAUDI ARABIA**

ISLAMIC RESEARCH AND TRAINING INSTITUTE (IRTI)

Establishment of IRTI

The Islamic Research and Training Institute was established by the Board of Executive Directors of the Islamic Development Bank (IDB) in 1401H (1981). The Executive Directors thus implemented Resolution No.BG/14-99 which the Board of Governors of IDB adopted at its Third Annual Meeting held on 10 Rabi Thani 1399H (14 March 1979). The Institute became operational in 1403H (1983).

Purpose

The purpose of the Institute is to undertake research for enabling the economic, financial and banking activities in Muslim countries to conform to shari'ah, and to extend training facilities to personnel engaged in economic development activities in the Bank's member countries.

Functions

The functions of the Institute are:

- (A) To organize and coordinate basic and applied research with a view to developing models and methods for the application of Shariah in the field of economics, finance and banking;
- (B) To provide for the training and development of professional personnel in Islamic Economics to meet the needs of research and shari'ah-observing agencies;
- (C) To train personnel engaged in development activities in the Bank's member countries;
- (D) To establish an information center to collect, systematize and disseminate information in fields related to its activities; and
- (E) To undertake any other activities which may advance its purpose.

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The President of the IDB is also the President of the Institute. The IDB's Board of Executive Directors acts as its supreme policy-making body.

The Institute is headed by a Director responsible for its overall management and is selected by the IDB President in consultation with the Board of Executive Directors. The Institute consists of three technical divisions (Research, Training, Information) and one division of Administrative and Financial Services;

Location

The Institute is located in Jeddah, Saudi Arabia.

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**THE ORGANIZATION OF THE PILGRIMS
MANAGEMENT AND FUND BOARD OF MALAYSIA**

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In the name of Allah, the Most Merciful, Most Beneficent

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FOREWORD

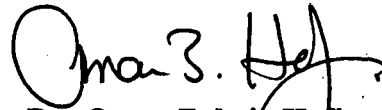
As an international financial institution serving the *ummah*, the Islamic Development Bank (IDB) aims at fostering economic development and social progress of member countries and Muslim communities in accordance with principles of *shari'ah*. In order to achieve its objectives and to discharge the necessary obligations at an operational level, pertaining to research, training and dissemination of information, **IDB** established Islamic Research and Training Institute (IRTI) in 1401H (1981G) which became operational in 1403H (1982G).

In addition to conducting research and training activities, IRTI has started a number of schemes to promote and encourage Islamic economic activities all over the world. These schemes aim at promoting external expertise and harnessing the resources. of the *ummah* for the promotion of Islamic economics. IDB prizes in Islamic economics.. and banking is one of these activities. The objective of these prizes is to recognize, reward and encourage creative efforts of outstanding merit in the fields of Islamic economics and banking. One prize is awarded every year alternating between Islamic economics and banking.

The IDB prize in Islamic banking for the year 1410H was awarded to Tabung Haji (Pilgrimage Management and Fund Board) of Malaysia, considering the significance of Tabung Haji as an Islamic Financial Institutions which has mobilized savings of individuals and successfully operated an investment fund in an Islamic way in order to fulfil the life long desire of many individuals for the performance of the *haj* rituals. Tabung Haji has devised an innovative way to motivate Muslims to save in order to provide for their expenses for performing the pilgrimage. It has managed the resources mobilized from small savers in an efficient manner and invested them in industry, commerce, agriculture and real estate in conformity with Islamic principles. In this way, it has not only provided Islamic services to the individuals but has, at the same time, operated a huge investment fund using investment techniques conforming to Islamic *shari'ah*.

This paper explains the history and objectives of Tabung Haji as well as the saving and investment procedures devised by it for the operation of the Fund. It also gives a comprehensive account of the services that it provides to the pilgrims both before embarking on the pilgrimage journey as well as during and after the *haj* rituals.

It is hoped that the publication of this valuable paper will provide a good example and necessary information for Haj agencies in other Muslim countries and thereby facilitate the provision of finance, travel, boarding and lodging facilities for the pilgrims of respective countries.


Dr. Omar Zuhair Hafiz
Deputy Director, IRTI

THE ORGANIZATION OF THE PILGRIMS MANAGEMENT AND FUND BOARD OF MALAYSIA

I. INTRODUCTION

1. The Pilgrims Management and Fund Board of Lembaga Urusan dan Tabung Haji, more popularly known as Tabung Haji, was devised as an economic scheme in the context of national development. Its purpose is to provide saving services that are untainted by *riba* and its main strategy is to exploit the financial resources of Muslims in such a way, as to avoid the fragmentation of wealth which is detrimental to the rural economy.

The saving services that are free from *riba* help Muslims perform their *Haji* duty without encountering impoverishing hardships after their pilgrimage.

2. Though *Haji* was also established in order to enable Muslims to invest and effectively participate in the nation's economic activities.

3. Tabung Haji has successfully expanded its investment activities to include various economic sectors, such as, commercial, industrial, plantation, etc.

These active and profitable investment activities are consistent with the objectives of the New Economic Policy.

II. GOALS

1. To render the best services to Malaysian pilgrims through the performance of the *Haji*.

2. To give Malaysian pilgrims the maximum return on their savings.

III. OBJECTIVES

1. To enable Muslims to gradually accumulate savings and to use them for their expenses in performing the pilgrimage or for other purposes beneficial to them;
- 2.. To enable Muslims through their savings to participate in investments in industry, commerce, plantations and real estate, according to Islamic principles; and
3. To provide for the protection, control and welfare of Muslims while on pilgrimage through the various facilities and services of Tabung Haji.

