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Re-Examination of Selected Waqf and Western University Endowments

Adam Abdullah
Associate Professor, College of Economics and Management
Al Qasimia University, U.A.E

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Abstract. This paper aims to re-examine the importance of waqf and Western university endowments regarding the issues and challenges related to their role in achieving sustainable growth for selected academic institutions. Specifically, the revenues generated by university endowments are intended to fund operating and/or capital needs to ensure sustainable growth in teaching, research, and resources consistent with an institution's mission. By conducting a literature search, including documentation and content analysis, using secondary data, this study aims to analyze issues and challenges regarding the governance, performance, and sustainable economic growth of university endowments. The challenges are highlighted when academic institutions experience a reduction in government financial support that threatens to constrain academic growth and development. While historically more successful, university waqf endowments have recently lagged behind their Western counterparts,. Issues of governance models are highlighted regarding the need for independent professional management of waqf endowments and their oversight, as well as an asset allocation model of sustainable income from Shariah-compliant investments in both public and private markets. Finally, the study stressed on the importance of the practical and social implications which involve the application of the best practice standards in governance and asset management for university waqf endowments to achieve sustainable growth for academic institutions.

Keywords: Waqf, academic endowments, governance, asset allocation

JEL Classification: D60, D63, D64, G11
KAUJIE Classification: E21, E22, E23, I61

1 - Introduction

The concept or system of *waqf*, which might otherwise be referred to as a religious foundation or endowment, involves privately held property (*mal*) that is endowed for a charitable purpose, which is held in perpetuity, whereby the revenue generated is spent for this purpose, and "stands out as one of the greatest achievements of Islamic civilization" (Çizakça, 2000, p.1). All over the Islamic world, magnificent works of architecture as well as vitally important services to society have been provided by this system. In terms of its economic role, as an institution, the *waqf* was able to provide a "myriad of essential services such as health, education, municipal, etc., that historically have been provided at no extra cost whatsoever to the government (Çizakça, 2000, p.2). Accordingly, the *waqf* system contributed to a reduction in government expenditure, a smaller budget deficit, that requires less borrowing, a better distribution of income in the economy and less taxes (Çizakça, 2000, p.3). Indeed, Ibn Khaldun (1958) articulated that a lower tax burden would have a positive impact on production: "In the early stages of the state, taxes are light, but fetch in a large revenue; in the later stages taxation increases while the aggregate revenues falls off…the most important factor for business prosperity is to lighten as much as possible the burden of taxation" (Ibn Khaldun, 1958, 2:89-91). This led to the development of supply side economics by reducing taxation in order to achieve economic growth, as reflected in the Mundell-Laffer Hypothesis (Wanniski, 1975). Lower taxes would have a positive impact on aggregate production, and that the impact of lower tax rates would also reduce costs. Consequently, consumer prices would reduce and result in non-inflationary growth (Wanniski, 1975, pp.49-51).

By the time of the Ottomans, the *waqf* performed a financial and investment role in local communities in the same way that a bank does in modern societies. The major difference is that the source and application of funds was based on the *Shari'ah*, rather than the fraudulent credit creation and debt-based finance based on the interest rate, which is the hallmark of the modern banking system (Abdullah, 2018, 2021). From a historical perspective, it begins to explain that within the Islamic economic system, *waqfs* became a form of interest-free *Shari'ah*-compliant bank, i.e. a *waqf* bank, especially in the context of cash *waqfs* (*waqf an-nuqud*).

In terms of the role and significance of *waqf* academic endowments, the income generated from academic endowments is intended to finance the academic operating and/or capital requirements to ensure sustainable growth in teaching, research, and services in line with the mission of an institution. By conducting library research including document and content analysis, derived from secondary data, this study seeks to analyze issues and challenges concerning academic endowment governance, performance and sustainable economic growth. Challenges occur given that academic institutions are experiencing reduced government financial support that threaten to constrain academic growth and development. *Waqf* academic endowments, whilst historically more successful, have more recently fallen behind their Western counterparts, even though Western endowments were derived from the *waqf* institution itself. Issues concerning *Shari'ah* compliant governance models and investments necessitate that *waqf* endowments should be professionaly managed with independent oversight, separate from the academic institution as the beneficiary.

