



FACULTY OF ECONOMICS AND BUSINESS
UNIVERSITAS PADJADJARAN

LEADING
AND
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Waqf Core Principles and Its Implications for Waqf Management

by
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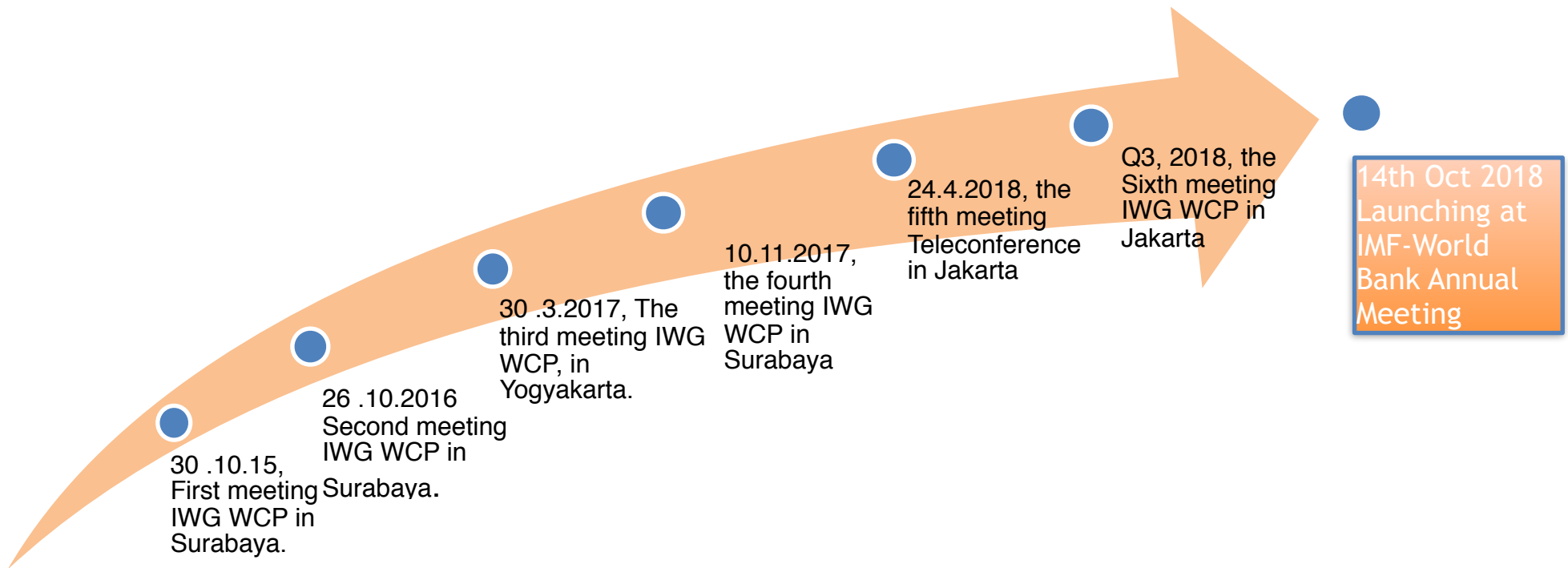
Asia-Japan Research Institute, Ritsumeikan University & Kyoto University SPIRITS
Osaka - Kyoto, Japan, Feb, 26th-28th. 2020

Waqf Core Principles

- International Working Group for WCP endorsed a draft on the Waqf Core Principles (WCP) which were developed by Waqf practitioners and academicians worldwide (18 members from 12 countries).
- The WCP are intended to provide a set of core principles for the regulation and supervision of the waqf management. The WCP will complement the international architecture for financial stability, while providing incentives for improving the prudential framework for waqf management across jurisdictions.
- Similar to Zakah Core Principles (ZCP) which have been launched at UN Humanitarian, Istanbul Turkey in 2016, The WCP had be introduced at IMF - World Bank Annual Meeting in Bali in 2018.

International Working Group (IWG) - Waqf Core Principles (WCP)

HIGHLIGHT ACTIVITIES of IWG - WCP



International Working Group - Waqf Core Principles



TIMELINES TO LAUNCH WCP IN IMF - WORLD BANK ANNUAL MEETING

IWG WCP MEETINGS

1st Meeting :
30.1.15 in Surabaya.
(kick off Meeting)

2nd Meeting :
26.10.2016, in
Surabaya.

3rd Meeting
: 30.3.17
in Yogyakarta.

4th meeting:
10.11.17, in
Surabaya

BWI-BI-PM MEETINGS

Draft of WCP, Hotel
Indonesia, BI, BWI, PM,
Kempinski, 4-5 Okt 17

Launching WCP,
BWI-BI-PM, Jakarta,
9 Februari 2018

Feedback Draft WCP, dr
BWI, : 28 Feb 18

International Working
Group Meeting : Mei
2018.

SHARIA REVIEW

Shariah Review : OIC Committee Member : Prof Azmi Omar, Dr. M. Syafii Antonio, Prof Murat (Turkey), Max : April - July 2018.

