

Waqf and sukuk terminology: A comparative analysis study

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ملخص:

يهدف هذا البحث إلى مقارنة الوقف (بوصفه مفهوما ومصطلحا) مع أحد أشهر الأدوات المالية المتداولة في الأسواق المالية، وهي الصكوك، والتي تعتبر أحد الأدوات التي تتداول في المالية الإسلامية. فالباحث في أساسه دراسة تحليلية مقارنة بين مصطلح الوقف والصكوك بهدف معرفة أوجه التشابه والفرق بين المصطلحين من حيث التعريف، والتقسيمات، والخصائص، وغيرها بغرض تطوير الوقف في ضوء الخصائص التي تتميز بها الصكوك، وذلك لنقل مصطلح الوقف إلى مرحلة من الابداع والتطوير لتلبية حاجيات الأفراد والمؤسسات في مجال الوقف في ظل مختلف الأسواق المالية والتجارية المعقدة التي تشهد تطورا سريعا.

Abstract

The purpose of this paper is to compare waqf with one of the most popular terms in Islamic finance that is sukuk which represents one of the most sophisticate instruments in Islamic capital market. The paper engages in comparative analysis study with two terms by looking at their common features, differences and their unique characteristics to find a common ground to create an integrated hybrid structure that bring more value and innovation to waqf. The present study focuses on sukuk term, by looking at its concept, terms, definition,

characteristic, types, structure, in order to bridge the gap between the two terms, and further more develop waqf as product or instrument within the features of sukuk.

Design/Methodology/approach: The paper follows a qualitative methodology, where a comparative analysis approach is applied by looking at both terminologies in term of their relationship, concept, common features and differences.

Findings: The result of the paper shows that both terms have some differences, where each term has its own terminology, however there are some common features which gives to waqf a niche area to penetrate aggressively in the area of Islamic capital market

Practical Implications: This paper is very useful for understanding the terminology of waqf and sukuk to further enhance the relationship between the two terminologies as a way to bring more innovation to waqf

Originality/Value: The paper provides in-depth knowledge to the term of sukuk, to enhance waqf to tape the market of sukuk which represent a significant value to waqf. The comparison is very important for future study and research to build further integrated approach between the two terminologies

Keywords: *Shariah*, waqf, sukuk, Islamic capital market

Paper Type: Research paper

0. Introduction

The objective of the present paper is to compare the two terms of waqf and sukuk as two important terms in the Islamic history, Islamic law and Islamic capital market. The paper will focus on the waqf follow by sukuk and ends with comparison between the two terms in order to show the significant coloration between the two for further

enhancement and innovation in the waqf by leveraging on the feature of sukuk as prominent instrument in Islamic finance.

1. Waqf

Waqf in a well know term in Shariah, it has been mentioned in the provision of Shariah, and took an appropriate space in the Islamic fiqh literatures, waqf was practiced by the Prophet (s.a.w) and his companion, and its practices has flourish in the society through the centuries until today.

1.1. Definition of waqf: Basically, The Waqf performs public services by voluntary donations made by the well-intentioned founders. Therefore, the following definition of Waqf is universal as it defines the essence of Waqf: conservation of the asset and distribution of its usufruct for charitable ends. It emphasizes the importance of continuous holding: protection from being consumed whether through sale, providing as collateral, or transference in the form of gift and inheritance, etc. Meanwhile, the fruits of that asset are to be spread for philanthropic objectives as per conditions specified by the founders.