Specifically, this study seeks to analyze (1) the pioneering role of *waqfs* in education and the impact of *waqfs* on Western charitable trusts; (2) the significance of academic endowments in the West, (3) re-examining the role of governance regarding selected Western and Malaysian endowment funds; as well as asset allocation and performance issues between the Yale University's endowment fund (the Yale model) and the endowment fund of Oxford University, which adopts the Canadian model for asset allocation, in order to see which model is better suited to academic *waqf* endowments.

Accordingly, this study is organized into five sections including this introduction, with the second section providing a review of related literature. The third section details the methodology, the fourth section presents the findings and analysis, and the fifth section provides some concluding remarks and recommendations.

2 - Literature Review

In this section, the study highlights contemporary research relating to academic *waqfs* endowments, as well as highlighting studies relating to *Shari'ah*-compliant investment in the development of *waqf* assets and properties. Generally, there are international *Shari'ah* governance guidelines provided by the AAOIFI (2022) and IFSB (2022), or national requirements for asset and fund management, such as in Malaysia (SCM, 2022). However, issues and challenges arise in the literature that under-estimate the role and significance of contemporary academic *waqfs* and the importance of independent governance and asset management. Related to this would be the need to assess appropriate asset allocation strategies that would better suite academic *waqfs*.

2.1 - Academic Waqf Endowments

Historically, reflecting the depth of *waqf* support for educational institutions, during the caliphate period, "every *madrasah* had its own income which is derived from *waqf* property and is intended to finance students and teachers…these *madrasahs* became the forerunner to the establishment of *madrasahs* in several countries of the Arabian Peninsula, as well as in Turkey, Iraq, Persia and Egypt. Not only that, modern schools and universities established in Europe were also inspired by the Nizhamiyah *madrasah* [which] had very good financial support. Nizham al-Mulk allocated a large amount of assets that were represented for the benefit of the *madrasahs*. In addition, the endowments provided are productive assets that can guarantee the continuity of *madrasah* financing" (Athahillah and Suhendri, 2019, p.108). The authors highlighted the importance of human capital, education and economic development and as such, "education as a long-term investment is very important to be developed through *waqf*" (Athahillah and Suhendri, 2019, p.112), highlighting that the return value to education is 15% in developing countries (Athahillah and Suhendri, 2019, p.113). Indeed, the return on education and investment in higher education in Indonesia of 15% was also empirically established by Yabilianto (2020).

Abdul Razak et al (2016) analyzed "the sources of *waqf* funds for higher education in selected countries such as Malaysia, Indonesia, Turkey and United Kingdom. Adopting the content analysis methodology, it is found that there are significant numbers of *waqf* and endowment-based universities that have implemented the *waqf* principle in their education system" (Abdul Razak et al, 2016, p.113) and recommended that academic institutions should adopt *waqf* endowments, especially given increasing economic uncertainty. Indeed, just following the global financial crisis, UNESCO analyzed the impact of the crisis on the education system by surveying 51 countries and recommended that educational institutions should become independent of government budgets, given the negative impact of government spending on education (UNESCO, 2009).

From the Malaysian context, Ismail et al (2019) observed that "in 2015 alone, the government had allocated RM15.78 billion (20.8 percent of the total budget) to the Ministry of Higher Education Malaysia. However, the total budget had been steadily reduced in 2016 to RM13.37 billion, in 2017 to RM12.28 billion and in 2018 to RM13.89 billion - slightly increased, but still less than the allocation in 2015" (Ismail et al, 2019, p.5). The International Islamic University (IIUM) was the first university in Malaysia to establish an academic endowment fund in 1999, however, by 2016 the Malaysian government recognized the need for all universities to increase their financial resources and reduce their dependency on government subsidized higher education. Accordingly, the University Transformation Programme (UniTP) was launched. The UniTP Purple Book, *Enhancing University Income Generation, Endowment and Waqf* was developed, which "serves as a relevant guide to navigating activities related to university income generation" (UniTP Purple Book, 2016). Additionally, the UniTP Green Book, *Enhancing University Board Governance and Effectiveness* (2015), was published earlier and had identified university holding companies, endowment, and *waqf* entities in support of the UniTP initiative and "proposed independent governance for these entities" (UniTP Green Book, 2015). Ismail et al (2019) observed that of the 20 public universities in Malaysia, 12 had already established academic endowment funds, but a key governance question arises in that how many of these public universities are managing their endowments independently of their finance departments and operating accounts, in line with the expectations of the UniTP (UniTP , 2015, 2016).