IWG WCP NEXT MTGS

5th meeting : Q1/2018
in Jakarta (Video-conference / Circular letter / FGD)

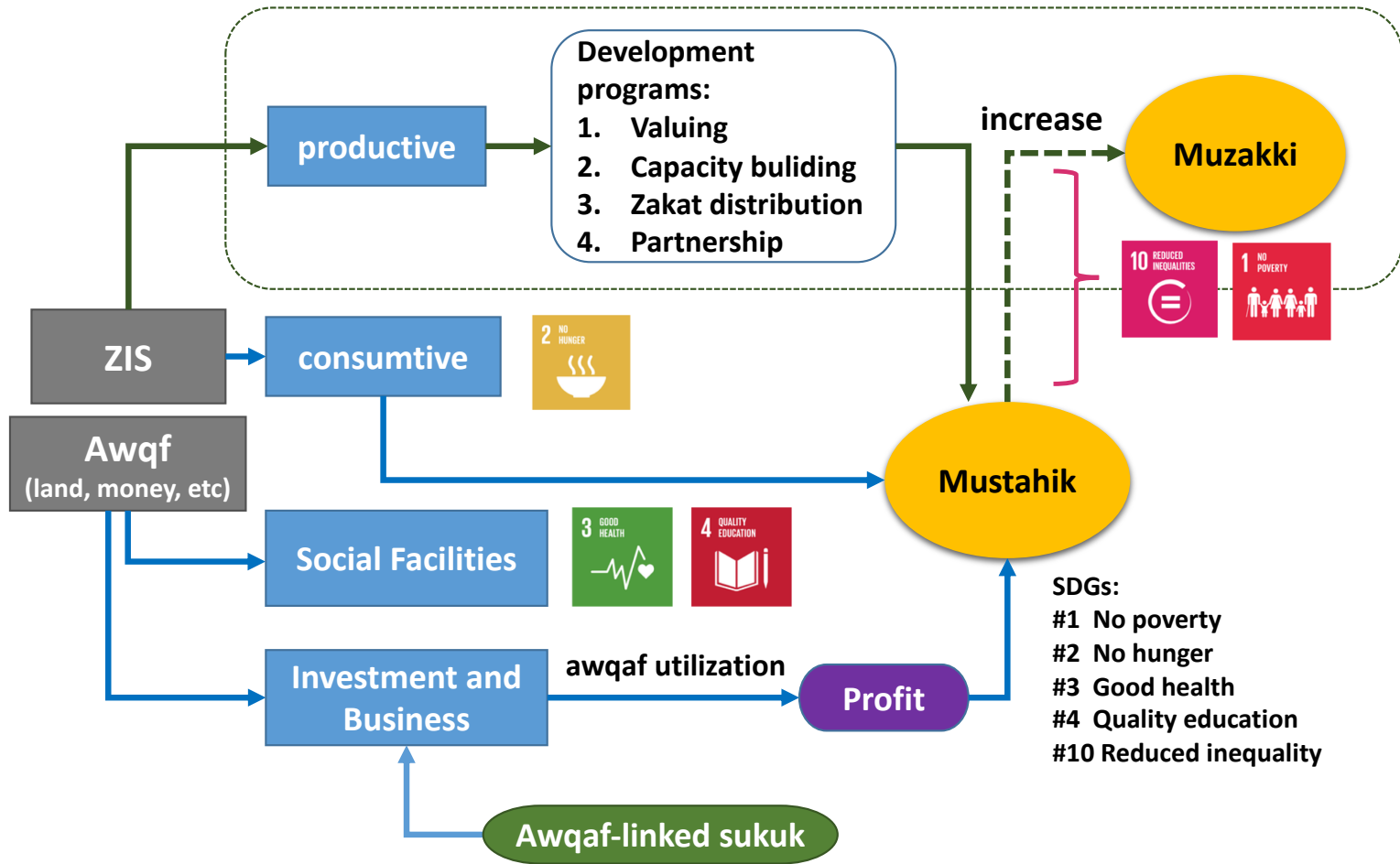
6th meeting : Q3/2018

IMF-WORLD BANK MEETING

**LAUNCHING WAQF CORE PRINCIPLES AT IMF - WORLD BANK ANNUAL MEETING
in Bali OCTOBER, 14. 2018**



ISLAMIC FINANCE TO MITIGATE POVERTY





Ways to optimize awqf:

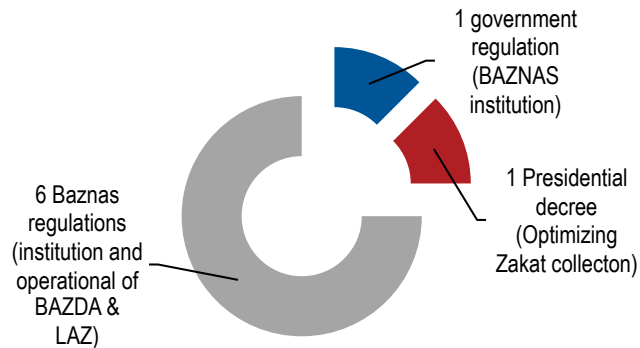
1. Awqf Act 2004 and regulation on awqf management and cash awqf.
2. Cash awqf collection via social institutions and LKSPWU to enlarge its scope.
3. Collaboration between nazir and corporates to inflate productivities.
4. Model of Sukuk-linked awqf as alternative source financing.
5. Awqf Core Principle (WCP) .

Why do we need Waqf Core Principle?

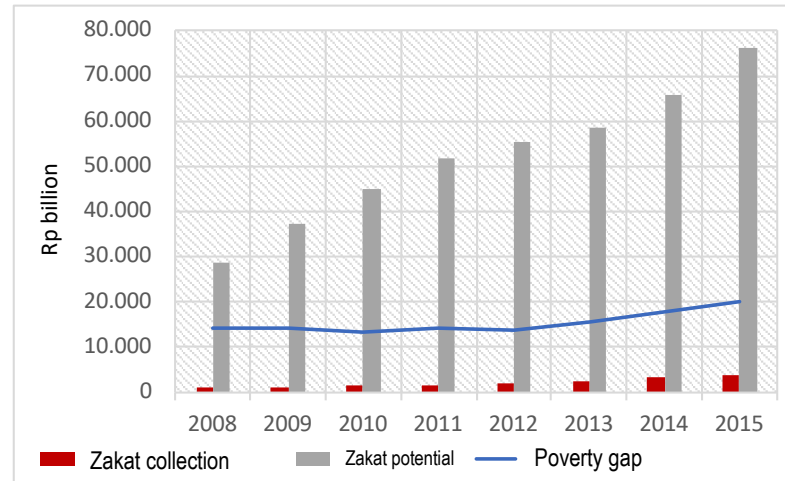
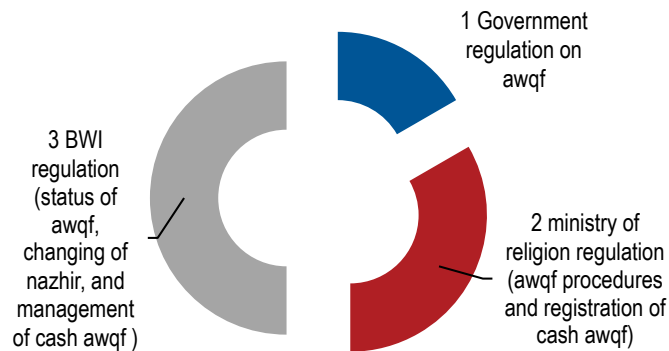
In reality.....still too far from its potential