1.2. Legitimacy of Waqf: Even though the word "Waqf" does not appear in the Quran, but Muslim jurists obviously figured out its legitimacy from some Hadith and Ayah which their interpretation imply *Waqf* (Abidolkabisi, 1986, P84). The majority of Muslim scholars are of the opinion that the waqf is both lawful and recommended, based on general and specific evidence. As for the general evidence, they consider it as an act of charity which is greatly encouraged by both the Quran and the Sunnah. From the Quran:- *"By no means shall ye attain righteousness unless ye give (freely) of that which ye love"* {Surah 3, Ayah 92}, from the Sunnah:- *"on one's death, one's work is cut off except for three things: an ongoing charity, a beneficial learning or a goodly son praying for him"*. In this respect, *Waqf* is

considered as an ongoing charity. They also supported their views by evidence special to Waqf narrated by ibn Omar, when Omar came to see the prophet (pbuh) to consult him about his land and the prophet (pbuh) suggested and said: “if you will, you can withhold its corpus so that it cannot be sold, granted or bequeathed. The proceeds can be distributed to the poor, the kinsmen, the captives in the way of God, the guests and the wayfarers. This tradition is the basis for the legality and regulations of the waqf.

1.3. Characteristics and classification of Waqf property: There are two categories of waqf namely *WaqfAmm* and *WaqfKhass*. The former is created for general or public purposes and without any restriction to a specific individual or purpose. The latter is for private or family benefits dedicated for a specific purpose or particular group as prescribed in the waqf deed. The classical waqf has three main characteristics to focus which are irrevocability, perpetuity and inalienability. Irrevocability is defined as the binding power of the waqf taking effect immediately upon declaration by the waqif. In this instance, irrevocability means the transfer of ownership from the donor to Allah and thus the donor has no power to revoke. Perpetuity means the assets dedicated to waqf institutions will remain permanent and forever as Waqf. Inalienability is concerning the subject matter of the waqf which cannot be alienated or transferred either by waqif, mutawalli or their heirs once a valid declaration has been made. It is noted the waqf assets cannot be used as collateral for loan purpose.

1.4. Introduction to cash Waqf: Cash Waqf is a form of movable waqf property which is structured by money with the main purpose to be in service for pious and charitable projects for the people for the sake of Allah (God). Based on the Islamic Law this amount collected as a cash waqf can be invested in some types of the Islamic business law such

mudarabah or musharakah, and the revenue generated from such investment can be channeled to various charitable project for the benefit of the public. All major Islamic law schools allowed such type of waqf.⁹In the Arab countries is rare to find cash waqf as a movable for of the waqf, but in Ottoman Empire land such Anatolia, Middle East, and North Africa and Southeastern Europe (the Balkans) cash waqf was part of the entire waqf system as a tool of public policy and economical system of the Empire. Based on this type of social-economical institution, many pious and charitable projects were created such as: mosques, tekkes, madrasas, khans, hamams, hospitals, support for orphans, supplying food for needy, water channels, bridges, roads, ports, street lighting, etc.¹⁰

1.5. Nature and characteristics of cash Waqf: Waqf bestows many benefits for Muslim society both social as well as economic aspect. From the social perspective, waqf is mechanism applied to reduce poverty, social control and harmonization and enhance social cohesiveness. From the economic perspective, waqf can be seen as saving and investment altogether whereby the return could be gained later in Akhirat life (here after) and also beneficial in the dunya (world). In the economic point of view, waqf is described as diverting funds and other resources from consumption and investing them in productive assets that provide either usufruct or revenues for future consumption by individuals or group of individuals. In short, waqf is explained

⁹ Magda Ismail Abdel Mohsin "Cash Waqf: A New Financial Product" Prentice Hall, Kuala Lumpur, 2009

¹⁰ Cengiz Toraman and Bedriye Tuncsiper "Cash Awqaf in the Ottomans as Philanthropic Foundations and Their Accounting Practices" Balikesir University of Turkey

as tool to create economic multiplier effect or social benefit multiplier effect.

The practice of waqf is rich with prominent achievements to serve poor in enhancing the welfare. Indeed, zakah and sadaqah in Islam is an essential tool for the redistribution of income and growth. For cash waqf, all the transactions are in cash with the investment and return generated being used for charity or social services. The investment takes place by lending the capital of the waqf to the borrowers. Cizacka (2000) said that during the Ottoman economy *riba* could not be eliminated due to the credit transactions yielded. However, scholars have debated that cash waqf contravenes the waqf tradition of immovable property and Islamic policy against the collection of interest. Although Islamic scholars and practitioners do not deny religious objections, they endorse the practice based on the practical and economic requirements.