Abdul Razak et al (2016) highlights that "*waqf* funds are able to fully finance the higher education institutions such as in Pondok Modern Gontor Darussalam (PMGD) and Islamic University of Indonesia (UII) …UII also established an Islamic bank in Indonesia namely Bank Syariah Unisia Insan Indonesia. In this Islamic bank, UII's *waqf* board holds 95% ownership which has total assets amounting IDR 8 billion" (Abdul Razak et al, 2016, p.119) and has collaborated with several cooperatives and micro-finance institutions. However, their financing products are debt based rather than involving equity investments. The primary Islamic partnerships of *mudharabah* and *musharakh* would not encumber poor, small-scale, often family run operations with debt, and online fintech solutions could enhance financial inclusivity, indeed "all *waqf* administration institutions in public universities could develop and provide easy online access [to finance services]" (Ismail et al, 2019).

Abdul Razak et al (2016) also state that "there are 195 Universities in Turkey in 2016. There are no private universities, however, 75 of them are *waqf* and the rest are governmental (state-public) higher education institutions [and] endowment funds also finance public universities" (Abdul Razak et al, 2016, p.120), with *waqf* donations from businessmen. Indeed, in terms of financial support and governance, Mahamood and Ab Rahman (2015) in their analysis of 68 *waqf* foundations and *waqf* universities, found that "Turkish universities have received very significant contributions from businessmen as they provide funds for the establishment, maintenance and continued existence of *Vakif Universiti*…Moreover, in

Turkey, there has been a legal policy that *Vakif Universiti* must be established by a governing foundation and the foundation must have in its statutes an article related to the establishment of higher education institutions. However, once the university is established, it becomes a separate legal entity and the responsibilities of the founding *waqf* are to appoint the members of the board of trustees of the university and to finance 20 per cent of the operational budget of the university" (Mahamood and Ab Rahman, 2015, p.443). In terms of governance, this legal structure involves a separation of the governing waqf foundation and the university itself.

In terms of performance, a *waqf* university should engage in investment to provide sustainable growth and guard against any economic recession or stock market uncertainty, as practiced by Western endowment universities such as Harvard, Yale and Princeton, indeed "there is a profound linkage between the quality of a university and its financial resources" (Acharya and Dimson, 2007). However, "the Turkish *Vakif Universiti* have not been permitted to engage in investment as their establishment was based on a foundation of non-profit institution. The income of the university should be used solely to improve the university in terms of scholarships, research and any capital investment required" (Mahamood and Ab Rahman, 2015, p.447). Unfortunately, this would clearly serve as a constraint on sustainable economic growth for a university.

2.2 - Shari'ah-Compliant Waqf Investment and Asset Management

Mahamood and Ab Rahman (2015) emphasized that generally, "the *waqf* manager in a university has to engage with ethically *Shari'ah*-based investment. Activities and illegal elements and transactions such as *riba* (usury), *maysir* (gambling), *gharar* (ambiguity) and other prohibited activities like tobacco, alcohol and the like are thus prohibited" (Mahamood and Ab Rahman, 2015, p.448). Historically, *waqfs*, adopted classical contracts, including *mudharabah*, *ijarah*, *'istisna* and *qard al-hassan* (Sadiqque, 2010), as well as innovative development techniques under the Ottomans, including long-term lease structures such as *al-Hikr* and *al-Ijaratain*, which were later developed by the West into long-term real estate leaseholds, such as 99-year leasehold properties (Abdullah and Meera, 2018; Sadique, 2010; Khaf, 1998).

According to Abdullah and Meera (2018), "A *waqf* involves a pious endowment of assets, irrevocably dedicated by its founder (*waqif*) to be administered (by a *mutawalli*) in perpetuity, in order to provide for the *waqf* beneficiaries. Accordingly, ownership is transferred from a private individual to *Allah* (s.w.t.). Given the inalienable characteristic of *waqf* land, there can be no change [the ownership of an asset] once property has been endowed" (Abdullah and Meera, 2018). Thus, according to Sadique (2010), given the irrevocable ownership associated with *waqf*, modern modes of financing that involve the sale, transfer, or encumbrance (financial lien) of *waqf*-assets, could not be adopted.