IV. HISTORY

1. In earlier years, especially those from rural areas, used traditional methods of saving money to enable them to perform *Hajj*. They accumulated money in pillows under mattresses and in earthen jars which were buried for safety. They also purchased land or livestock which later could be sold to get the money needed for their trip to the Holy Land. These traditional methods were very risky in terms of security and value depreciation.
2. The reasons for the recourse to traditional ways of saving was the desire to be absolutely sure that the money to be spent on pilgrimage was untainted by *Riba*.
3. However; these traditional methods of saving are detrimental to the rural and urban economy of Malaysia. As a result of these traditional methods, pilgrims face many difficulties and financial hardships upon their return from the *Hajj*. Those who sell part of their property before performing the *Hajj* face difficulties in supporting their family upon their return to Malaysia. Those who sell all of their property hoping that they will die in the Holyland, face even graver problems upon their return home.

4. One of the proposals to overcome these problems was the establishment of a savings institution that carries out its activities according to *Shari'ah* principles. The proposal was made by Royal Professor Ungku Abdul Aziz who saw the need for Muslims to gradually accumulate savings before performing the *Hajj*. In his paper "A Plan to Improve the Economic Position of . Future Pilgrims", submitted to the government in 1959, he recommended that future pilgrims should save in a bank or financial institution which was untainted by *Riba* but which yielded profits. This suggestion marked the beginning of the formation of the Pilgrims Saving Corporation.

V. ESTABLISHMENT OF TABUNG HAJI

1. The concept paper pertaining to the organization and activities of Tabung Haji was presented to Sheikh Mahmoud Al-Shahltut, Rector of Al-Azhar University of Cairo, when he visited Malaysia in 1962. After studying the paper, he was fully convinced and believed that the recommendations made were not contrary to Islamic laws.

2. In August, 1962, The Pilgrims Saving Corporation was incorporated, and it was subsequently launched on September 30, 1963. Six years later, in 1969, the Corporation was merged with the Pilgrims Affairs Office which had been in operation since 1951 in Penang giving berth to the Pilgrims Management and Fund Board under the Laws of Malaysia Act 8, the Pilgrims Management and Fund Board 1969 and Act A 168, the Pilgrims Management and Fund Board (Amendment 1973).

3. The Pilgrims Management and Fund Board of Malaysia, the only one of its kind in the world, is a unique organization. Its main functions are to manage and cater for the needs of Muslims in Malaysia to perform *Hajj* through the concept of savings and investments in ways that are not contrary to Islamic principles. Tabung Haji is also responsible for the management of the funds of depositors in business activities and investment. Thus, Tabung Haji is actively involved in various economic enterprises, such as, commercial, industrial, housing development and

plantations. Now, Tabung Haji has emerged as a strong Muslim financial institution.

4. The organizational structure of Tabung Haji can be found in Appendix A.

ISLAMIC FINANCIAL AND INVESTMENT MANAGEMENT TABUNG HAM EXPERIENCE

I. INTRODUCTION

1. Tan Sri Dato' Jaffar bin Hussein, Governor of the Central Bank of Malaysia, in his speech at the University of Science Malaysia on the 9th of March 1990, stated that the differences between the Islamic and the conventional financial systems are those of philosophy and ethics. The Islamic financial system is based on Islamic principles and philosophy, whereby the system itself is an integral part of Islam. On the other hand, the conventional financial system is based on capitalism which separates religion from economic activities in everyday life. It also stresses the individual's total freedom and bases financial decisions on bottom - line considerations. Individuals, being the owners of their property have the right and freedom to do whatever they like with their property. This principle is based on the individual's interest as a goal, competition as a method and freedom as a condition.

Meanwhile, in the Islamic financial system, men are ordained as Allah's representatives (*Khalifah*) who act as trustees. They do not have absolute ownership of their property. Therefore, transactions in the Islamic financial system cannot be based on bottom - line considerations. Individuals and companies in this system must operate in accordance with Islamic laws instead of individual interest. However, Islam does **not** prohibit profit making as long as it is in the interest of the public.

2. As an Islamic institution, Tabung Haji has to conform to Islamic tenets and principles in its financial transactions and management. In the early stages, as there was no Islamic financial model to follow, Tabung Haji was very careful to ensure that every financial decision was made in accordance with Islamic laws.

3. The financial functions of Tabung Haji can be divided into two major categories. The first concerns financial management including savings and the withdrawal of funds by depositors, and the second concerns the investment carried out with these savings.

II. SAVINGS PROCEDURES

1. Membership of Tabung Haji is limited to Malaysian citizens of the Islamic faith. The minimum deposit to open an account is RM10.00.

2. A person may save through any of the following means:

- i) Tabung Haji branch offices;
- ii) Post offices throughout the country;
- iii) Monthly pay deduction by employers;
- iv) Deposits mailed direct to Tabung. Haji branch; and
- v) Various schemes for dependents. '

3. In order to utilize the funds of depositors, Tabung Haji uses the wadiah.. Principle (wadiah al wakalah), which requires new depositors to fill in the Depositors Personal and Nomination Form' which includes the statement of *aqad izin*. The principle of *aqad izin* under the law of the Tabung Haji Act means that depositors agree to save in Tabung Haji and give consent for it to manage their savings for investment purposes.

4. Based on the consent given by depositors, Tabung Haji mobilizes the Funds collected for investment. The profit (if any) derived from these investments is distributed among the depositors in the form of a bonus.

III. WITHDRAWAL PROCEDURE

1. Depositors are allowed to withdraw their savings for any beneficial purpose once every six months.

2. The procedures for withdrawal from the account of a deceased depositor are based on Islamic law. In this context, depositors above the age of eighteen are allowed to appoint a nominee or nominees who will act as a trustee later.

3. , If the deceased depositor has appointed a nominee or nominees, Tabung Haji will pay the balance in the account of the deceased depositor to the nominee who is then requested to distribute the money to other beneficiaries according to *Faraid law*.