KINERJA ZISWAF & AWQF BELUM OPTIMAL

Act No. 23 year 2011 on zakat



UU No. 41 year 2004 on Awqf



source: BPS and BAZNAS

| | | |
|----------------------------|-----|-------|
| Nazhir of cash awqf | 135 | |
| Financial institutions | 18 | 13.3% |
| Non financial institutions | 117 | 86.7% |
| Reporting cash awqf | 52 | 38.5% |

| | | |
|--------------------------|--------|-------|
| Number of awqf land (ha) | 435768 | |
| Certified | 287160 | 65.9% |
| Not yet certified | 148608 | 34.1% |
| In the process | 73090 | 49.2% |
| Not yet certified | 19403 | 13.1% |
| Unclear | 56115 | 37.8% |

source: BWI (2016)

The amount of Cash Waqf is “too small to survive”

Critical Questions ??????

Why is it so difficult to raise cash waqf?

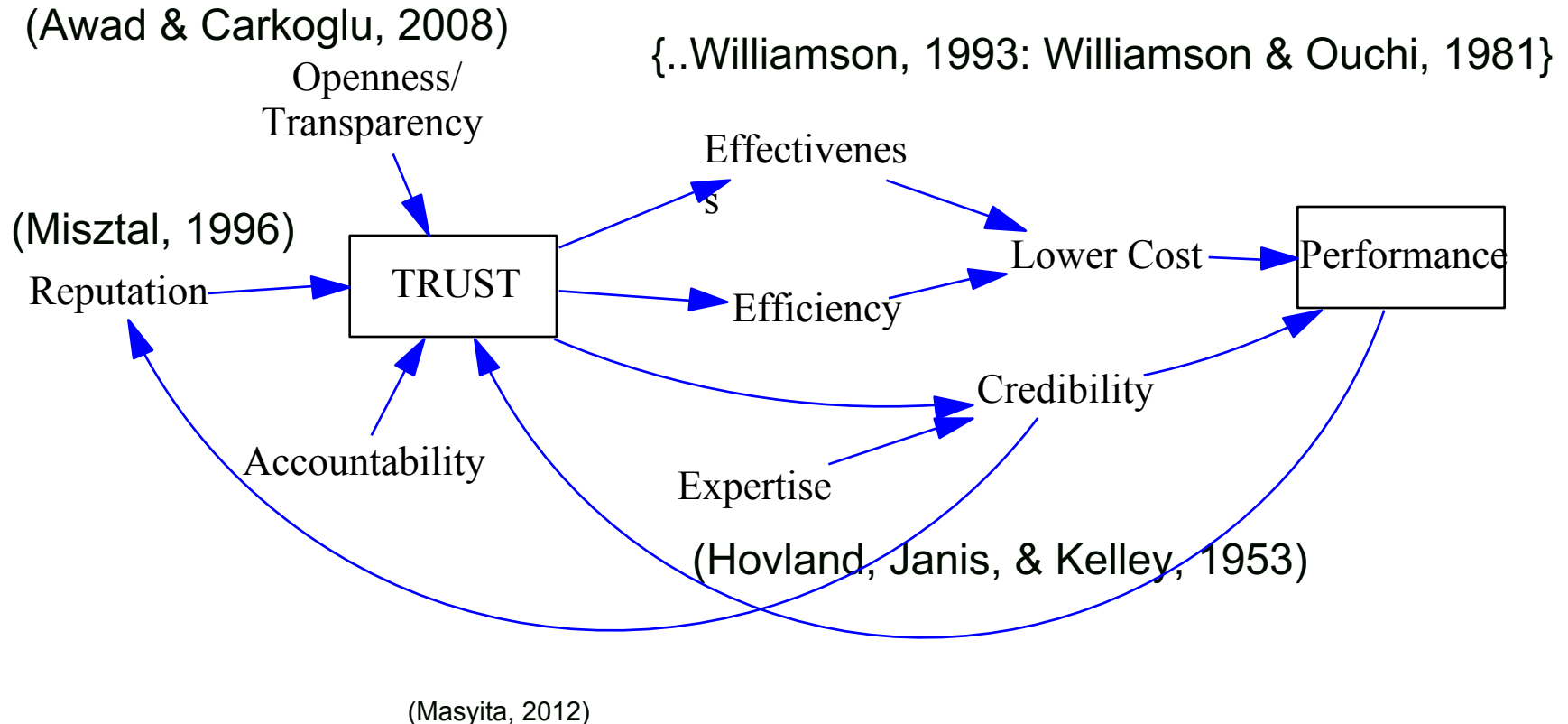
Why do not many people trust waqf institutions or institutional nadzir to manage their (cash) waqf?

Is it a matter of trust ??