Indeed, in the context of contemporary *waqf* development, projects have been encumbered with debt structures. Abdullah and Saiti (2016) noticed that the *musharakah* bonds issued by the Islamic Religious Council of Singapore (MUIS) for the development of *waqf* properties at 11 Beach Road in 2001 and Bencooolen Street in 2001, "were invalidated on two counts. The first was that the *sharikat al-'aqd* (contractual partnership) was structured in a way that guaranteed a coupon to the bond investors, thereby voiding the partnership" (Abdullah and Saiti, 2016). Since, Ibn

Qudamah clarified that, “it is not permissible to guarantee for any partner a pre-specified number of *dirhams*. If one partner's profit amount is specified in *dirhams*, or if a specified increment over his profit-share is pre-specified, the partnership is thus invalidated” (Ibn Qudamah, *Al-Mughni*, 5, 140 cited by Usmani, 2012, pp.35-37), and “when a thing has become void (*batil*), all that follows from it is also (*batil*)” (*Majallah*, no.52).

The second reason was that the coupon itself reflected an interest rate, as per the financial information memorandum issued to the bond subscribers and admitted to in the financial statements of MUIS, which clearly contradicts the prohibition of usury (*riba*) in Islamic transactions (Abdullah and Saiti, 2016, p.555). “Interestingly, by migrating the sale of low-yielding *awqaf* and consolidating the proceeds through migration (*istibdal*), MUIS created an internal REIT…the REIT could have been externalized and resulted in more appropriate capital market product to develop Singaporean *waqf*” (Abdullah and Saiti, 2016, p.556). Indeed, Abdullah and Meera (2018) affirmed, “The *waqf*-REIT could have been externalized allowing equity investors to commercially develop the land…” (Abdullah and Meera, 2018, p.9). Rather than turn to the debt market, equity-based investments from investors or doners should always be preferred.

Accordingly, in order to achieve the economic and social objectives of *waqfs*, they must be managed by professional trustees, that are fully aware of the *Shari’ah* legal aspects, but also the economic and business aspects of Islamic ethical investing in the public interest (Abdullah and Meera, 2018). Therefore, this also constrains much of the targeted public and private market investments, as these need to be genuinely *Shari’ah* compliant.

3 - Methodology

This study adopts a qualitative-interpretative analysis involving library research by “identifying and locating sources that provide factual information or expert opinion” (George, 2008, p.6). Secondary data from *waqf* or academic endowments was culled directly from material published online by selected foundations, and was also derived from online published journal articles, newspapers, magazines, and books on related topics concerning governance, performance and sustainable development of academic endowments. No respondents were involved as this research directly “located, identified and interpreted the data” (George, 2008).

Furthermore, document analysis involves a “systematic procedure for reviewing or evaluating documents including both printed and electronic material” (Bowen, 2009). It requires that material and data be “examined and interpreted to gain meaning and understanding, in order to develop empirical knowledge” (Corbin and Strauss, 2008).

The academic endowment material has been identified and listed in the references and contains text that was recorded without intervention. Indeed, these documents are freely available online, providing stable, reliable and sufficient data that was selected and not collected. Moreover, this study yields “excerpts, quotations and selected passages, that required discovery, selection, appraisal and clarification” (Labuschagne, 2003) that involved content analysis.

4 - Findings and Discussion

This section addresses the pioneering role, impact and significance of academic *waqfs* and Western academic endowments. It also focuses on governance and asset management issues, and in particular, the importance of asset allocation with regard to investment performance in achieving sustainable growth, that might better suite academic *waqfs*.

4.1 The Pioneering Role of Waqfs in Education and Impact on Western Charitable Trusts

The oldest university established as a *waqf* is Zaytuna University, which was established as a *madrasah* in the year 737 (becoming a public university in 1956). It was a highly successful academic institution, and Ibn Khaldun was one of its more notable students. Other *waqf* institutions followed, such as the University of Al-Qarawiyyin in Fez, Morocco that was established in 859, and of course Al-Azhar University in Cairo, Egypt (in 970), and these three universities still exist today. During the Ottoman era, these *waqf* universities and many others flourished, such as the University of Al-Muntasiriyyah in Iraq, and the University of Cordova in Spain (Çizakça, 2018).

Al-Maqrizi reported that a number of *madrasahs* were established but ultimately failed due to a lack of *waqf* to finance students and teachers. "Some collapsed and were ruined even though they had previously enjoyed a good reputation. In his observation of the Al-Nasiriyyah School, for instance, [Al-Maqrizi] comments that: 'had it not been for what the scholars got (from *waqf* assets), the school would have been ruined'. Al-Maqrizi's observation also includes other educational institutions, such as the Al-Qamhiyya School, Al-Sahibiyyah al-Bahaiyya Schools and also An-Sonqar Mosque" (Mahamood and Ab Rahman, 2015, pp.431-432).