4. If the deceased depositor has not appointed a nominee or nominees, Tabung Haji will advise the beneficiaries to get a 'Letter of Administration' from the *Shari'ah* Court, High Court, Public Trustee or District Office. Based on Tabung Haji experience, the *Faraid* certificate issued by the *Shari 'ah* Court is easier and faster as it states the distribution of estates according to *Faraid law*.

IV. ZAKAH

1. As an Islamic institution, Tabung Haji before the distribution of dividends to its members, pays business *zakah* (tithe) from the profits earned during the *zakah* year and the amount of working capital at the end of the *zakah* financial year (*Hijrah*). The rate of *zakah* is 2.5 percent on the aggregate of profits earned during the year and the amount of working capital at the end of *Hijri* year (See Appendix B.)

2. Tabung Haji pays business *zakah* on behalf of depositors based on *aqad izin* where depositors are considered to be providers of funds for the business and investment activities of Tabung Haji.

3. Subsidiary companies of Tabung Haji also pay *zakah* using the same formula as above.

V. PROFIT AND BONUS

1. Tabung Haji has made a substantial profit during the last five years (1990-1994). The profit made in 1994 was RM 214.8 million compared to RM 170.3 million in 1993 after the deduction of *zakah*. The trend shows that Tabung Haji has maintained a steady increase of profit with the average increase amounting to 43 percent per year. (See Appendix C.)
2. In line with the Islamic economic principle of distribution which places great importance on justice, the profit derived from the utilization of the funds of depositors is distributed among the depositors in the form of a bonus.
3. The bonuses paid to depositors are based on the principle of profit sharing which differentiates the bonus from the concept of *riba*. Bonuses are only paid if Tabung Haji makes a profit, i.e., when there is an excess of income over expenditure. If the profit is high, the rate of the bonus will be high, and when the profit is low, the rate of the bonus will also be low. In other words, the rate of the bonus is not fixed. It depends on the profits derived in particular year.
4. In 1994, the rate of the bonus paid to depositors was 9.5 percent compared to 9.0 percent in 1993. The trend shows that Tabung Haji has maintained a steady competitive rate of return. (See Appendix D)
5. The yearly bonus is paid to depositors by crediting the bonus to their account on the 31st of December each year (after making a deduction for *zakah*).
6. Starting from the 1st of January, 1986 (Assessemtn year 1987), the bonus paid to depositors has been fully exempted from income tax. This exemption is due to the payment of *zakah* by Tabung Haji on behalf of depositors.

VI. INVESTMENT

1. As an Islamic institution, the investment activities of Tabung Haji are carried out according to Islamic rules and practices similar to Islamic banks and other Islamic investment institutions. Tabung Haji's investment activities are managed under the following *shari'ah* principles:

- i) *Al-Musharakah*
- ii) *Al-Bai'Bithaman Ajil*
- iii) *Al-Mudharabah.*
- iv) *Al-Murabaha*
- v) *Al-Qardhul Hasan*
- vi) *Al-Ijarah* (See Appendix E.)

2. To ensure that the investment operations of Tabung Haji do not involve any element which is contrary to Islamic principles, Tabung Haji uses the services of the Religious Supervisory Council of Bank Islam Malaysia and the National Fatwa Committee of Malaysia to advise Tabung Haji on investment operations.

3. To ensure the success of investments, Tabung Haji has established a special panel called the Finance Advisory Council to advise the management of Tabung Haji on investment operations. Members of this panel are successful, high - calibre businessmen, bankers and high-level government officials who are experts in finance and economy in Malaysia.

4. Tabung Haji emphasizes that investment activities are not involved in anything which is contrary to Islam. In this regard, Tabung Haji does not invest in sectors such as banking (except Bank Islam Malaysia), Insurance (except Takaful of Malaysia) and hotels. In other words, Tabung Haji will not invest in companies that are involved with activities which are prohibited by Islam. AS a safeguard, Tabung Haji from time to time refers to the Religious Supervisory Council of Bank Islam Malaysia regarding doubtful companies or sectors. Tabung Haji

investments are listed in Appendix F and the total cost of investments is in Appendix G.

VII. INCOME FROM INVESTMENT

The income received by Tabung Haji is derived from the following investments:

- i) Dividends from investments. in shares (equity participation);
- ii) Rental of buildings;
- iii) Profits on the rate of foreign exchange;
- iv) Profits on the sale of shares;
- v) Dividends and bonuses from investments in the security market.

VIII. FINANCING FACILITIES FOR THE STAFF

For the welfare of its staff, Tabung Haji provides credit facilities for buying a house/vehicle based on the principle of Bai'Bithaman Ajil. Tabung Haji was the first government body to implement this system.

IX. FINANCING FACILITIES FOR THE STAFF-

In line with the objective regarding the welfare of pilgrims, Tabung Haji provides loans to needy pilgrims in the Holy Land based on the principle of "*Al-Qardhul Hasan*". Pilgrims are requested to repay thier loans (interest free) upon their return to Malaysia.

X. CONCLUSION

As an Islamic institution, Tabung Haji has proved its ability in managing the Funds of depositors according to *Shari'ah* laws, and ,at the same time it has proved itself capable of paying competitive returns to depositors despite the limitation to its selective investment. Tabung Haji is now considered a proven investment institution which is well respected by local and foreign investment partners and institutions.

HAJJ SERVICES FOR PILGRIMS TABUNG HAM * EXPERIENCE

I. HAJJ MANAGEMENT IN MALAYSIA

1.. Under the provisions of the Pilgrims Management and Fund Board Act, all Malaysian pilgrims are required to make arrangements with 'Tabung Haji which cover:

- i) Medical certification of fitness;
- ii) Registration for the *Hajj*;
- iii) Issue of *Hajj* Passport and *Hajj* visa;
- iv) *Hajj* guidance courses; and
- v) Transportation arrangements to and from the Holyland.