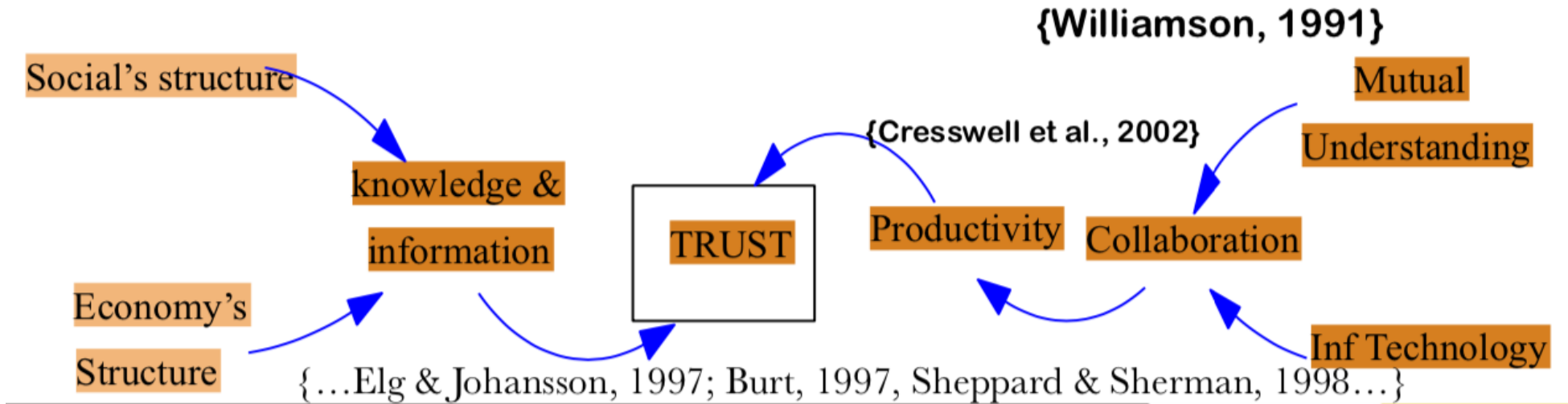
if ONE of the answers is YES (trust)

How to build trust?