1.6. Legal issues: Even though, there is a dispute among scholars regarding cash waqf in general. The Islamic schools of thought, consisting of Imam Shafie, Hanafi, Hambali and Maliki, mutually agreed to allow waqf for moveable property (Abdullah, 2010). This is because all moveable property can be sold, which can receive benefit in return as well as retain its physical condition. As a result, cash waqf is permissible. Furthermore, pious AzZuhri, who is well known for his Islamic knowledge, ruled that waqf in the form of dinar (money) is allowed for the sake of Islamic purposes, the welfare of society and development of the general public. There is hadith which provides evidence that waqf practiced by using money or cash is allowed in Islam. Abu Daud and Nasa'i said that: "A man said to Prophet Muhammad PBUH I have a dinar money. Thus the Prophet PBUH said you donate (waqf) your dinar money to yourself".

1.7. Principles and Effectiveness of cash Waqf: Cash waqf gives the impression to be effective in helping the Muslim poor society. For example in terms of Education, it has been proven by the success of the education system in Egypt. According to Danna, D.R. (2007), the Al Azhar University was built through the cash waqf fund and invested most of its cash waqf fund to build the storage warehouse at the Suez Canal. In addition, the Egyptian government also borrowed the waqf fund from Al Azhar University for government consumption. As a result, the sustainability that Al Azhar University has gained proves the effectiveness of the cash waqf fund, even though the university is not a profit oriented institution.

Definition of cash Waqf: “*Cash-Waqf*” means “the devotion of an amount of money by a founder and the dedication of its usufruct in perpetuity to the prescript purposes”. “*Cash Waqf in Islamic bank*” is an integrated solution offered by the IFI that provides seamless collection service and financial advisory to the non-profit/charity sector with the aim of creating a benefit to both the donor and the organization involved in charity

Cash waqf is the act of waqf by using cash as the initial/intermediate asset for the purpose of collecting waqf fund which will eventually be changed/converted into non-perishable assets. These non-perishable assets will then be utilized for the benefit of society continuously.

Importance of waqf to the Islamic financial system

The introduction of the waqf into the Islamic financial system will ensure the following objectives:

- * Ensure the welfare in the society due the substantial amount generated
- * Enhance the financial system that bring benefit to the society

- * Ensure consistent and stable source of income to the waqf fund
- * Shifting the concept of waqf from wealth inquiring to wealth creation

2.2. Corporate and financial definition of cash waqf

The waqf can be defined as: The confinement of property, movable or immovable, from the founder (Waqif) and the dedication of its usufruct (according to founder's condition) in perpetuity for the welfare of society". The general concept of waqf is grounded on the above definition; however the concept of cash waqf should be more oriented towards financial and economic dimension in order to suit the corporate need in the industry. Therefore the cash waqf can be defined as: diverting funds (and other resources) from consumption and investing them in productive assets that provide either us usufruct or revenues for future consumption by individuals or group of individuals.¹¹ This definition seem to be not accurate because the essential element of perpetuity of the waqf is not mentioned, this gives some reservation on the definition from shariah point of view, the appropriate definition will be: cash waqf is mobilization funds from donors based on perpetuity and investing them in productive assets that provide either usufruct or revenues for future consumption by individuals or groups by taking into account the policy and guideline provided by the donors and receivers.¹² This definition for cash waqf is more comply with the shariah concept of waqf and it is financially driven.

3.3. The benefit of cash waqf for Islamic finance

¹¹ Islamic world, website: http://www.islamic-world.net/economic/waqf/waqaf_financing.html. Financing the development of awaqf property, p.4.

¹² This definition is provided by the author.