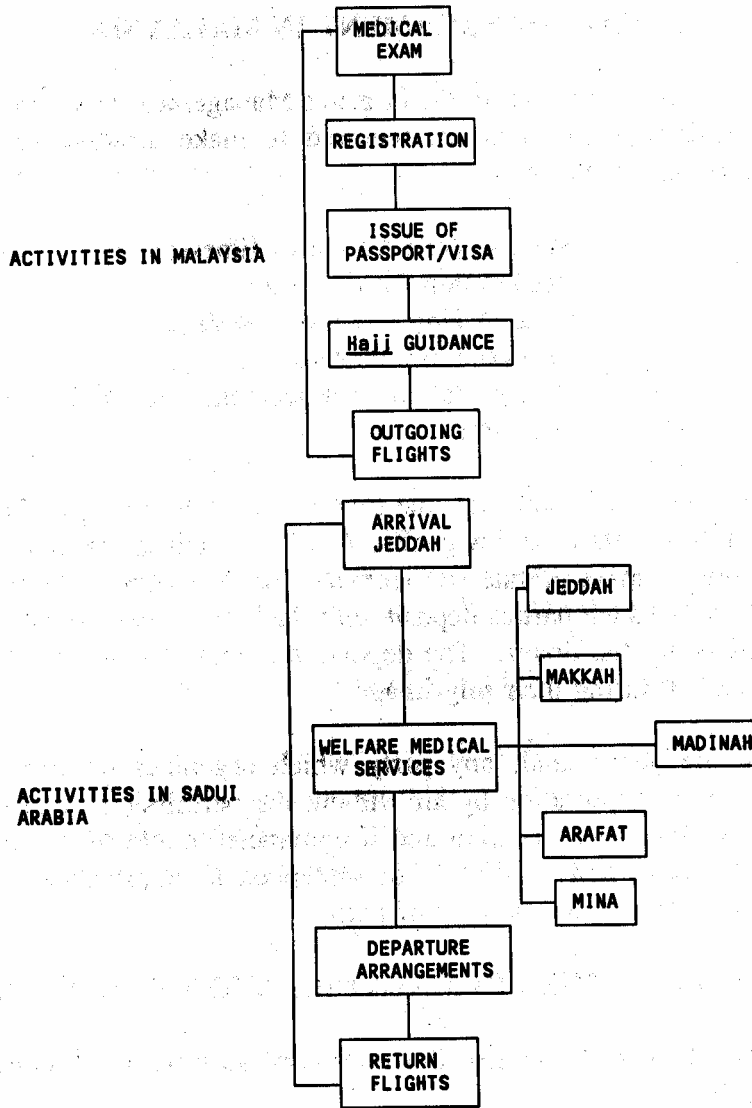
2. However, under the Act, the Board can, with the approval of the Minister of *Hajj* Affairs, allow qualified and experienced parties (private organizations) to make private arrangements for *Hajj* transportation by air on condition that such parties deposit with the Government an amount to be determined by the Board. The deposit is to ensure that pilgrims will not be stranded during their pilgrimage.

3. On the other hand, any party which organizes or attempts to organize *Hajj* transportation by air without the permission of the Board could be liable for prosecution and if convicted could be fined up to but not exceeding RM100,000.00 or sentenced to imprisonment for a period of not more than one year of both.

H. HAJJ ACTIVITIES IN MALAYSIA AND SAUDI ARABIA

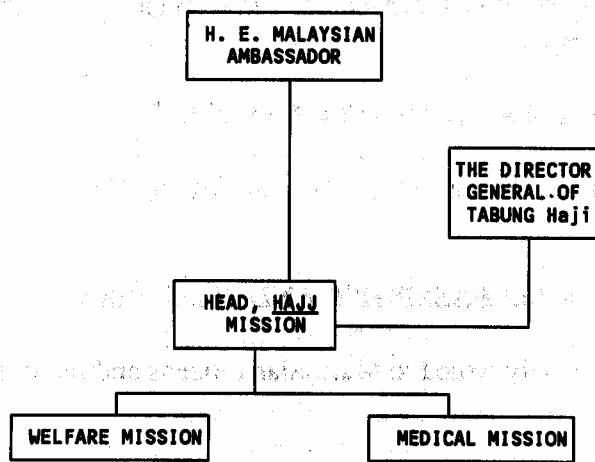
1. The following flowchart illustrates *Hajj* activities in Malaysia and Saudi Arabia:

FLOWCHART OF HAJJ ACTIVITIES



STRUCTURE OF MALAYSIAN *HAJJ* MISSION

In Saudi Arabia, the structure of the Malaysian *Hajj* Mission is as follows:



MEDICAL EXAMINATION

Medical examinations (including chest X-ray if necessary) and meningitis are given at local hospitals and health centers.

If necessary, treatment is given before the Certificate of Fitness to Perform the *Hajj* is issued.

IV. REGISTRATION FOR THE *HAJJ*

Pilgrims can register for the *Hajj* at any of Tabung Haji's branch offices.

V. ISSUE OF *HAJJ* PASSPORT AND *HAJJ* VISA

Hajj passports are only issued to Malaysian citizens and permanent residents.

Hajj visas are arranged by the Board on behalf of pilgrims and issued by the Royal Saudi Embassy in Kuala Lumpur.

VI. *HAJJ* GUIDANCE COURSES

6.1 The *Hajj* Guidance Course for pilgrims is one of the **main** activities of Tabung Haji. The aim of this course is to equip future pilgrims with knowledge of *Hajj* rituals and administration. The content of the course includes three main aspects as follows:

- i. Performance of *Hajj* including *Hajj* principles (*rukun*), *Hajj* obligations (*wajib*) and problem solving related to them.
- ii. Regulations and administration of *Hajj* in Malaysia and Saudi Arabia.

