

The Economic Significance of Waqf: A Macro Perspective

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Abstract

There has been an accusation among few scholars blaming that the institution of waqf could not any longer perform its economic role in the modern times. Instead of being a vital institution as it had been played at pre-modern era, waqf nowadays seems to be an impediment to the development in most of Islamic countries. This paper therefore is meant to clarify such an accusation and attempts to point out the economic significance of waqf in the context of modern economy.

Keywords: waqf, government role, income distribution, poverty, revitalization

A. Introduction

Waqf has been a unique institution that introduced by Islam. Qureshi (1978) asserts that according to general opinion of Muslim theologians, there was no waqf in Arabia before Islam, either in the form buildings or lands. Muslim jurists traced the institution to the time of Prophet (peace be upon him). Although the Holy Quran does not directly define Waqf or make any reference to it, however, it encourages Muslim to do charity.

Islahi (1996) affirms that the scope, effect, magnitude and viability of waqf is far greater than any other voluntary institution in Islam such as *sadaqah*, *hibah*, *wasiyah*, *qard*, *nadhr*, and cooperative association.

Waqf was a dynamic institution during the early Islamic society. All over the vast Islamic world, from the Atlantic to the Pacific, magnificent works of architecture as well as a wealth of services vitally important to the society have been financed and maintained

for centuries through this system. It has even been argued that many waqfs had survived for considerably longer than half a millennium and some even for more than a millennium (Çizakça, 1998).

However, Kuran (2003) has considered waqf as an outdated institution which is no longer relevant and could not play any important role in modern economy. Together with the Islamic law of inheritance and the absence in Islamic law of the concept of a corporation, waqf is of institutional traps that block economic development in Islamic countries. According to him, waqf system inhibited resource pooling and locked vast resources into unproductive organizations for the delivery of social services. In other words, waqf became dysfunctional due to the inflexibility in its nature.

This paper tries to clarify such an accusation and suggests a new understanding towards waqf and its characteristics. Afterwards, it attempts to point out the economic significance of waqf in the context of modern economy in macro perspective. In the last part, the paper comes up with necessary prerequisites for the revitalization of waqf in order to make it much more realistic for the implementation.

B. Definition and Characteristics of Waqf

Waqf is a kind of voluntary charity that has always been encouraged in Islam. It is endowed for a charitable purpose in perpetuity and the revenue generated is spent for this purpose, stands out as one of the greatest achievements of Islamic civilization.

Kahf (1998) defines waqf from Shari'ah perspective as "holding a *maal* (an asset) and preventing its consumption for the purpose of repeatedly extracting its usufruct for the benefit of an objective representing righteousness or philanthropy". By this definition, waqf is a continuously usufruct-giving asset as long as its principal is upheld. The definition also covers perpetuity concept of waqf remains as long as its asset lasts.

As a special kind of benevolence, waqf has three special characteristics (Kahf, 1998; Sabit and Hamid (n.d.):

1. Perpetuity, which means that once a property, often a real estate, dedicated as waqf it remains waqf forever. The Arabic term for perpetuity is *ta'bid*.

2. Irrevocability, which means the lack of power of the settler (*waqif*) to revoke his donation at any time. According to Abu Yusuf waqf is effective and binding as soon as the declaration is made by the donor without any need for delivery of possession to the beneficiary.
3. Inalienability, which means that after a valid declaration is made, the subject matter of the waqf ‘passes out of the ownership of the *waqif* and it cannot be alienated or transferred either by the *waqif* or the *mutawalli* nor do their heirs can take it by way of inheritance’.

Many scholars such as Kuran (2003) and Platteau (2008) assert that perpetuity and inalienability of *waqf* are the main obstacles to the development, thus, affecting its contribution to the welfare of the society. Though, Kahf (1998) and Sabit & Hamid (n.d.) propose to re-examine both concepts. Referring to the Prophet’s *hadith* about the *waqf* of the sayidina Umar (r) that the land should not be sold, given as gift or inherited, they find that the concept of perpetuity is not expressly established in the *sunnah*. This hadith can be interpreted differently.