One of the interesting aspects of *waqf* is its similarity with Western endowment and trust law. The essential principle of endowment was learnt from Western interaction with Muslims (Guadioisi, 1988). Indeed, the first and oldest university in the West was the University of Oxford, which was established as a charitable trust in 1096, about 125 years after the University of Al-Azhar, and ultimately the statutes of the college system reflected a charitable trust that was similar to the *waqf* deed (*waqfiah*): "Oxford University would seem to represent the quintessential English academic institution. Yet, in its early phases of development, Oxford may have owed much to the Islamic legal institution of *waqf* (pl. *awqaf*), charitable trust. The incorporation of Merton College, Oxford, in 1274, is generally considered to mark the foundation of the modern college system. The other colleges at Oxford, as well as Cambridge and a myriad other institutions, accepted the *Regula Mertonensis* as embodying the ideal collegiate structure. In its original form, however, the House of the Scholars of Merton was a simple, unincorporated charitable trust, markedly similar to the Islamic *waqf*" (Gaudiosi, 1988, pp.1231-1232).

The founder of Merton College was Walter de Merton, a clergyman who held the office of Chancellor of England and was closely associated with the Knights Templars, who had significant contact with the Middle East generally and with Jerusalem specifically. "The Knights Templars were established in Jerusalem around 1120, remaining there until the end of the thirteenth century. The Templars established the principal House of their Order in London in 1128…[The Templars] were quite influential in the development of the Inns of Court in England in fourteenth century England. The Inns of Court were the successors to earlier law schools associated with churches, which had emerged between 1135 and 1189, soon after the Templars established their London house. It has been theorized that these institutions were modelled after the Islamic college of law in its early form of a mosque with an adjoining inn [*madrasah*], with which the Crusaders would have become familiar during their stay in Jerusalem" (Guadiosi, 1988, p.1245).

Furthermore, in the statutes of 1264, Walter de Merton, as the founder, clearly identified two objectives, that the 'House of the Scholars of Merton' (Merton College) was to be established "for the support in perpetuity" of students at the University of Oxford, and that any member of the founder's family "lack[ing] what is needed for survival" was to be supported by the trust in return for appropriate service. (Guadiosi, 1988, p.1251 and Statutes in Appendix, pp.1257-1261). The fact that Walter de Merton wished to advance education and to support family members, actually reflects the concept of *waqf al-khayri* (public *waqf*) and *waqf al-ahli* (family waqf), or rather, a *waqf al-mushtarak* (combined public and family *waqf*), created by the founder to support both the public and his family.

"Merton College was established during the Crusades, and it would not have been wise for a prominent clergyman and government servant to announce his adoption of an Islamic institution" (Guadiosi, 1988, p.1255). Nonetheless, Çizakça (2018) states, "This particular legal structure was then imitated by Peterhouse College in Cambridge [in 1284] and these Oxbridge colleges were imitated by the top Ivy League colleges of the U.S. Thus, the contribution of *waqfs* to the education and, therefore human capital formation, of the West has simply been priceless. All of these superb Western institutions have been financed, established and maintained for centuries thanks to the perpetual and independent *waqfs* invented by Muslims" (Çizakça, 2018, p.1).

4.2 - The Significance of Academic Endowments in the West

The philanthropic origins of Western academic endowments reveals that many western universities have been established through academic endowments, in particular, the English universities of Oxford and Cambridge (Oxbridge) and Harvard and Yale in the U.S. In fact, in a higher education white paper, the U.K. Government was convinced that "the way forward [in financing higher education] is through endowment. This will make the sector less dependent on any single source of funding" (The Sutton Trust, 2003, p.1). As such, a private financial endowment is a legal structure for managing indefinitely a pool of financial (stocks, bonds and cash), real estate, and alternative investments (private equity, venture capital and other private market investments including infrastructure, transportation, natural resources and other "real" assets), with a university as the beneficiary. Endowments are structured so that the principal value is kept intact, while the investment income is made available for use each year in covering the operating and capital expenditure of the university. In other words, according to the American Council on Education (ACE): "an [academic] endowment is an aggregation of assets invested by a college or university to support its educational and research mission in perpetuity" (ACE, 2021, p.1).