The commercial aspect in cash waqf has a multiple objectives, which can be described as follows:

- * The cash waqf with its commercial and finance aspect will be more productive for the benefit of SME particularly, and for the society in general especially at macroeconomic level.
- * The benefit of cash endowment will include the donor himself at the first place who will be one of the beneficiaries of the waqf.
- * Cash endowment creates a great opportunity for SME by getting financial reward and profit which can be channel to their needs according to their terms during the establishment of the cash waqf.
- * Cash endowment increase the accumulation of liquidity and capital in the industry and create more business opportunity.
- * Improve the market by increasing more business activities.
- * Enhancing the domestic economic by providing the following:
 - liquidity to the business sector.
 - financing the SME in the industry.
 - circulating the fund in the market.
 - Creating more employments.

3. Sukuk (Islamic bond)

3.1. Literal meaning: *Sukuk* or *sikakis* the plural of “*sakk*” which means to strike or to hit, the meaning is related to strike one’s seal on a document. (Al fairuzabadi, 2007). It also means a "legal instrument, deed, check“. It is translated literally as a ‘written document’. The term of *sakkis* derived from *striking* one’s seal on a document for tablet representing a contract or conveyance of right, obligations and or monies. (Nathif J. Adam and Abdulkader Thomas, 2004) However, the term “*sukuk*” is now used to describe a financial certificate that can be seen as an Islamic equivalent of bonds that reflects a participation right in the underlying assets. (Zamir Iqbal,

Abbas Mirakhor, 2007). *Sukuk* from *Shariah* perspective is security that comply with *Shariah* rules and principles where the investment is based on *Shariah* rules that prohibit the charging of interest, therefore the profit generated in *sukuk* is not interest based but it is derived from the performance of the underlying asset. The word *sukuk* as a term is not new in Islamic law literature, and its meaning had also been used by western Europe, and later became what is presently known in the Latin word as “cheque”.

3.2. Technical definition: In its technical meaning *sukuk* is known as Islamic compliant bond, or Islamic investment certificate. (Nathif J. Adam and Abdulkader Thomas, 2004). According to Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) (2000) in its standard 17: Investment *sukuk* are certificates of equal value representing after closing subscription, receipt of the value of the certificates and putting it to use as planned, thus it represents common shares and rights in the underlined assets or their usufructs and services. (AAOIFI *Shariah* Standards, 2010). Therefore, *sukuk* can be understood as a *Shariah* compliant bond, Islamic bond, Islamic certificate, or Islamic investment certificate.

3.3. Characteristics of investment *sukuk*: The main purpose of Islamic finance in *sukuk* is to develop innovative type of *Shariah* compliant financial instrument based on assets; therefore, *sukuk* are not simply a substitute for conventional interest-based securities. The legitimacy of *sukuk* structure in *Shariah* is based on avoiding taking advantage of interest rate but the return is generated from the performance of the underlying assets. *Sukuk* are not loan base, but a real investment, based on real business activities in the market place. *Sukuk* are directly linked with real business and economy sector. In the conventional context, a bond is a deemed to be a contractual debt obligation where the issuer is

contractually obliged to pay an interest to the bondholders according to particular contract agreed upon. In the Islamic finance context *sukuk*holder claims an undivided beneficial ownership in the underlying assets; therefore, a *sukuk*holder is entitled to share in the profit generated by *sukuk*assets.

Sukuk have some characteristics that make them unique and different from other types of securities, they are as follows:

- ✓ Investment *sukuk* are documents issued in equal value, either in the name of the owner or of the bearer to establish the right of the certificate owner or rights and obligations such certificate is representing.
- ✓ Investment *sukuk* represent a common share of ownership of assets available for investments, whether they are non-monetary assets, usufructs, a mixture of tangible assets and usufructs and monetary assets, such as receivables and cash. These *sukuk* do not represent a debt owed to the issuer by the certificate holder.
- ✓ Investment *sukuk* are issued on the basis of a *Shariha*-compliant contract in which they will be applied accordingly in case of issuing and trading.
- ✓ The trading of investment *sukuk* is subject to the terms that govern trading of the rights they represent.
- ✓ The owners of these certificates share the return as stated in the subscription prospectus and bear the losses, each according to his respective share of ownership.
- ✓ *Sukuk* represent ownership of an asset or its usufruct.