- iii. Security measures and health care while performing *Hajj* in the Holy land.

6.2 By means of these guidance courses, Tabung Haji hopes to help future pilgrims to prepare themselves mentally, physically and spiritually so that they will not suffer any shock when they perform the *Hajj*. Tabung Haji also hopes to help pilgrims to experience the ideal *Hajj (mabrur)* which will give them a new outlook **on** life upon their return home. In other words, they will live a truly Muslim life and contribute to the welfare of society by setting a good example that will prove to the Muslim community the virtue of the *Hajj* rituals.

6.3 There are three types of *Hajj* Guidance courses organized for those intending to perform the *Hajj*:

- i. Series of *Hajj* Courses

These courses are managed by Tabung Haji State Managers with the cooperation of the State Religious Department. These courses are held weekly for a series . of eighteen months at state and district mosques.

- ii. *Hajj* Guidance through Mass Media

Hajj guidance is also provided by the mass media radio and television. The topics covered and times of broadcasts are as follows:

Sl.	Topic	Media	Time
1.	<i>Hajj</i> Rituals (9 programs)	TV	One month before the departure of the first <i>Hajj</i> flight
2.	Speech by the Minister of Prime Minister's Department	TV and . radio	Before the departure of the first flight
3.	Special programs on <i>Hajj</i> operations	Radio	During the <i>Hajj</i> operations

iii. **Two-day Intensive Course**

These courses are conducted by Tabung Haji State Managers in each state. Pilgrims are divided into groups of 150 to 200. They are briefed for two consecutive days as follows:

Day One: Guidance on the rituals of *Hajj* and *Umrah* and a question and answer session

Day Two: Talks on *Hajj* administration and health.

In addition various informative pamphlets and posters are distributed to the pilgrims during the course.

6.4 The content and the methodology of the guidance courses are standardized through the Convention for the trainers of the *Hajj* Rituals which is held every year. Among the participants of the convention are the states' Muslim religious scholars. The standardization of the content of the guidance courses is particularly important in order to avoid confusion among pilgrims. The courses help to improve the knowledge and discipline of pilgrims while performing the *Hajj*.

6.5 In the Holy Land, Tabung Haji also provides *Hajj* Specialist Referral Services to help pilgrims solve any problems arising during the performance of *Hajj*, such as:

- i. Transgression of *ihram* rituals;
- ii. Failure to stay overnight at Muzdalifah/Mina;
- iii. Transgression of *Tawaf* and *Saie* rituals;
- iv. Problems of *dam* payment; etc.

VII. TRANSPORTATION ARRANGEMENTS

Tabung Haji arranges *Hajj* transportation as follows:

7.1 By Sea

Sea transportation is arranged if there is a demand for it by more than 3000 pilgrims (adequate for at least two trips).

7.2 By Air

Chartered Flights

Between 100-110 chartered flights using DC 10s (363 passenger capacity) or Boeing 747s (475 passenger capacity) are arranged by Tabung Haji each season.

ii. Scheduled Flights

Pilgrims can also choose to go by regularly scheduled Malaysian Airlines flights if chartered flights are unavailable.

Tickets for all the above transportation are prepared and issued by the Pilgrims Transportation and Trading Corporation Sdn. Bhd., a subsidiary company wholly owned by Tabung Haji..

VIII. SERVICES PROVIDED IN THE HOLY LAND

To ensure the welfare, safety and health of pilgrims during their stay in the Holy Lands, Tabung Haji sends two official teams to accompany them. These are the Welfare and Medical Teams.

8.1 The Welfare Team is responsible for the following services:

- i. Providing accommodations services.
- ii. Providing savings and withdrawal services.
- iii. Receiving complaints from pilgrims and taking the necessary remedial action.
- iv. Registering deaths and births.
- v. Distributing a pilgrims' newsletter.
- vi. Managing the pilgrims' welfare fund.
- vii. Receiving reports of lost items.
- viii. Administering the payment of *dam*.
- ix. Searching for lost pilgrims.
- x. Providing counselling services.
- xi. Administering changes in flight schedules.
- xii. Providing expert advice on the performance of the *Hajj*.

8.2 The Medical Team is responsible for the following services:

- i. Administering the Malaysian Hospital at Aziziah.
- ii. Administering dispensaries in Jeddah, Madinah, Arafat and Mina.
- iii. Providing mobile clinic services.
- iv. Providing ambulance services for sick pilgrims.
- v. Referring patients to government hospitals in Makkah.
- vi. Taking patients to Arafat.
- vii. Making arrangements for sending patients back to Malaysia.
- ix. Providing medical services at the pilgrims residence.
- x. Administering recuperating centers for sick pilgrims before they are discharged:
- xi. Providing expert advice on the performance of the *Hajj*.