In their historical analysis, relying on published documents and archival records between 1890 and 1930, regarding the meaning and significance of academic endowments in the United States, Kimball & Johnson (2012) concluded that, "While colleges have long had permanent invested funds [yielding income for current expenses], endowment first acquired its meaning and significance in U.S. higher education between 1890 and 1930 as universities realized that their autonomy, stability, and comparative advantage over competitors depended heavily on the amount of their financial capital" (Kimbal and Johnson, 2012, p.1). This academic endowment approach to sustainability meant that, "The universities that first made this realization began to focus on increasing their endowment and thereby established an upper tier of wealthy universities that maintained this elite status through the ensuing century. Consequently, the inception of endowment between 1890 and 1930 had far-reaching influence on the stratification of higher education in the United States" (Kimbal and Johnson, 2012, p.1).

Hansmann observed that, "The accumulation of endowment is, in effect, a form of saving, presumably for expenditure in the future" (Hansmann, 1990, p.9). Beyond revenue from invested funds, "Other major sources of revenue - tuition, grants, or gifts for current expenses - are soon spent and depend directly on external expectations or requirements. Endowment, even when restricted, provides revenue that can be controlled by the university, and thus expands its capacity for self-determination. This kind of revenue also provides stability because it is relatively reliable and facilitates planning for the short or long term. Finally, a larger endowment provides a comparative advantage among competing institutions by supporting the capability to pursue opportunities and discretionary goals, which can increase accomplishments and elevate prestige" (Kimbal and Johnson, 2012, p.1).

Consequently, the size of the academic endowment stratifies colleges and universities by perceived or realized quality within higher education. In recent years, by 2011, "as everyone knows…endowment size, perhaps more than any other single factor, determines the success and the perceived quality of private colleges and universities" (Ferrall, 2011, p.23). In terms of performance, in a survey of 720 U.S. colleges and universities with endowment assets totaling USD 821 billion, the net annualized average returns for the 10 years ending 30 June 2021 was 8.5% (NACUBO-TIAA, 2021).

This study has selected the top U.S. and U.K. academic endowments by value and performance (in terms of annualized returns) are presented in Table 1, all of which out-performed the 2021 survey. However, the size of the endowment does not determine higher returns, but rather the asset allocation does. Indeed, in terms of the importance of asset allocation, Brinson, Hood and Beebower (1986) and Ibbotson and Kaplan (2000) found that 94% and 88%, respectively, of the variability of a portfolio's returns are derived from a long-term investment policy reflected in a strategic asset allocation (SAA) approach. Accordingly, "by adopting similar asset allocation principles, it is possible for smaller investors to obtain high levels of risk-adjusted returns for their own portfolios; superior to that of traditional equity/bond portfolios and to most balanced investment funds" (Azlen and Kermati, 2017). This important empirical evidence regarding the SAA is clearly relevant in the context of an appropriate asset allocation policy for academic *waqf* endowments.

Table 1: Academic Endowment Funds by Value and Performance

University	Endowment Value	Annualized Return ending 30 June 2021	Source
Harvard	**USD 53.2 billion**	**11% since inception (1974)**	**HMC (2022)**
Yale	**USD 42.3 billion**	**12.4 % (10 years)**	**Yale Investments (2022)**
Stanford	**USD 37.8 billion**	**10.8% (10 years)**	**SMC (2022)**
Princeton	**USD 37.7 billion**	**12.7% (10 years)**	**PRINCO (2022)**
MIT	**USD 37.4 billion**	**14.5% (10 years)**	**MITIMCo (2022)**
Oxford	**GBP 6.36 billion**	**10.9% (10 years to 31 Dec. 2021)**	**OUem (2022)**
Cambridge	**GBP 3.8 billion**	**11.8% (rolling 5 years)**	**Cambridge University, (2022), UCIM (2022)**

Academic endowments are central to their respective university's teaching, research and service missions. This was not always the case. In the 1970s, "Princeton University was in the red and running budget deficits. Building repairs lagged, financial aid resources fell short of student needs, salaries failed to keep up with inflation, and new construction projects were on indefinite hold" (Princeton University, 2021, 25 Oct.). This was the reality for Princeton then, but with professional asset management and strong growth, the university's endowment fund has played a key role in growing and transforming Princeton University: "The endowment helps support almost every aspect of the University, from Nobel Prize-winning research to a groundbreaking financial aid program benefiting generations of students, to the transformation of one of the world's foremost research libraries, and to service programs that support faculty and students doing on-the-ground work in communities close to home and around the world" (Princeton University, 2021, 25 Oct.). Accordingly, "Princeton's endowment returns continue to support [the] University mission and impact" (Princeton University, 2021, 29 Oct.).