First, the *hadith* of Umar, concerning *habs* is a form of *sadaqah jariyah* and if read together with other hadiths of *sadaqah* it will become clear that a *sadaqah* that recurs after the death of the donor is also a *habs* as long as the donation keeps benefiting Muslims. The *hadiths*, according to Kahf, establish the permissibility of a permanent and temporal *waqfs*. Therefore, one cannot claim that perpetuity is permitted as a general rule and the recognition of temporal *waqf* as exceptional, because that would be unjustified; both forms of charity are provided by hadiths and should be treated equally.

Second, the reported hadith must be read as a whole including the part saying: ‘if you wish you can detain the corpus and let its benefits go to welfare’. The *hadith* in this way gives liberty (which also implies the permission of other forms of *waqf*) to the owner of the property to perpetually give his property in *waqf*. This *hadith* does not prohibit other forms of *waqf*. To say that other forms are not valid is not founded on any legal text except human reason and analogy. Analogical reasoning, as a rule, is suppressed at the interest of the community and due to the change of circumstances; it is the interest of the community to allow all forms of *waqf* mentioned in the classical *fiqh*. This is justified in the light of another juristic principle: the rule is permissibility until there is evidence against its

validity. Considering this principle one should then choose liberal approach in cases where the text is for permissibility and choose rigidity if the text prohibited the action. Since *waqf* is for the benefit of *ummah* and there is no restriction on donors, all types of *waqf* should be allowed.

Sabit & Hamid (n.d.) also refer to the pre-modern jurists especially in the Hanafi and Hanbali schools which have devised several schemes to counter the negative effect of perpetuity by allowing the exchange of estates or sell (*ibdal* and *istibdal*).

The definition of *waqf* by Kahf (1998) above essentially attempts to replace the perpetuity of the object with the perpetuity of the dedication benefits. Sabit and Hamid (n.d.) add that perpetuity of this dedication is achieved by assigning value to the benefits object of the *waqf* and then amortizing it; thereby by passing the perpetuity and inalienability of the object. This is basically not a new idea. It is developed on the back of the acceptance of cash *waqf* and *istibdal* by the early jurists. Ibn Abidin justified the permissibility of *dirham* and *dinar* as *waqf* because they can exist in perpetuity, provided the cash is invested in trade whereby the capital plus profit is returned to *waqf*. One of justification for his thought was that money refers not to the physical form of silver or gold or its particular looks and physical survival as time passes. It is the value of cash which is determined in amount and then thought to exist in perpetuity. This opinion of Ibn Abidin implies the distinction between dedication and the subject matter, which means that *the dedication of benefits should be perpetual and not necessarily the subject matter of the dedication*.

Under this new understanding of perpetuity and inalienability, instead of being an impediment to development, *waqf* hence could convincingly play its vital role in the contemporary modern economy.

C. The Economics of Waqf Institution

There are a great number of literatures available on the legal and religious aspects of *waqf*, but similar attention has not been paid to exploring its role in economic life of Muslims. Historically, *waqf* had played a very vital role in this respect and still has potentialities to do so (Islahi, 1996). *Waqf* could be regarded as a fundamental economic

institution for purpose of generating economic activities whilst at the same time ensuring that the benefits will accrue to some sections of society (Alhabshi, 1991).

The Islamic public good waqf has been the focus of much scholarly attention, but have yet to be examined in a theoretical framework which would interpret its workings as an institution and relate them to their economic performance. It is noteworthy to do since there is a significant discrepancy between the reputation of the waqf as a successful economic institution and the actual historical record of its performance.

Waqf will equally be relevant and can provide economic and social dynamism to the present quest to develop our present society. This principle and spirit of waqf are very basic and fundamental for a strong society. Through the waqf institution, voluntary donation from the well-to-do Muslims can be mobilised to organise the society.

Expressing its economic content, the waqf could be defined as: diverting funds (and other resources) from consumption and investing them in productive assets that provide either usufruct or revenues for future consumption by individual or groups of individuals. Waqf is therefore an operation combining the act of saving with the act of investment together. It consists of taking certain resources off consumption and simultaneously putting them in the form of productive assets that increase the accumulation of capital in the economy for the purpose of increasing future output of services and incomes. The waqf implies a sacrifice of a present consumption opportunity for the benevolent purpose for providing income and services for the following generations (Kahf, 1998).