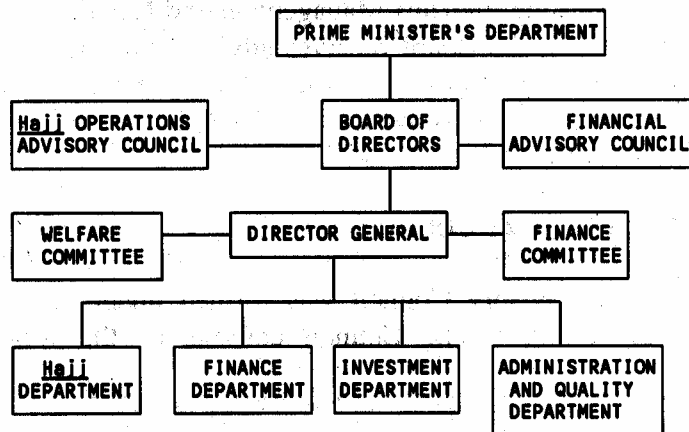
IX. CONCLUSION

- 9.1 Tabung Haji *Hajj* management activities begin by certifying the physical fitness of pilgrims, making passport/visa arrangements, providing guidance courses and making flight arrangements to the Holy Land. These activities are followed by the management of the welfare of the pilgrims in the Holy Land and finally by the arrangement of flights back to Malaysia.
- 9.2 Tabung Haji places great importance on future pilgrims being equipped with knowledge of *Hajj* rituals as well as with knowledge about conditions in the Holy Land during the *Hajj* season. This helps pilgrims to be more disciplined during the performance of *Hajj*. and provides them with a different outlook and a new spirit upon their return to Malaysia.
- 9.3 There are also opportunities for pilgrims from Muslim countries to communicate (in Arabic or English) and exchange ideas on political aspects and economic interests and where possible it may create Islamic International trade centers.
- 9.4 The Malaysian *Hajj* management experience .has shown that success not only depends upon proper organization, but also upon a close relationship with the Saudi Arabian Government and other authorities in Saudi Arabia. The improved facilities provided by the Saudi Arabian Government have enabled pilgrims to perform *Hajj* under better conditions.

APPENDICES

Appendix A

**ORGANIZATIONAL STRUCTURE
THE PILGRIMS MANAGEMENT AND FUND
BOARD OF MALAYSIA**



1. BOARD OF DIRECTORS

Tabung Haji is governed by a Board of Directors which is comprised of the following members:

- i. Chairman - appointed by the Yang Di Pertuan Agong;
- ii. Deputy Chairman - appointed by the Yang Di Pertuan Agong;
- iii. Representative of the Prime Minister's Department;
- iv. Representative of the Treasury;
- v. Director General of Tabung Haji;
- vi. A maximum of five other members appointed by the Minister; and
- vii. Representative of the Ministry of Health (by invitation).

Members of the Board other than ex-officio members are appointed or nominated from amongst Muslim citizens. The Board administers the Funds and all other matters pertaining to the welfare of pilgrims, formulates policies in connection therewith and performs other duties as provided under the Pilgrims Management and Fund Board Act. In carrying out its duties, the Board receives advice from the Financial Advisory Council and the *Hajj* Operation Advisory Council. Both councils were formed under the provisions of the Act.

2. FINANCIAL ADVISORY COUNCIL

The Financial Advisory Council was formed under the Act in order to assist the Board. The Council consists of the following members:

- i. Director General;
- ii. Director of Finance; and
- iii. Four other members appointed by the Minister.

The Council is required to meet at least once every three months and to submit reports and recommendations for the deliberation of the Board.

3. **HAJJ OPERATIONS ADVISORY COUNCIL**

The *Hajj* Operations Advisory Council was established under the Act for the purpose of:

- i. Advising the Minister on matters pertaining to the welfare of pilgrims; and
- ii. Advising the Minister on any matter referred to it by the Minister.

The membership of the Council is as follows:

- i. Chairman of the Board, who also acts as the Chairman of the Council;
- ii. Representative of the Prime Minister's Department;
- iii. Representative of the Treasury;
- iv. Representative of the Ministry of Foreign Affairs;
- v. Director General, who acts as the Secretary of the Council; and
- vi. Representative from each of the Malaysian States.

The Council is required to meet at least once during every calendar year.

4. **FINANCE COMMITTEE**

The Finance Committee is vested with powers by the Board and is responsible for the administration and investment of funds.

The Finance Committee is comprised of the following members:

- i. Director General - Chairman;
- ii. Director of Finance - Secretary;

- iii. Representative of the Prime Minister's Department;
- iv. Representative of the Treasury; and
- v. One member appointed by the Board.

5. WELFARE COMMITTEE

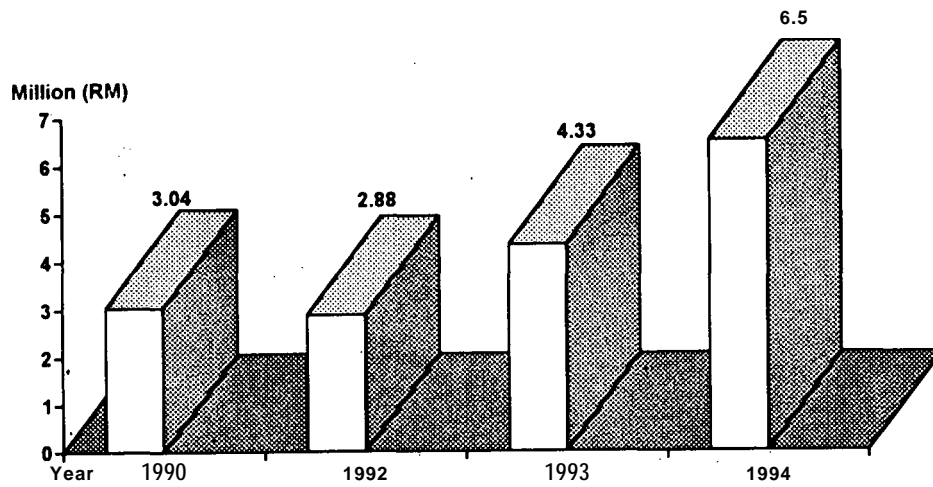
The Welfare Committee is responsible for the welfare, protection, control and general well-being of pilgrims in accordance with policies stipulated by the Board and with powers delegated by the Board.

The Welfare Committee is made of the following members:

- i. Director General - Chairman;
- ii. Director of Welfare - Secretary;
- iii. Representative of the Prime Minister's. Department; and
- iv. One member appointed by the Board.