Trust Boost Institution's Performance

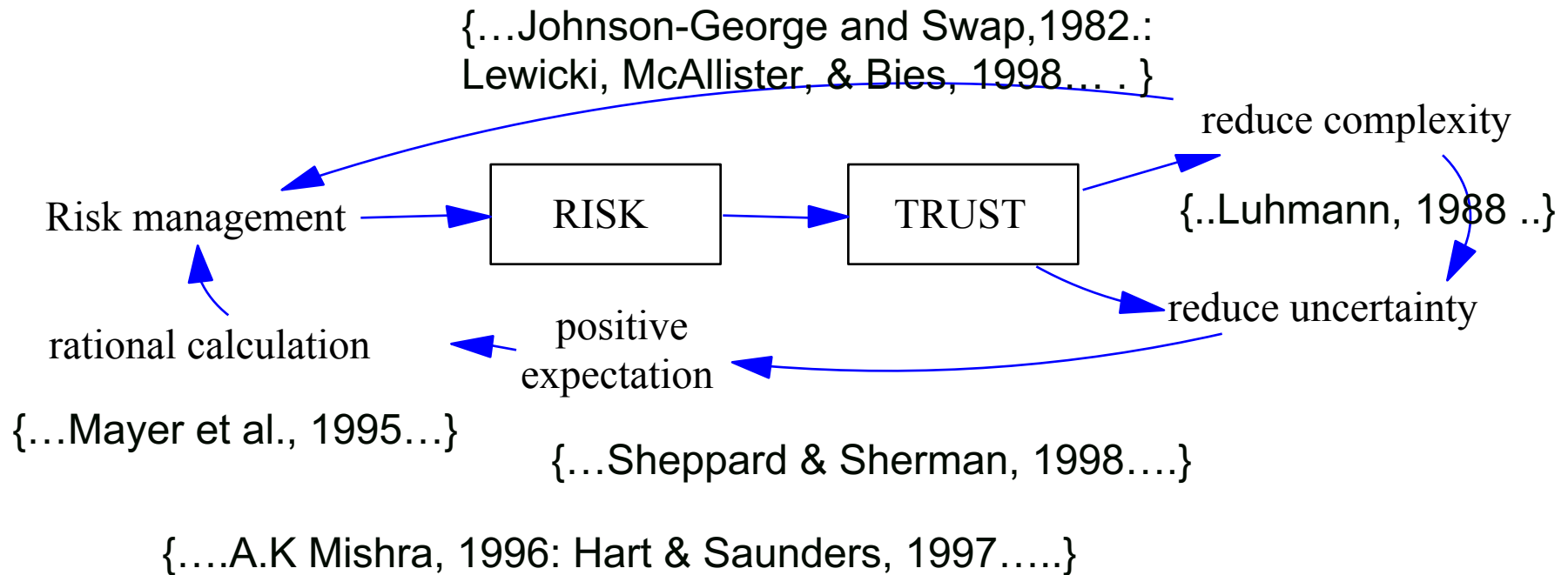


Factors Which Create Trust



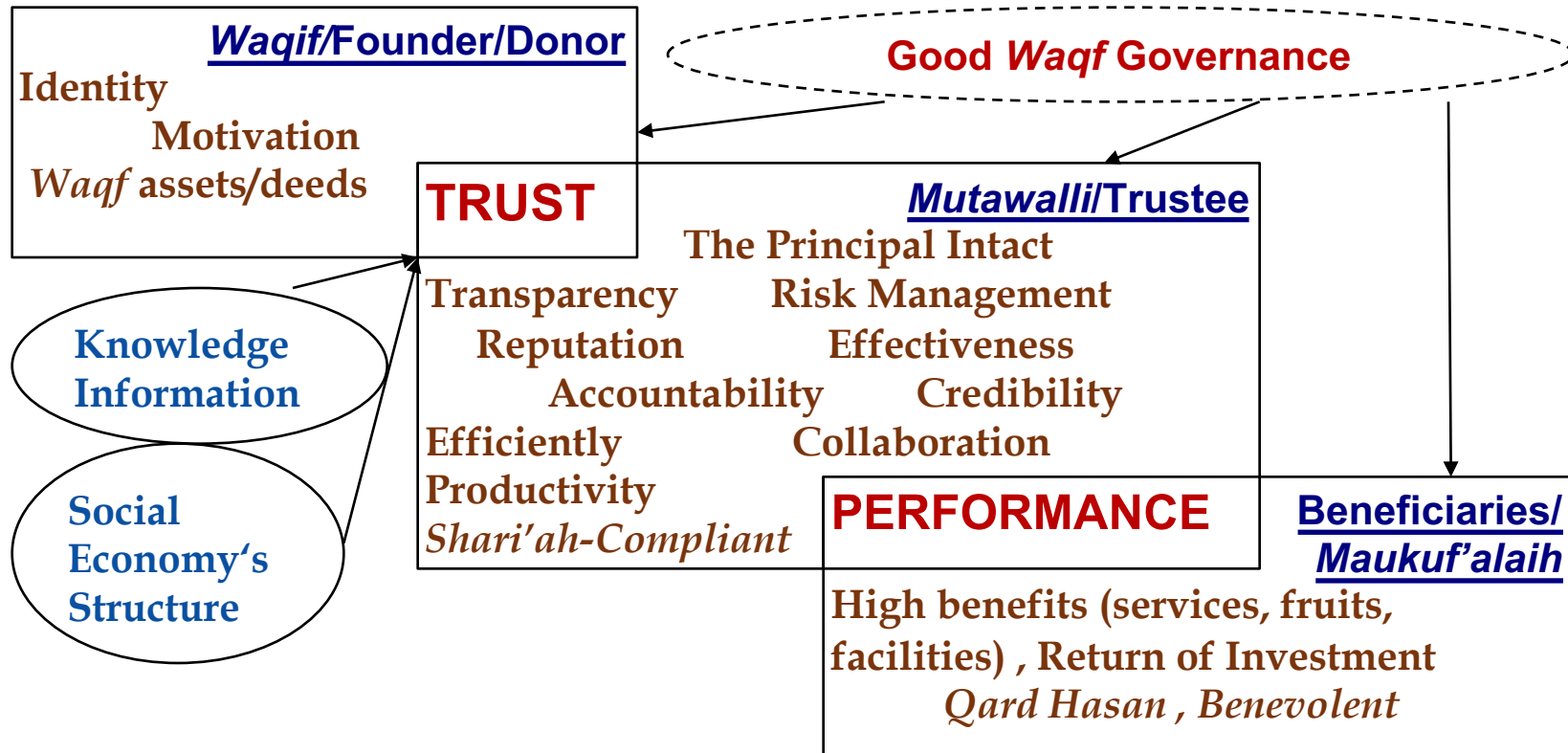
(Masyita, 2012)

Risk & Trust



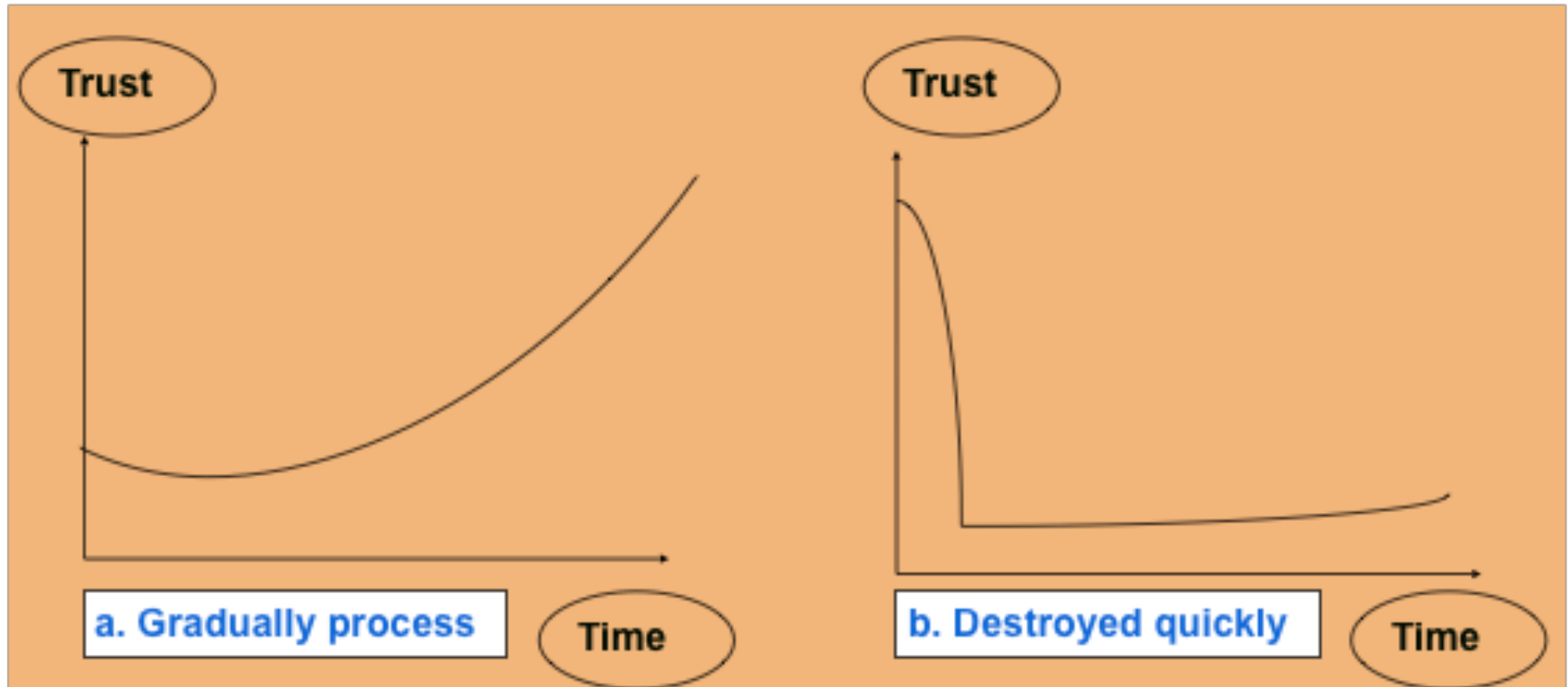
(Masyita, 2012)