It should be noted that the Islamic definition of waqf makes its assets cumulative, in application to the principle of perpetuity in waqf. It means that a waqf asset may not be sold or disposed of in any form, i.e, a waqf asset remains in the waqf domain perpetually and any new waqf will be added to that domain, implying that waqf assets are only liable to increase. They are not permitted to decline since it is illegal to consume the assets of waqf or to leave them idle by any action or neglect or transgression. Hence, the waqf is not only an investment, but it is a cumulative and ever increasing investment. This is supported by the historical development in the Muslim lands that ended up making a considerable proportion of cultivable lands and metropolitan real estates in the domain of

waqf to the extent that awqaf properties were estimated at over one third of the agricultural land in several countries including Turkey, Morocco, Egypt, and Syria (Kahf, 1998).

The dynamism of the waqf institution and its mechanism could bring about essential contributions to the economic development in the present time. Economic significances of waqf can be explored as follows.



1. Reducing government expenditure and participation in the economy

If the waqf institution is properly and effectively organized, a significant amount of wealth can be collected from the private sector for public purposes. This voluntary contribution of the private sector can reduce the size of government expenditure which eventually lessens its participation in the economy. The public goods made available through the waqf institution can replace the government's burden and responsibility (Nik Hassan, 2008).

Waqf can place the government participation in the economy in the right proportion and perspective. In the current globalised economy, the nation's economy can only be competitive if ample space can be provided for the private sector to participate actively in economic development. Efficiency-driven economy normally can be spearheaded by the private sector. The economics of innovation and creativity can be nurtured when the private sector has ample space to maneuver. The big size of the

government participation in the economy will normally hinder private sector progress. The government's participation will have to be through regulations. As the government bureaucracy is getting bigger, there is great tendency for the economy to be more centralised and will be less efficient. The phenomenon of a big government has testified to a less bureaucracy efficiency. The institution of waqf if it is properly developed and managed can push bigger private sector participation through voluntary action.

Economists studying the waqf system would be confused by the fact that a countless of essential services such as health, education, municipal, etc., have historically been provided at no cost whatsoever to the government. Waqf has been known to have provided many services, which in other contemporary systems had been the principle or sole responsibility of the state. As put by Hoexter (1998), prior to even the 20th century a broad spectrum of public or municipal services in many Muslim communities were set up, financed and maintained almost exclusively by waqf (Baskan, 2002).

Tabakoglu (1996) reveals the share of waqf revenues in total public revenues in Ottoman was around 12 per cent in the sixteenth century. There was a considerable enlargement in number of the waqfs as well probably reaching some 25 per cent along with the surge in private property and *iltizams* in the eighteenth century.

2. Preventing deficit financing and decreasing rate of interest

Government borrowing through deficit financing basically can be prevented by active society's commitment to social economic requirements. Deficit financing normally has a negative financial implication for the government. In the present volatile and globalised world economic condition, the public sector should involve in less public borrowings. The previous financial crisis that affected this East Asian region has serious implication on countries which had undertaken huge borrowings by the public and private sectors, particularly from external sources (Nik Hassan, 2008).

As such, Cizakca (1998) asserts that waqf system can significantly contribute to massive reduction in government expenditure, which in turn leads to a reduction in the budget deficit, which lowers the need for government borrowing thus curbing the 'crowding-out effect' and leads to a reduction in the rate of interest consequently reining a basic impediment for private investment and growth.

Cizakca (1998) also provides serious attention to role of waqf to lower interest rate by providing the most essential social services without any cost to the government. This important contribution of the waqf system towards the gradual elimination of *riba* is not yet recognized by the Islamic economists. It will be proposed here that it should be. Put differently, a re-establishment and revitalization of the waqf system should be considered as a vital step in the struggle to eliminate *riba*. It can be argued that Islam demands an immediate and not such a gradual elimination of the interest. This is certainly true and yet utopia. No country has ever succeeded in eliminating interest abruptly by law. There is evidence that even classical Islam could not entirely get rid of interest. In this regard, it will be proposed that the gradual elimination or reduction of interest through the waqf system should be given serious consideration. The waqf could fulfill these functions by voluntary donations made by the well to do. Thus, privately accumulated capital may be voluntarily endowed to finance all sorts of social services to the society.