In summary, according to ACE (2021), academic endowments have proven to provide sustainable alternatives with other sources of revenue by providing stability, leveraging other sources of revenue, encouraging innovation and flexibility and allowing a longer time horizon:

- *Providing stability*: "University revenues fluctuate over time with changes in enrollment (tuition), donor interest (gifts), and public support (largely state and federal). Although endowment earnings also vary with changes in financial markets and investment strategies, most institutions follow prudent guidelines that are intended to buffer economic fluctuations and to produce a relatively stable stream of income. Because the endowment principal is not spent, the interest generated by endowment earnings supports institutional priorities year after year. This stability is especially important [since]…Endowments frequently support student aid, faculty positions, innovative academic programs, medical research, and libraries" (ACE, 2021, p.1).
- *Leveraging other sources of revenue*: "Institutions have dramatically increased

their own student aid expenditures in recent years, and endowments have enabled institutions to respond more fully to changing demographics and families' financial need… An endowment also allows a college or university to provide a higher level of quality of service at a lower price than would otherwise be possible. This has been especially important in recent years, particularly for publicly supported institutions that have experienced significant cuts in state support. Without endowments or other private gifts, institutions would have had to cut back even further on their programs, increase tuition and fees even further, and/or obtain additional public funding to maintain current programs at current prices" (ACE, 2021, p.1).

- *Encouraging innovation and flexibility*: "An endowment enables faculty and students to conduct innovative research, explore new academic fields, apply new technologies, and develop new teaching methods even if funding is not readily available from other sources, including tuition, gifts, or grants. Such innovation and flexibility has led to entirely new programs and to important discoveries in science, medicine, education, and other fields" (ACE, 2021, p.1).
- *Allowing a longer time horizon*: "Unlike gifts expended upon receipt, an endowed gift keeps giving over time. Endowed institutions can plan strategically to use a more reliable stream of earnings to strengthen and enhance the quality of their programs, even if some of their goals will take many years to achieve. By making endowed gifts, alumni and others take responsibility for ensuring the long-term well-being of universities. Their gifts help enable future generations of students to benefit from a higher quality of education and allow these institutions to make even greater contributions to the public good" (ACE, 2021, p.1).

4.3 - Governance and Asset Allocation in Academic Waqfs and Endowments

4.3.1 - Governance Issues Associated with Western and Waqf academic endowments

As mentioned earlier, Indonesia academic *waqfs* are limited, whilst Turkish *waqf* universities are constrained due to a legal inability to invest as non-profit organizations. An insightful understanding of university endowment governance and investment roles are reflected in the Malaysian governments' University Transformation Programme (UniTP), which states that, "endowment investment should be managed through an appropriate governance structure, proper asset allocation and diversification, and investment performance monitoring" (UniTP, 2016, p.48). UniTP highlights the importance of independent governance: "university endowments should be overseen by an independent Board of Trustees responsible for setting investment and allocation policies. All other financing and investment activities of the university will be overseen by the Finance and Investments Committee of the university Board" (UNiTP, 2015, p.63).

Indeed, the operations of academic *waqf* endowments should be separate from the university itself: "university endowments, or trust funds, should continue to be overseen by an independent Board of Trustees (BOT) for the fund – as is current best practice…The BOT should be independent of the university Board…[and] will actively participate in the endowment's decision-making. Typical investment committee decisions include defining investment objectives, setting asset allocations, and engagement of asset managers. Day-to-day management of the endowment may be overseen by a Chief Investment Officer or outsourced to an external fund manager. For *waqf*, appropriate governance structures should be established that adhere to *Shari'ah* principles" (UNiTP, 2015, p.63). This implies that an academic *waqf*, or an endowment operating as a *waqf*, should establish a Board of Trustees (BoT) abiding by Terms of Reference (ToR) that includes an Investment Policy Statement (IPS), for appointed internal or external asset managers, which involves an asset allocation model for sustainable income derived from *Shari'ah* compliant financial and real assets, in both public and private markets. This also implies that members of an academic *waqf* endowment's BoT should include those with a background in *Shari'ah* law, Islamic economics and Islamic finance and investment. Since, an academic *waqf* is a public *waqf* (*waqf al-khayri*) then the university is the beneficiary, which explains that "separately, the university board's investment Committee will provide oversight on the governance, policies and performance management of all other finance and investment activities relating to the operations of the university, excluding the endowment" (UNiTP, 2015, p.63). In this regard, we have summarized the governance related to investment for selected Western and Malaysian academic endowments in Table 2.