- ✓ *Sukuk* are not simply a claim to cash flow but an ownership claim.
- ✓ *Sukuk* are basically investment certificates consisting of ownership claims in a pool of assets, whereas from conventional perspective bonds are interest bearing securities.
- ✓ *Sukuk* are asset-backed and represent proportionate beneficial ownership in the underlying asset.
- ✓ *Sukuk* represent a common share and right in the underlined assets or their usufructs and services.
- ✓ *Sukuk* are securities instruments that provide return and profit to investors.

3.4. *Shariharulings and requirements for sukuk:* The *Shariah* rules and requirements are divided into two types: *Sharaihrules* in issuance and *Shariah* rules in trading. They are discussed as follows:

3.4.1. Issuance of investment *sukuk*: There are some *Shariah* rules that should be observed in *sukuk*issuance to ensure its *Shariah* compliant status. It is permissible to issue investment certificates, on the basis of any *Shariah* contracts such *asiljarah*, *mudarabah*, etc. The subscription funds will be used for investment purpose. It is also permissible to issue securities for trading in tangible assets and usufructs. This could be accomplished by partitioning the assets or usufructs into units of equal value and issuing securities that represent the value of the assets. However, it is not permissible to issue securities for receivables unless some *Shariah* conditions are fulfilled. The contract of issue must be governed, after closing date and allocation of the certificates, by all effects of the contract for which the issue is concluded. The parties to the contract are the issuer and the subscribers; therefore, the relationship between the two parties of the contract may be

ascertained as per the contract that forms the basis of the issue and its *Shariah* characteristics. (AAOIFI *Shariah* Standards, 2010).

3.4.2. Trading in investment certificates: According to AAOIFI (2010) after closing subscription, identification of the certificate holders and commencement of investment activity, it is permissible, in principle, to trade in and redeem investment *sukuk* that represent common ownership of tangible assets and usufructs. It must be noted that *Shariah* requirements of exchange contract must be observed when investment activities are yet to commence. Again, rules of receivables must be observed if all the assets are, on the date of liquidation, receivables or the assets represented by the certificates were sold on a deferred payment basis. In the case of negotiable investment certificates, it is permissible for the issuer to include in prospectus of issue a provision stating that the issuer will purchase, at market value, any certificate that may be offered to him after completion of the process of issue. It is not permissible for the issuer to undertake to purchase the certificates at a nominal value. The certificates may be traded through any acceptable means that do not violate *Shariah* rules and principles. The trading may take place, for example, through registration, electronic means or actual delivery by the bearer to the purchaser.

With regards to *ijarah*, it is permissible, right after the time of issue up to the date of maturity, to trade in issues that represent ownership of existing leased assets or assets to be leased on promise. It is permissible to redeem, before maturity, certificates of ownership of leased assets from the issuer according to the price agreed upon between the certificate holder and the issuer. It is permissible to trade in securities of ownership of usufructs of tangible assets prior to a contract of sub-leasing the assets. When the assets are sub-