Good 'Waqf' Governance



(Masyita, 2012)

Nature of Trust



Akkermans, 2008: P. Dasgupta, 1988: R.J. Lewicki & B.B. Bunker, 1996:
R.S. Burt & M. Knez, 1996

Empirical and theoretical analyses of trust are consistent in pointing out that while building trust is a gradual process, it can be destroyed very quickly by single events or inconsistencies on the trustee's behavior.

Waqf Core Principles

I. Foreword to Review

II. Assessment Methodology

III. Proposed Core Principles with Its Criteria for Compliance Assessment

I. Foreword to Review

Background

Objectives

Methodology

Regulatory Aspects of Waqf

- General Activities of Optimal Waqf Management
- General Regulatory Framework for Optimal Waqf Management
- Institutional Foundation
- Waqf Managers (Nazhir) Qualifications
- Supporting Infrastructures
- Waqf Regulations and Basel Core Principles in Comparison

II. Assessment Methodology

Use of Methodology

Assessment of Compliance

Practical Considerations in Conducting an Assessment

III. Proposed Core Principles with Its Criteria for Compliance Assessment

Legal Foundation

Supervisory Approach

Good Nazhir Governance

Risk Management

Shari'ah Governance

Technical Consideration

1. Waqf Core Principles (WCP) provides a clear positioning of the waqf sector within the economic structure, especially in providing direct socio economic benefits (utilization of waqf corpus in the form of fixed or non-fixed assets) and the contribution of the low cost of financing from excess return investment of waqf corpus.
2. Waqf Core Principles (WCP) provides clear and standardized systematics on the supporting elements of the globally applicable waqf system. This document also positions the concept of mutual recognition with other financial sector prudential standards as well as the adoption of the latest regulatory standards that promote governance aspects.
3. Placing operational standards and supervision of the waqf sector in the same prudential level as other financial sectors. Operational standards are prepared taking into account risk adjusted measures based on managed asset classes and optimization of benefits for the community
4. Dissect the elements of supervision related to the operationalization of waqf system into a systematic arrangement structure

Technical Consideration

5. Become the main reference document in generating the various technical notes covering the more technical aspects of waqf arrangement.
6. Being the main reference in measuring the performance level of waqf management, but still accommodating the technical operational differences in each country that may differ its implementation.
7. This document can explain the technical differences as well as the concept of its existence with endowment fund or other philanthropy fund sources;
 - Divine motivation;
 - Portfolio restriction only to halal business;
 - Underlying physical asset.
8. This document provides a systematic development of the concept of waqf arrangement in anticipating risk and optimizing the benefits of opportunities offered by Fintech (financial technology).

Objectives

These Waqf Core Principles are formulated to address some specific objectives relating to Waqf Management program as follows:

1. Providing a brief description about the position and roles of waqf management and supervisory system in the economic development program.
2. Providing a methodology to set the core principles in waqf management and supervisory system.

Methodology

- This Waqf Core Principle consultative document applies a comparative study between currently well-established financial regulations such as banking regulation, insurance regulation and basic properties of waqf management.
- The analysis conducted in this study assesses the relevance of the contemporary regulatory elements to a possible waqf management and supervisory regulation.

Five Major Areas of Waqf Core Principles

| No. | Dimensions | WCP |
|-----|------------------------|-----------------|
| 1 | Legal Foundations | WCP 1 - WCP 6 |
| 2 | Waqf Supervision | WCP 7 - WCP 12 |
| 3 | Good Nazhir Governance | WCP 13 |
| 4 | Risk Management | WCP 14 - WCP 25 |
| 5 | Shari'ah Governance | WCP 26 - WCP 29 |

Proposed Regulatory Standard of Waqf Management

- Waqf Regulations and Basel Core Principles in Comparison

The development of waqf regulations may benefit from current developments that are taking place in other financial sector industries. The Core Principles on Governance for Waqf Management aim to adapt the existing internationally recognized frameworks of the Basel Core Principles (BCPs).

- **Exhibit 3a-3b** shows the comparison between core principles for effective banking supervision to the proposed principles for optimal waqf management institutions. There are 29 principles that are generally categorized into two main groups: **powers, responsibilities and functions of waqf management** are explained in the first group (Principles 1 to 12) whilst **prudential regulations and requirements for waqf institutions** are given in the second group (Principles 13 to 29).