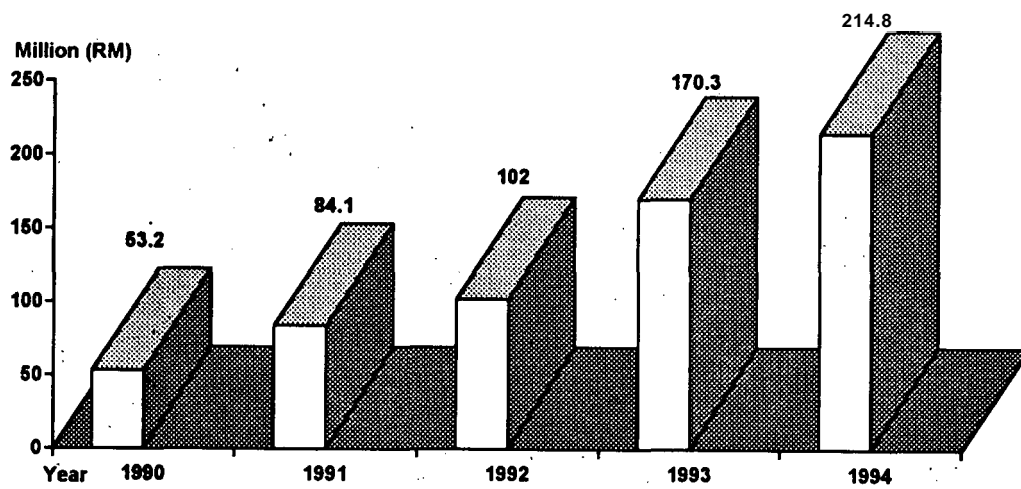
Appendix B

PILGRIMS MANAGEMENT AND FUND BOARD PAYMENT *OF ZAKAH*



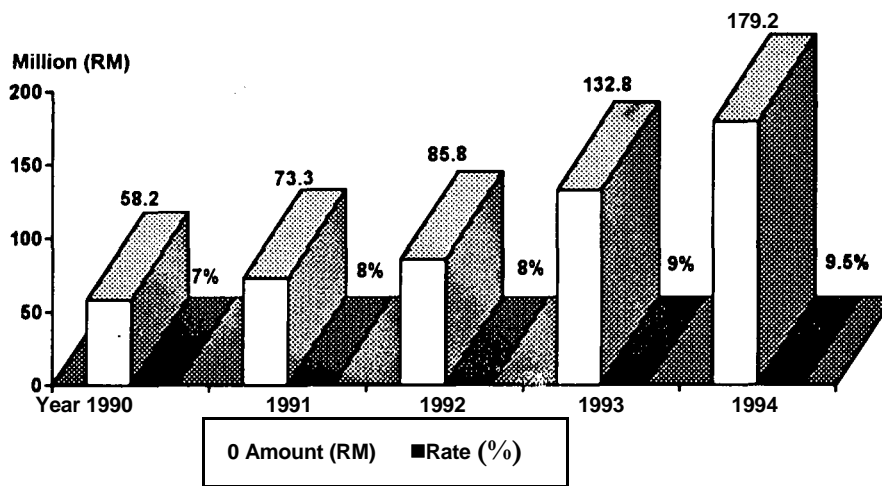
Appendix C

PILGRIMS MANAGEMENT AND FUND. BOARD PROFIT



Appendix D

PILGRIMS MANAGEMENT AND FUND BOARD PAYMENT OF BONUS



Appendix E

SHARI'AH CONCEPTS IN TABUNG HAJI INVESTMENTS

As an Islamic investment institution, Tabung Haji adopts the following *shari'ah* principles in its investments:

1. AL-MUSHARAKAH

In *al-musharakah*, shareholders finance a project and the profits are divided accordingly as agreed by the parties (e.g.) Corporate Notes, with these instruments, financing requirements can be made secure through the issue of *shahadah al dayn* (promissory notes or debt certificates). This has paved the way for the creation and trading of Islamic debt instruments.

2. AL-BAI'BITHAMAN AJIL

Financing with deferred repayments over a specific period of time (deferred sale), e.g., Housing and Motor Vehicle Loans. Tabung Haji first determines the requirements of the members of staff in relation to the period and manner of repayment and purchases the assets concerned. Tabung Haji subsequently sells the assets to the staff at an agreed price which comprises the actual cost and margin of profit.

3. .AL-MUDARABAH

In *al-mudarabah* an agreement is made in which capital is provided by one party and management expertise is provided by the other party. Any losses incurred in the venture are borne by the provider of capital (e.g., General/Special Investment in Bank Islam Malaysia). This instrument is basically a time deposit in which the bank invests deposited funds collectively over a specified period and returns are divided accordingly.

4. AL-MURABAHAH

This type of financing consists of a repayment agreed upon by both parties that includes the profit markup (e.g., Islamic Accepted Bills (IAB)). This instrument is issued by Bank Islam Malaysia under the Islamic Accepted Bills Export/Import guidelines issued by Bank Negara.

5. AL-QARDHUL HASAN

This is a benevolent loan in which the provider of capital is guaranteed at least the principal portion (e.g., Government Investment Certificates). This instrument is issued by the government of Malaysia to enable Islamic financial institutions to meet their short-term liquidity requirements. Malaysia was the first nation to issue such papers in line with Islamic principles.

5. AL-IJARAH

Financing consists of a repayment to acquire the right to use the services of a given asset. Normally Tabung Haji uses this facility provided by Bank Islam of Malaysia for the purchase of equipment such as computers.

Appendix F

TYPE OF INVESTMENT

The four major types of investment made by Tabung Haji are:

- i. Investment in shares (equity participation);
- ii. Investment in subsidiary companies;
- iii. Investment in land and buildings; and
- iv. Short-term investment.