leased, the certificate is then representing rent receivables which make it a debt certificate. Therefore, the certificate is subject to rules and requirements of disposal of debts. It is permissible for the issuer to redeem, either at a market price or as agreed upon at the time of purchase, the issues of ownership of usufruct of tangible assets from certificate holder after allocation of *sukuk* and payment of subscription amounts. The permissibility of the redemption is circumscribed with the condition that the amount of subscription or of redemption is not deferred.¹³ It is permissible to trade in certificates of ownership of usufructs of an asset to be made available after the asset is identified. It is not valid to sublease or trade in usufructs of an asset to be made available prior to identification of the asset, in which case trading must be carried out in line with the requirements of currency exchange. It is permissible to trade in securities of ownership of usufructs to be provided by a specified source prior to sub-leasing such usufructs. When the usufructs are sub-leased, the certificate is representing rent receivables to be collected from the second lessee. In this case, the certificate is representing a debt and, therefore, is subject to rules and requirements of disposal of debts. It is permissible to trade in securities of ownership of usufructs to be provided by a specified source after the source of usufructs is identified. It is not valid to sublease or trade in usufructs to be provided by a specified source prior to identification of the source, in which case trading must be carried out in line with the requirements of disposal of debts. It is permissible to set up a parallel *ijarah* on tangible assets by employing the same description for the usufruct that was provided to the holders of the *sukuk* and provided the two lease contracts remain

¹³ More details provided in item 3/4 of the Shariah Standard in respect to *Ijarah* and *Ijarah Muntahiah Bittamleek*.

independent. It is permissible for the second buyer of usufructs of existing assets to resell them. The buyer is also entitled to issue certificates in this respect.

With regards to *istisna*, it is permissible to trade in or redeem *istisna*'a certificates if the funds have been converted through business or trade into assets owned by certificate holders during the operation of *istisna*'a. If the realised funds are immediately paid as a price in a parallel *istisna*'a contract or the manufactured item is submitted to the ultimate purchaser, then trading in *istisna*'a certificates is subject to rules of disposing debts. It is not permissible to trade in Salam certificates.

With regards to *murabahah*, it is not permissible to trade in *murabahah* certificates after delivery of the *murabahah* commodity to the buyer. However, trading of *murabahah* certificates is permissible after purchasing the *murabahah* commodity and before selling it to the buyer. It is permissible to trade in *mudarabah* certificates after closing of subscription, allocation of certificates and commencement of investment operation in respect to the *mudarabah* assets and usufructs.

With regards to *musharakah*, it is permissible to trade in *musharakah* certificates after closing of subscription, allocation of certificates and commencement of investment operation in respect to *musharaka* assets and usufructs. It is permissible to trade in *sukuk* of investment agents after closing of subscription, allocation of *sukuk* and commencement of investment operation in respect to the assets and usufructs.

With regards to *muzara'a*, *musaqat* and *mugarasa*, it is permissible to trade in *muzara'a*, *musaqat* and *mugarasat* certificates after closing of subscription, allocation of certificates and commencement of investment operation in respect to the assets and usufructs. This rule applies when the

certificate holders own the land. Thus, trading in these certificates is not allowed where the certificate holders act as workers, i.e. undertake to provide agricultural, irrigation or planting works. This is the case unless the certificate holders have contributed, in addition to labour, some equipment and plant seeds. AAOIFI *Shariah* Standards, 2010).

3.5. Benefits of *Sukuk*

- *Sukuk* are one of the prominent financial instrument of Islamic capital market. The characteristic of *sukuk* and its benefit attract many financial institutions to subscribe to the exercise of issuance and investing. The main benefits of *sukuk* are as follows:

- Investment *sukuk* are documents issued in equal value in the name of the owner to establish the right of the certificate owner or rights and obligations. Therefore, there is a direct right associated with *sukuk*.

- Investment *sukuk* represent a common share of ownership of assets available for investments which generate a return to the *sukuk*holders.

- Investment *sukuk* are issued on the basis of *Shariah*-compliant contracts; therefore, the return is legitimate and permissible from *Shariah* perspective because there is no element prohibited by *Shariah* such as *riba*.

- *Sukuk* are tradable *Shariah*-compliant capital market product providing medium to long-term fixed or variable rates of return. The tradability of the *sukuk* in the secondary market make them very liquid instrument.

- *Sukuk* are assessed and rated by international rating agencies, which investors use as a guideline to

assess the risk and return parameters of a *sukuk* certificate.

- *Sukuk* provide regular periodic income streams during the investment period with easy and efficient settlement and a possibility of capital appreciation of the *sukuk*.
- The owners of these certificates share the return as stated in the subscription prospectus and bear the losses, each according to his respective share of ownership.