EXHIBIT 3 (A)

SUPERVISORY POWERS, RESPONSIBILITIES AND FUNCTIONS

| Basel Core Principles | Waqf Core Principles |
|---|--|
| BCP 1 : Responsibilities, objectives and powers | WCP 1 : Responsibilities, Objectives, powers, independence, accountability and collaboration |
| BCP 2 : Independence, accountability, resourcing and legal protection for supervisors | |
| BCP 3 : Cooperation and collaboration | |
| | WCP 2 : Assets Classes |
| BCP 4 : Permissible activities | WCP 3 : Permissible activities |
| BCP 5 : Licensing criteria | WCP 4 : Licensing criteria |
| BCP 6 : Transfer of significant ownership | WCP 5 : Transfer of Waqf Management |
| BCP 7 : Major Acquisitions | WCP 6 : Take-over of Waqf Institution & assets |
| BCP 8 : Supervisory approach | WCP 7 : Waqf supervisory approach |
| BCP 9 : Supervisory techniques and tools | WCP 8 : Waqf supervisory techniques and tools |
| BCP 10 : Supervisory reporting | WCP 9 : Waqf supervisory reporting |
| BCP 11: Corrective and sanctioning powers of supervisors | WCP 10: Corrective and sanctioning powers of waqf supervisor |
| BCP 12: Consolidated supervision | WCP 11 : Consolidated supervision |
| BCP 13: Home-host relationships | WCP 12 : Home-host relationships |
| | |

EXHIBIT 3 (B)

PRUDENTIAL REGULATIONS AND REQUIREMENTS

| Basel Core Principles | Waqf Core Principles |
|--|--|
| BCP 14 : Corporate governance | WCP 13: Good <i>Nazir</i> governance |
| BCP 15 : Risk management process | WCP 14: Risk Management WCP 15 : Collection management WCP 16 : Counter party risk |
| BCP 16 : Capital adequacy | |
| BCP 17 : Counter party risk | |
| BCP 18 : Problem assets, provisions and reserves | WCP 17: Disbursement management WCP 18 : Problem <i>waqf</i> asset, provision & reserve |
| BCP19 : Concentration risk & large exposure limits | |
| BCP 20 : Transactions with related parties | WCP 19 : Transaction with related party WCP 20 : Country and transfer risks |
| BCP 21 : Country and transfer risks | |
| BCP 22 : Market risk | WCP 21 : Market Risk WCP 22 : Reputation and Waqif loss risk |
| BCP 23 : Interest rate risk in the banking book | |
| BCP 24 : Liquidity risk | WCP 23 : Revenue/profit loss sharing risk |
| BCP 25 : Operational risk | WCP 24: Disbursement risk |
| BCP 26 : Internal control and audit | WCP 25: Operational risk |
| BCP 27 : Financial reporting and external audit | WCP 26: Shari'ah compliance and internal audit |
| BCP 28 : Disclosure and transparency | WCP 27: Financial reporting and external audit |
| BCP 29 : Abuse of financial services | WCP 28: Disclosure and transparency |
| | WCP 29: Abuse of waqf asset usage & financial services |

WAQF CORE PRINCIPLES

KEY WORDS

WCP - 1
Responsibilities, Objectives, power, independence, accountability and collaboration

Laws, regulation, or other legal framework for waqf management and supervision is clearly defined to provide each responsible authority with the necessary legal powers and independent rule

WCP - 2
Waqf Asset Classes

Regulations or other arrangements clearly define the asset classes of waqf institutions in accordance with the principles of shari'ah. Asset classification might be based on the following criteria such as:
a) Commercial - Social c). Permanent - Temporer
b) Cash - Physical Assets d). Economic - Benefit, etc

WCP - 3
Permissible Activities

Laws, regulations, or other arrangements clearly define the permissible activities of waqf institutions in accordance with the principles of shari'ah and management capacity of waqf institution, including the field of waqf collections, investment, management, disbursement, and other religious charitable funds.

| WAQF CORE PRINCIPLES | KEY WORDS |
|--|---|
| <p>WCP - 4 <i>Licensing Criteria</i></p> | <p>The licensing authority has the regulatory power to set criteria for licensing waqf institutions, Nazirs (waqf managers) and reject applications that do not meet the criteria.</p> |
| <p>WCP - 5 <i>Transfer of Waqf Management</i></p> | <p>The waqf supervisor has the authority to review, reject and impose prudential conditions on any proposals to transfer waqf asset held directly or indirectly in existing waqf institution to other waqf institution (waqf manager).</p> |
| <p>WCP - 6 Take Over of Waqf Institution & assets</p> | <p>The supervisor has the power to approve or reject (or recommend to the responsible authority the approval or rejection of), and impose prudential conditions on, take-over or investments, against prescribed criteria, including the establishment of cross-border operations, and to determine that affiliations or structures do not expose the waqf institution to undue risks or hinder effective supervision. Other than awqaf assets, those are under the management of non awqaf assets in each jurisdictions.</p> |

| | |
|---|---|
| WCP - 7 Waqf Supervisory Approach | The waqf assets and fund supervisor has a supervision scheme on an integrated basis covering all aspects of the waqf collection, investments, managerialials and waqf disbursement. |
| WCP - 8 Waqf Supervisory Techniques and Tools | The waqf supervisor uses an appropriate range of techniques and tools to implement the supervisory approach and deploys waqf supervisory resources on a proportionate basis, taking into account the risk profile which are subject to adequate validation and verification |
| WCP - 9 Waqf Supervisory Reporting | The waqf supervisor collects, reviews, and analyses prudential reports of waqf institutions' performance both a solo and a consolidated basis, and independently verifies these reports, through either on-site examinations or use of external experts. |

WAQF CORE PRINCIPLES

KEY WORDS

WCP - 10
Corrective and sanctioning power of waqf supervisor

The waqf supervisor acts at an early stage to address unsafe and unsound practices or activities. The waqf supervisor has an adequate range of supervisory tools to bring about timely corrective actions, the ability to revoke the license of waqf institutions and to recommend its revocation.

WCP - 11
Consolidated Supervision

An essential element of waqf supervision is that the waqf supervisor supervises and monitors the waqf institutions on a consolidated basis.

WCP - 12
Home - Host Relationship

Home and host waqf supervisors of cross-border waqf institutions share information and cooperate for effective supervision of the group and group entities. Waqf supervisors require the local waqf operations of foreign waqf institutions to be conducted to the same standards as those required of domestic waqf institutions.