1. INVESTMENT IN SHARES

- 1.1 Tabung Haji invests in a company by buying shares and thus becomes a shareholder of the company. The amount of equity participation depends on the amount being offered, but, generally, the participation is not as a majority shareholder. In some cases, although its equity participation does not make it a major shareholder, Tabung Haji nevertheless takes an active role in the management of the company.
- 1.2 The investment in shares can be further classified as investment in quoted and unquoted shares. Quoted shares are shares that are quoted by the Kuala Lumpur Stock Exchange (KLSE) and, therefore, easily marketable. Tabung Haji prefers to invest in quoted companies because these investments can be easily realized.
- 1.3 After investing in the equity of a company, Tabung Haji is interested in protecting its investment and in ensuring that the investment generates satisfactory returns. In cases where its holding is more than 5 per cent in the equity of a company (i.e., as a substantial shareholder), Tabung Haji will request

that one of its officials be placed on the board of the company. Tabung Haji board members and senior officials sit on the board of the company to represent and look after the interests of Tabung Haji.

2. INVESTMENT IN SUBSIDIARY COMPANIES

At present, Tabung Haji has invested in the following five subsidiary companies:

- 2.1 Perbadanan Ladang-Ladang Tabung Haji Sendirian Berhad (Plantations Corporation).
- 2.2 Ladang Tabung Haji (Sabah) Sendirian Berhad (Sabah Plantation Corporation).
- 2.3 Perbadanan Pengangkutan dan Perusahaan Tabung Haji Sendirian Berhad (Transport and Trading Corporation).
- 2.4 Syarikat Pembinaan dan Perumahan Tabung Haji Sendirian Berhad (Construction and Housing Company).
- 2.5 Urns Bina Sendirian Berhad (Property Management Company).

3. INVESTMENT IN LAND AND BUILDINGS

- 3.1 Tabung Haji has also undertaken long-term investment in the property market. Over the years, Tabung Haji has actively participated in the property market by taking part in the construction of office buildings for Tabung Haji offices as well as for rental purposes.
- 3.2 Tabung Haji also participates in the investment of the property market on the basis of the sale and leaseback method. Tabung *Haji* buys - the building and leases it back to the original

owners (i.e., the building is rented to the owner for a specific period of time).

4. SHORT-TERM INVESTMENT

Tabung Haji invests its temporary short-term funds in Bank Islam Malaysia. In the case of a substantial short-term surplus for *Hajj* expenses, Tabung Haji invests this surplus in a Special Investment Account at a profit sharing ratio of 75:25. As far as a normal surplus is concerned an arrangement is made whereby funds are maintained in the current account and invested by the bank and the profit is shared at the ratio of 70:30.

Appendix G

TOTAL INVESTMENT IN RINGGIT MALAYSIA (RM)

DETAILS	31-12-1993	31-12-1994
Quoted Shares	543,344,125	693,674,957
Unquoted Shares	191,802,634	190,941,737
Subsidiary Companies	136,355,260	165,462,916
Trading	20,965,245	36,802,494
Nominee	30,490,086	60,216,764
SUBTOTAL	922, 957, 350	1,147,098,868
Government Investment Securities	592,927,160	884,130,405
Corporate Notes	108,020,000	154,144,860
Overseas Investment	12,227,915	4,585,584
Islamic Accepted Bills	22,656,611	45,388,241
General Investment / Bank Islam	66,338,165	3,000,000
SUBTOTAL	802,169,851	1,091,249,090
Land and Buildings	276,453,083	313,918,779
TOTAL INVESTMENT	2,001,580,284	2,552,266,737

Note: Amount in Ringgit Malaysia (RM) based on Book Value.

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ISLAMIC DEVELOPMENT BANK (IDB)

Establishment of the Bank

The Islamic Development Bank is an international financial institution established in pursuance of the Declaration of Intent by a Conference of Finance Ministers of Muslim countries held in Jeddah in Dhul Qa'da 1393H (December 1973). The Inaugural Meeting of the Board of Governors took place in Rajab 1395H (July 1975) and the Bank formally opened on 15 Shawwal 1395H (20 October 1975).

Purpose

The purpose of the Bank is to foster the economic development and social progress of member countries and Muslim communities individually as well as jointly in accordance with the principles of *Shari'ah*.

Functions

The functions of the Bank are to participate in equity capital and grant loans for productive projects and enterprises besides providing financial assistance to member countries in other forms of economic and social development. The Bank is also required to establish and operate special funds for specific purposes including a fund for assistance to Muslim communities in non-member countries, in addition to setting up trust funds.

The Bank is authorized to accept deposits and to raise funds in any other manner. It is also charged with the responsibility of assisting in the promotion of foreign trade, especially in capital goods among member countries, providing technical assistance to member countries, extending training facilities for personnel engaged in development activities and undertaking research for enabling the economic, financial and banking activities in Muslim countries to conform to the *Shari'ah*.

Membership

The present membership of the Bank consists of 48 countries. The basic condition for membership is that the prospective member country should be a member of the Organization of the Islamic Conference and be willing to accept such terms and conditions as may be decided upon by the Board of Governors.

Capital

The authorized capital of the Bank is six billion Islamic Dinars. The value of the Islamic Dinar, which is a unit of account in the Bank, is equivalent to one Special Drawing Right (SDR) of the International Monetary Fund. The subscribed capital of the Bank is 3,654.78 million Islamic Dinars payable in freely convertible currency acceptable to the Bank.

Head Office

The Bank's head office is located in Jeddah in the Kingdom of Saudi Arabia and the Bank is authorized to establish agencies or branch offices elsewhere.

Financial Year

The Bank's financial year is the Lunar Hijra year.

Language

The official language of the Bank is Arabic, but English and French are additionally used as working languages.

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