4. Waqf and sukuk

4.1. Similarity and differences between Waqf and sukuk

| # | Items / features and descriptions | Waqf | Sukuk |
|---|---|----------------|-----------|
| 1 | Accept representation by certificate that shows right over an asset/ benefit | √ (benefit) | √ (asset) |
| 2 | Accept mobilization | √ | √ |
| 3 | Accept issuance based on perpetuity | √ | √ |
| 4 | Accept issuance based on temporary | √ (Maliki) | √ |
| 5 | Can be issued in the primary market | √ | √ |
| 6 | Can be traded in the secondary market (with some conditions on both waqf and sukuk) | √ | √ |
| 7 | Can be issued by individual (subject to condition) | √ | X |
| 8 | Can be issued by institutions | √ | √ |
| 9 | Can be used for investment | √ | √ |

| | | | |
|----|--|--------|--------------------------------|
| 10 | Can be used for financing | √ | √ |
| 11 | Can be used for qardhasan | √ | √ |
| 12 | Can be used for micro financing | √ | √ |
| 13 | Can be used in profitable portfolio | √ | √ |
| 14 | Can be used in charitable portfolio | √ | √ |
| 15 | Can claim ownership over it | X | √ |
| 16 | Can be used for investment | √ | √ |
| 17 | Accommodate corporation structure | √ | √ |
| 18 | Accommodate the modern governance guidelines and standards | √ | √ |
| 19 | Accommodate internal and external audit | √ | √ |
| 20 | Subject to the financial reporting standards | √ | √ |
| 21 | Accept Shariah supervision and monitoring | √ | √ |
| 22 | Reward in this world and the hereafter | √ | X (depend on the intention) |
| 23 | Generate benefit and welfare to public | √ | X |
| 24 | Public interest Vs self interest | Public | Self interest |
| 25 | Muslims and Non-Muslims as beneficiary | √ | √ |

4.2. Issuance of sukukwaqf

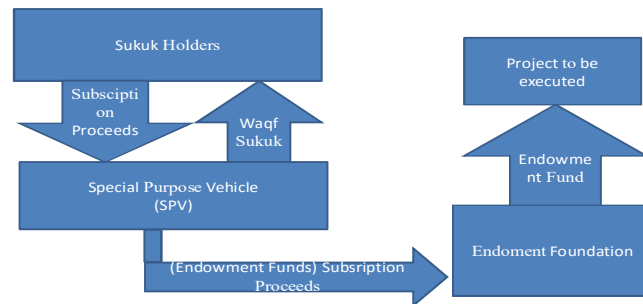
The issuance of sukukwaqf that is issued by the concerned parties through endowment organizations or their branches, it

is also issued through the bank that specialized in this kind of sukuk, the proceedings of the sukuk is always used either for humanitarian needs which won't have any return, or for investments which usually yields returns and can help in developing the endowment organizations on their special projects.

The following steps and process have to be followed in the issuance of this sukuk:

1. Specifying the amount that is need for executing the endowment project.
2. The endowment foundation will establish an (SPV) special purpose vehicle which will be use to issue the sukuk and use for securing the proceeds of the sukuk and also the endowment project.
3. The Executor or issuer (company) will issue waqfsukuk that is equivalent to the amount they need for investment and the sukuk can be traded in the secondary market.
4. The Executor or issuer (company) will float the sukuk in the market for subscription, and they will collect all the money raised through the subscription from the subscribers, this includes the endowers and the money gathered from the subscribers.

The chart of the structure is as follows:



5. Conclusion

Sukuk is an important instrument in Islamic capital market which has a specific features and characteristics that distinguish it from other class such as shares and bonds. These features bring along with it various benefits to the issuers and the investors as well. There are some *Shariah* rules and principles that should be observed in dealing with *sukuk* in stage of issuance or trading in the secondary market to ensure its *Shariah* compliance status.

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