

# Reviving the Waqf

## *Creating an Islamic Waqf in the Modern American System*

AZZAD ASSET MANAGEMENT WHITE PAPER SERIES

### ABSTRACT

A *waqf* is an endowment created under Islamic guidelines. In Arabic, *waqf* (pl: *awqaf*) literally means “containment” or “prevention.” The concept was implemented during the time of Prophet Muhammad (peace be upon him) and his companions and has a rich history in Islamic civilization. Today, a *waqf* is a way to create “ongoing charity” in our local communities.

### REVIVING THE WAQF

Fifty years from now, what will your mosque and community center look like? Will the Islamic school your children attended still be educating others? Will there still be the same unmet needs your community faces today?

The beautiful tradition of *awqaf* has been a source of benefit to the Muslim community throughout Islamic history and has proven its use. Azzad Asset Management has revived this tradition in modern America to benefit future generations.

### CREATING A LEGACY

A *waqf* is a true Islamic endowment, a method endorsed by Prophet Muhammad (peace be upon him) to support the community. The benefit of this structure is that it is not only a financial vehicle for the charitable organization, but a form of worship for the community. An endowment is an important, though often neglected, part of Islamic history, and it is with great pride that we bring this tradition of long-term charitable giving to the modern American system. Through an Azzad Asset Management-directed *waqf*, principal is preserved while income generated from investments is used to benefit the charitable cause for many years. This means that your contribution will not be a one-time gift, but will continue to work for you well into the future. We each have the ability and responsibility to create our legacy. It is during our lifetimes that we have the opportunity to answer the question, “How will I be remembered?”

*In a narration of the Prophet Muhammad, his companion, Abu Huraira, stated that the Prophet Muhammad (peace be upon him) said:*

“When a human being dies, his work comes to an end, except for three things: **ongoing charity**, (imparted) knowledge benefited from, or a pious child who prays for him.” (Sahih Muslim)



**AZZAD**  
ASSET MANAGEMENT

*Invest with faith*

**THE NEED HERE, NOW**

One of the strengths of the American Muslim community is our contribution to society. Our communities are making great strides, by the mercy and blessings of God. However, we cannot afford to focus only on today but must begin to plan for tomorrow. Each year, the financial needs of our communities and charitable, religious, and educational institutions continue to grow. Fifty years from now, an average institution will need close to five times the amount to provide the same standard of service as today. Creating a viable waqf is our chance to support that dream.

A waqf will create a new pool of investment capital for a charitable cause, separate from any annual contributions used to meet day-to-day operating expenses. As the endowment grows, it begins to generate returns and become a reliable and continuous source of income to meet growing demands. Income from the endowment can reduce an institution’s dependence on annual fundraising, and in the long term, allow community leaders to focus their attention on the charitable cause, rather than worrying about how to pay for it.

**ESTABLISHING A WAQF**

The concept of a waqf is very similar to the idea of an endowment. Fortunately, charitable institutions, including endowments, can be legal entities protected by US law if they are set up properly, and they can serve as a form of worship while still offering tax advantages to donors.

Depending on the circumstances, a waqf can be established as a registered US public charity, supporting organization, or private foundation. Special attention should be given to ensure the waqf fulfills the requirements under Islamic law. Requirements include:

1. Preservation of intent of grantor.
2. Shari’ah-compliant and prudent handling of assets (banking, investments)
3. Shari’ah-compliant income
4. Establishment of spending policy and distribution of income to preserve principal
5. Contingencies for termination of waqf and subsequent distribution of assets
6. Conditions for appointment and removal of trustees

**THE AZZAD ADVANTAGE**

At Azzad, we help our clients and communities establish viable options for leaving a legacy. We work with you and your attorney in document development so that Shari’ah issues are incorporated. We also develop the financial analysis, projections, and appropriate spending policy needed. Our services provide professional and Shari’ah compliant management of your assets. With our help, waqf trustees can focus on the charitable purpose, not asset management. That’s our job.

**FIFTY**  
**YEARS FROM NOW,**

*an average institution will need close to*

**5X**

**THE AMOUNT OF MONEY** *to provide the SAME STANDARD OF SERVICE as today.*



0 10 20 30 40 50  
years



# Waqf FAQs

Q.

*I already have an account I use like an endowment. Why should I set up a separate entity?*

A.

There are a few important reasons for an individual or organization to consider establishing a separate entity for their waqf, two primary reasons being 1) asset protection and 2) waqf continuation.

**Asset Protection:** In our litigious society, it is important to protect your waqf from possible liabilities. If an organization or individual is sued, a separate entity is protected from any liabilities.

**Waqf Continuation:** We understand the desire to establish a lasting legacy, even as times change. In order to better ensure your assets continue to help the charitable purpose of your choosing, a waqf as a separate entity can help protect your assets for charitable use even as times and circumstances change. The documents establishing the waqf will outline specific guidelines on how the Waqf should run long after we are gone.

Q.

*Should my waqf hold real estate?*

A.

Historically, many awqaaf have been established through donations of real estate, which generate income. Although this is still possible, real estate creates inefficiency. Most notably, real estate requires administration: someone to collect rent, complete repairs, and manage paperwork. This creates opportunities for unscrupulous management and possible mismanagement of properties. Real estate can also create liability issues for the waqf and endanger assets in the event a creditor pursues the property. Furthermore, it is important to consider diversification and liquidity needs for the waqf. Diversification helps protect the waqf in the event of loss of one asset, while liquidity is important in order to meet the financial needs of the charitable cause.

Investing your waqf in a diversified portfolio of Shari'ah-compliant securities is a way to avoid many of these problems. A portfolio can be a cost-efficient way to set up a diversified waqf with less capital. In addition, professional management by a manager with fiduciary responsibility can help protect your waqf and ensure decisions are made in the best interest of the charitable cause. Finally, trustees can be relieved of the responsibilities of managing the waqf and focus their attention on benefitting the charitable cause.

Q.

*How can I use a waqf for my personal estate planning?*

A.

It is important to realize that there is a portion of your wealth that you may keep and a portion you cannot. The latter is the portion you pay in income and estate taxes, which the government uses to pay for social programs. However, the government provides tax deductions when citizens choose to donate this money to charity. Contributing to a waqf is a way for you to regain control of your taxable wealth and donate it to social causes of your choice. You can use contributions to a waqf to create a system of continued charity — charity that will, God-willing, continue to provide support to the cause for generations. The waqf can be a vehicle to allow you to give more to social causes of your choice rather than leaving the decision to the government, thereby helping you leave a lasting legacy.

## ABOUT AZZAD ASSET MANAGEMENT

Since 1997, the mission of Azzad Asset Management, advisor to the Azzad Mutual Funds and sponsor of the Ethical Wrap Program, has been to provide investment services designed to help clients enjoy optimum performance without compromising their values.

Azzad is proud to serve as investment advisor to the Azzad Funds, including the Azzad Wise Capital Fund, the first Halal, socially responsible fixed-income fund investing in:

- Sukuk
- Islamic Bank Deposits
- Ethical Dividend-Paying Stocks

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- To purchase the Funds through your financial intermediary, such as TD Ameritrade, Charles Schwab, or Fidelity, give them a call and get started today.
- To add to an existing 401(k) plan or set up a retirement plan for yourself or for a business, call **888.86.AZZAD**.
- If you are a financial professional and would like to obtain a selling agreement with the Azzad Funds, please call **888.86.AZZAD**.



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