3. Restoring distribution of income and wealth

Another extremely important function of the waqf becomes apparent: not only does it help reduce government expenditure and consequently the rate of interest, it also achieves another modern economic goal; a better distribution of income in the economy. Nik Hassan (2008) considers that through voluntary contributions of the rich for the public purpose, waqf can have a positive implication on the redistribution of wealth in the society. This voluntary approach has a far positive reaching than the redistribution through taxes and government transfer expenditure since the instrument of taxes has a greater costs implication in its implementation. Sometimes due to a lack of proper tax formulation, the costs of collecting taxes can be a great burden to the government. A great cost is also involved in the transfer of government expenditure. Conversely, in the form of waqf, the costs of collection will be very marginal and in most cases it will involve no costs at all.

Baskan (2002) explains further that in ‘Economic Theories of Redistribution’, redistributive agent within the society can be classified into two asymmetrically populated groups. The first group, less populated one, takes individual as the redistributive agent and then explains why an individual redistributes his/her income to other people. The second group, contrarily, takes government as the redistributive agent, and then expose why a

government engages in redistributive actions. The overwhelming majority of economic theories fall into this second group. Theories taking private institutions as redistributive agents are almost absent.

The first approach states that individual redistributes his/her income as a result of altruistic feelings toward the others. Though theories that take individual as a redistributive agent does not predict any outcome about the optimal level of redistribution, other theories that take the government as a redistributive agent agree on the fact that the equilibrium redistribution level of income attained by private persons is suboptimal. Therefore, two theories call for state action. Then, it can be concluded that economic theories suggest that if redistribution is left to the individual, then the result is suboptimal redistribution level (Baskan, 2002).

It is difficult to ensure whether or not the level of redistribution of wealth through waqf system was optimal since there is no measure of optimal redistribution. Nevertheless, a few observations from the researches on the waqf system will give an idea. The Ottoman society left the financing of health, education and welfare entirely to the waqf system so much so that the following saying does not exaggerate its central importance: "thanks to the waqfs flourished during the Ottoman Empire, a person would have resided in a waqf house, slept in a waqf cradle, ate and drank from waqf properties, read waqf books, taught in a waqf school, received his salary from a waqf administration, and when he died, put into a waqf coffin and buried in a waqf cemetery." Therefore, almost all of the researches emphasize the central importance of the waqf system on social, economic and cultural life of the Ottoman society (Baskan, 2002).

Çizakça (2000) regards a better distribution of income in the economy which is one of modern economic goals can be achieved by *waqf*. In this process, taxation is definitively assigned a secondary role. There are further implications: a lower tax burden means an enhancement in the consumers' and producers' surpluses and a diminution in the "dead-weight cost of the tax". As a result, lower taxes would have a positive impact on aggregate production while at the same time reducing costs. Therefore, prices to the consumers would decrease and avoid inflationary growth.

Islamic teachings highly recommend individuals to give alms to the poor or to spend money, through waqf mechanism for the benefit of the general public besides *zakat*.

Through such voluntary mechanism, individuals are helping the authorities to improve the condition of the society.

As waqf is made by the rich and the society in general and the poor in particular benefit from the endowment, this feature serves to alleviate the effects of income and wealth inequality. Unlike the short-term impact of government budgetary policies, the institution of waqf over time counteracts the tendency towards concentration of wealth (Siddiqi, 1996).

4. Eradicating poverty

Poverty and income inequality have always been among the most important and enduring problems that the societies face. There are many ways to handle the poverty problems, starting from preventive to curative measures. An important way to alleviate poverty as considered by Sadeq (2002) is charity, which has been playing a role and can potentially be an effective means to overcome the poverty problem. Charity has again many forms, but a long lasting form of charity is one that has the characteristic of perpetuity. The institution of waqf is such a perpetual charity in the Islamic ethical system.

In the last one and half centuries, political economists have accepted the state as the most efficient solution in overcoming these problems. Baskan (2002) discloses that the solution in the Islamic world throughout the history can be formulated in the following word: individual-state cooperation. It was observed that the product of this cooperation has been waqf system. Waqf system had been one of the primary redistribution mechanisms throughout the history in Islamic World.