WCP - 13
Good Nazir Governance

The waqf supervisor determines that waqf institutions have robust good Nazir governance's policies and processes covering shari'ah compliance, strategic tools, control environment, waqf management knowledge, and responsibilities of the waqf institutions' Boards.

WCP - 14
Risk Management

The waqf supervisor determines that Nazir or waqf institutions have a comprehensive risk management process to identify, measure, evaluate, monitor, report and control or mitigate all material risks on a timely basis and to assess the adequacy of their capital and liquidity in relation to their risk profile and market and macroeconomic conditions. This extends to development and review of robust and credible recovery plans, which take into account the specific circumstances of the waqf institution. The risk management process is commensurate with the risk profile and systemic importance of the waqf institutions.

WCP - 15
Collection Management

The waqf supervisor determines that waqf institutions have adequate policies and processes for valuation of waqf assets/funds assesment and waqfable assets and funds.

WCP - 16
Counter Party Risk

The waqf supervisor determines that cash waqf nazir have an adequate counter party risk management process that takes into account their risk appetite, risk profile and market and macroeconomic conditions. This includes prudent policies and processes to identify measure, evaluate, monitor, report and control or mitigate counter party risk on a timely basis. The full credit lifecycle is covered including credit underwriting, credit evaluation, and the ongoing waqf management and waqf investment portfolios.

WCP - 17
Disbursement Management

The waqf supervisor determines that waqf institutions have adequate policies and processes to manage waqf assets and funds and distribution system of the profits of the investments.

WAQF CORE PRINCIPLES

KEY WORDS

| | |
|--|---|
| WCP - 18 <i>Problem Waqf Asset, Provision and Reserve</i> | The waqf supervisor determines that waqf institutions have adequate policies and processes for the early identification and management of problem assets, and the maintenance of adequate provisions and reserve. |
| WCP - 19 <i>Transaction With Related Party Except The Beneficiaries</i> | In order to prevent abuses of the using of waqf asset arising from transactions with related parties other than beneficiaries and to address the risk of conflict of interest, the waqf supervisor requires waqf institutions to have transaction with an arm's length basis; to monitor these transactions; to take appropriate steps to control or mitigate the risks; and to write off exposures to related parties in accordance with standard policies and processes. |
| WCP - 20 <i>Country And Cross Border Activities</i> | The waqf supervisor determines that waqf institutions have adequate policies and processes to control country risk in the cross border waqf activities. |
| WCP - 21 <i>Market Risk</i> | The waqf supervisor determines that waqf institutions (Nazir) have an adequate market risk management process that takes into account their risk appetite, risk profile, and market and macroeconomic conditions and the risk of a significant deterioration in market liquidity. Nazir must have a standard valuation mechanism on assets under management that are based on regular market value changes. This includes prudent policies and processes to identify measure, evaluate, monitor, report and control or mitigate market risks on a timely basis. |

WAQF CORE PRINCIPLES

KEY WORDS

| | |
|--|--|
| WCP - 22 <i>Reputation and Waqf Asset Loss Risks</i> | The waqf supervisor determines that waqf institutions have an adequate management framework to handle contagion, reputation, and waqf asset loss risks |
| WCP - 23 <i>Revenue/Profit Loss Sharing Risk</i> | The waqf supervisor determines that waqf institution have an adequate risk management process that takes into account their risk appetite, risk profile and market and macroeconomic conditions. This includes prudent policies and processes to identify, measure, evaluate, monitor, report and control or mitigate risk on investments portfolio a timely basis. The waqf supervisors set prudential limits to restrict waqf institution exposures to single counterparties or groups of connected counterparties |
| WCP - 24 Disbursement risk | Waqf institutions should be able to mitigate disbursement risks such as financial position and misallocation of disbursement activities. |
| WCP - 25 <i>Operational and Shariah Compliant Risk</i> | The waqf supervisor determines that waqf institutions should have proper operational and shariah compliant risks management to minimize potential fraudulent practices, anticipation towards system breakdown and any other potential disturbance. |

WAQF CORE PRINCIPLES

KEY WORDS

WCP - 26 Shari'ah Compliance and Internal Audit

The Waqf supervisor determines waqf institutions to have appropriate shari'ah compliance and internal audit frameworks to establish and maintain a properly controlled operating environment in the light of shari'ah.

WCP - 27 Financial Reporting and External Audit

The waqf supervisor determines that waqf institutions maintain reliable records of financial statements, annual publication and external audit function.

WCP - 28 Disclosure and Transparency

The Waqf supervisor determines that waqf institutions regularly publish consolidated information that is easily accessible and fairly reflects their financial condition, performance, risk exposures, risk management strategies and waqf governance policies and processes.

WCP - 29 Abuse of Waqf Services

The waqf supervisor determines that waqf institutions have appropriate policies and processes to impose Islamic ethics and professional standards and to prevent criminal activities.

SUMMARY

WAQF CORE PRINCIPLES

- | | |
|----------|---|
| 1 | The WCP brings waqf asset management and cash waqf management in the same level of governance as the leading financial institutions and other professionals in the world. |
| 2 | The WCP provides knowledge about risk management in the management of waqf assets and cash waqf to maintain the corpus of waqf and produce more benefits for the beneficiaries. |
| 3 | The WCP creates a great trust for waqif and is able to convince waqif about the sustainability of the waqf assets and cash waqf for the sake of benefit of ummah. |
| 4 | Trustworthy, professional, create huge benefits of human welfare and fulfil Maqashid al Shari'ah are the key words. |

Critical Thinking????

“Data and numbers never lie, they tell the story”

“Good intentions are not enough to run productive waqfs and cash waqfs today. Need managerial skills and entrepreneurial mindset”

“The glory of the past inspires us, but we need to translate it for now to be of benefit to our future generations” - Dian Masyita
(2020)



THANK YOU

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INDONESIA