Waqf creates and preserves long-term assets that generate income flows or indirectly help the process of production and creation of wealth. By targeting its benefits towards the poor, waqf can play an important role in poverty alleviation. It is important to preserve and develop assets under waqf to add to productive capacity and create capabilities for wealth creation. Waqf may also be created specifically to impart knowledge and skills in entrepreneurship development among the poor as microfinance alone cannot create wealth unless combined with entrepreneurial skills. Indeed all technical assistance programs can be organized as waqf (Obaidullah and Khan, 2008).

The social welfare role of waqf institutions will depend on their type and size. Waqf institutions are classified into two main categories. First, waqf institutions can be distinguished as religious and philanthropic. The former would be religious places like mosques, graveyards, shrines/tombs, etc. and the latter would be assets/property given away for the use of a defined group of beneficiaries. The second classification of waqf institutions is based on the type of beneficiaries, which can be either family members or the general community. These classifications are shown in table below.

Beneficiaries	Religious	Philanthropic
Family	A	B
General public	C	D

From the perspective of poverty alleviation, waqf type A, B, and C are not relevant. Type A waqf are not common as family members can not usually be the sole beneficiaries from religious waqf. Type B and C cannot benefit the poor in economic terms, as the former is meant for family members and the latter are places of worship. Only type D waqf are the relevant institutions for poverty alleviation. The income from philanthropic waqf for the general public can provide services to the poor directly and/or indirectly (Ahmed, 2004).

5. Enhancing Economic Progress

In general, the well managed waqf properties would enhance economic progress in the country. Nik Hassan (2008) reminds that it has been proven in the past, particularly during the Ottoman Empire, that as the *awqaf* institution was flourishing, the country's economy was also performing. The bigger the size of waqf properties, the bigger the size of private sector participation in the economy. There is a positive correlation between active private sector's participation in the economy with national economic progress. The Western economies have realised the importance of returning back to their classical theories of less government, previously through Reaganomics in the U.S and Thatcheronomics in the U.K. The returning back to the classical theories of capitalism may not be possible since there is a big contradiction between their theoretical assumptions and economic objectives.

In the present era, Muslim scholars and economists should be creative and innovative to bring about relevant and dynamic mechanisms and instruments to develop the waqf institution to be very active and effective in social development. In the present reality there are ample Muslims who are willing to donate their wealth for religious activity through waqf, if the institution of waqf are properly managed and effectively organised. The confidence of the general public in the waqf institution can be the starting point for bigger Muslim participation in donating their wealth for society development.

Moreover, the waqf definitely solves the problem of the under supply of public goods, so often observed in conventional economies. In this context we must note that the services offered by the waqfs constitute public goods, the consumption of which is non-rivalries and the provision thereof non-excludable. Therefore, it seems more appropriate to talk about an excess supply of public goods rather than their scarcity in Islamic economy.

In addition, the waqf system had a significant role in the economic development for several reasons. Firstly, the waqf facilitated renting shops with low prices in the markets that had waqfs, which led to the decrease of prices and, in turn, activated the commercial movement in these markets. Besides, the markets that had no waqfs had to decrease their prices in order to be able to compete with the waqf markets to maintain their businesses. Secondly, the waqf helped the decrease of the unemployment rate and the creation of job opportunities. Besides, the waqf helped the poor to own money which increased the demand rate on numerous products and services that were going to be confined only to the wealthy segments in the society if the waqf did not exist. On the other hand, the *sabeel* or the water fountain that was built on the important commercial roads had significant roles in activating the trade and in facilitating the movement of the commercial caravans traveling between the cities and the villages.

The Prophet himself set an example by following the principles of waqf for the economic betterment of the Arab society. The Companions of the Prophet kept this trend alive. The Prophet encourage spending in the way of God to such an extent that the believers were convinced that the wealth was not a thing to be hoarded, but wealth was to be spent in the way of God.

D. Necessary Prerequisites for the Revitalization of Waqf

In appreciation of the important role of waqf in social and economic development, some Muslim countries gave special attention to the development of the waqf properties and the revivification of their functions and ability to provide those important services they used to carry out in the past. The existing assets of waqf in most Muslim countries represent a huge amount of social wealth that can be develop to produce a lot of social services, especially with the increase in their capital values as a result of the economic and demographic changes.

However, there are several prerequisites that must be fulfilled if the waqf institutions are going to assume an important role in the development of our economies. Both Kahf (1998) and Ahmed (2004) point out the most important prerequisites as follow:

1. There is a need for a new legal framework that provides clear definition of waqf and that organizes this institution, defines its function and objectives whether general philanthropic or private philanthropic and regulates its social and economic role. The law should the responsibilities and authorities of waqf managers and their relationships with the government on the one hand and private and public beneficiaries of waqf on the other hand. We also need a legal framework that provides sufficient legal protection for the waqf properties.
2. There is also a need for a law that provides for the repossession of all waqf properties that were diverted to other public and/or private persons and to review the old records of waqf in order to re-establish the right of waqf on many lost real estates.
3. There is also a need for a complete revision of the management of waqf, especially, the investment kind of waqf, in order to fulfill two objectives: (1) to increase the efficiency and productivity of the waqf properties and (2) to minimize fraudulent practices and corruption by the waqf managers (*Nazers*). There is also a need to provide a new style of management that suits the waqf institution, keeping in mind that their properties are not owned by those who manage them, and to provide sufficient checks and balances on the waqf management to fall in the lap of the government.

4. We need a clear definition of the role of waqf in social and economic development and recognition of the relevance and importance of family waqf and their role in economic growth; and we need to reinstate provisions that protect and organize the family waqf in particular and promote the idea of establishing new waqf in general.
5. There is also a need for providing technical, managerial and financing support to the waqf management to help it increase the productivity of waqf properties, and we need to redefine the roles of the ministries of waqf by making them agents of support and catalysts of help in the development of waqf rather than governmental managers of waqf properties.
6. There is also a need to revise our classical Fiqh on waqf in order to accommodate many new forms of potential waqf that do not have any precedents in the classical Fiqh, especially, in the area of waqf of usufruct and waqf of non-physical properties (abstract properties) and we need also an expansion of the concept of temporary waqf.
7. There is also a need for a master plan in each Muslim country to re-deploy the waqf properties in such a way that maximizes their benefits and services.
8. Waqf institutions can contribute to the development effort of the country if they are of the philanthropic category established for the general public. But the experiences from the countries indicate that most of the waqf institutions are religious in nature (mosques, graveyards, and shrines) and are not contributing to the overall welfare of the poor. There was a general feeling that people are more aware of *zakah* and *shadaqah* as means to tackle the problem of poverty.
9. The potentials of waqf institutions in contributing to poverty alleviation can be enhanced by enhancing the quality and quantity of waqf institutions. Improving the quality of existing undeveloped waqf properties can be done by investing in them and thereby increasing the returns.
10. The other way in which waqf can play a more dominant role is to increase its quantity by establishing new institutions. It has been observed in the countries that new waqf institutions are not being established. One reason of fewer new institutions being established is that waqf is usually conceived to be land and real estate. Thus only the very rich can afford to create new waqf. One important reason why this is not being done may be the laws and regulations related to waqf institutions. To increase the

number of waqf properties there is need for laws and regulations that facilitate the creation of new waqf.

E. Conclusion

Waqf system has played a significant socioeconomic role throughout history of Islam. It was the fact that essential services such as health, education, municipal services, etc. were all provided in history at no cost whatsoever to the government. This has had many important implications.

By providing essential services to society at zero cost to the state, the waqf system can significantly contribute towards that ultimate goal of every modern economist; a massive reduction in government expenditure. This, in turn, cause a reduction in budget deficit, lowers the need for government borrowing, and leads to a reduction in interest rates and, thereby, cuts out a major impediment for private investment and growth.

The waqf fulfilled the above-mentioned functions by voluntary donations made by the well to do. This meant a better distribution of income in favour of the poor. Moreover, this was achieved not through the usual method. i.e. redistributive taxation, but essentially through voluntary donations without any state coercion. Thus, waqf emerged as the most important voluntary institution for poverty alleviation in the Islamic world.

All these vital roles of waqf would be more relevant and more possible to achieve in our modern times if some prerequisites regarding the reformation and improvement of classical concept of waqf, legal framework, law, and management can be satisfied. Making waqf properties generate income and establishing new waqf institutions are also important to do. *Wallahu a'lam.*



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