Table 2: Academic Endowment Governance

University	Endowment Management	Source	Investment Governance
Harvard	Harvard Management Company	HMC (2022).	Subsidiary of Harvard University
Yale	Yale Investments Office	Yale Investments (2022)	Subsidiary of Yale University
Stanford	Stanford Management Company	SMC (2022)	Subsidiary of Stanford University
Princeton	Princeton Investment Company	PRINCO (2022)	Subsidiary of Princeton University
MIT	MIT Investment Management Co.	MITIMCo (2022).	Subsidiary of MIT
Oxford	Oxford University Endowment Management	OUem (2022)	Subsidiary of Oxford University
Cambridge	University of Cambridge Investment Management	UCIM (2022)	Subsidiary of Cambridge University
International Islamic University Malaysia (IIUM)	IEF Executive Committee	IIUM Endowment Fund (2022)	Separate Internal Committee of IIUM
Universiti Malaysia Terengganu (UMT)	UMT Investment and Endowment Committee	UMT IPS (2018)	Separate Internal Committee of UMT

We should re-iterate that there is no *barakah* in any transactions that contradict the *Shari'ah*, but in terms of governance, all of the American endowments have separate professionally managed investment management companies as subsidiaries of their respective universities to manage their respective endowment funds. Oxford University has a Finance Committee and an Investment Committee (Oxford University Committees of Council, 2022), but these are separate from the professionally managed Oxford University Endowment Management (OUem, 2022). Similarly, with the University of Cambridge Investment Management (UCIM, 2022).

In Malaysia, “government grants today fund more than 90% of the expenditure at public universities” (UniTP, 2016, p.6). It was also reported that the value of the 20 public university endowments totaled MYR 1.87 billion as at Aug. 2017, with University Malaya (UM) recorded the highest value of MYR 1.6 billion, followed by the National University of Malaysia, Universiti Kebangsaan Malaysia (UKM), at MYR 71 million, however, “the current amount of endowment funds to public universities in Malaysia is far from enough to help sustain future operations, let alone encourage innovation in academia, said former vice-chancellor of University of Malaya (UM) Professor Tan Sri Dr Ghauth Jasmon” (Jafaar, S. S., 2017). However, limited published information is available regarding UM’s and UKM’s endowment governance and performance data. The IIUM endowment fund (IEF), according to the IEF profile, is managed by an executive committee (which appoints related sub-committees), with a *Shari’ah* advisory committee, and a management team (IIUM Endowment Fund, 2022). However, the investment management structure is centralized with no separate professionally managed investment company. This implies a lack of investment policy and capability, and no segregation of IEF fund and management accounts. Furthermore, there is limited published information on investment strategy and performance. Of the smaller public university endowments, as per its constitution the Universiti of Malaysia (UMT) Board of Directors has delegated its authority to the UMT Investment and Endowment Committee, which includes a UMT Fund Manager responsible for managing the UMT endowment fund (UMT IPS, 2018, p.4). Also, an Endowment and Investment Secretariat “is responsible for working with the UMT Fund Manager to achieve the investment objectives of the Fund” (UMT IPS, 2018). The UMT Investment and Endowment Committee and its Secretariat can also appoint external investment managers (UMT IPS, 2018, p.6). Overall, the UMT IPS (2018) reflects good governance. Meanwhile, UMT’s actual asset allocations can vary, but the target asset allocation is as per Table 3. No doubt UMT’s asset allocation reflects a smaller endowment fund, but it is unlikely to achieve higher returns over the long-term, with alternative investments (including real estate) targeted at 10% and fixed deposits at 50%. In summary, it will be difficult to attract substantial donations to academic *waqfs* without (i) transparent good governance, and (ii) independent professional investment management, that fully appreciates the importance of strategic asset allocation (SAA) and its effect on performance.

Table 3: UMT Asset Allocation Policy

Asset Class	Policy Target and Ranges		
	Target	Lower Bound	Upper Bound
Equity	**15%**	**0%**	**30%**
Fixed income	**25%**	**0%**	**35%**
Alternative investments	**10%**	**0%**	**20%**
Cash / fixed deposit	**50%**	**40%**	**100%**
Total	**100%**	**-**	**-**

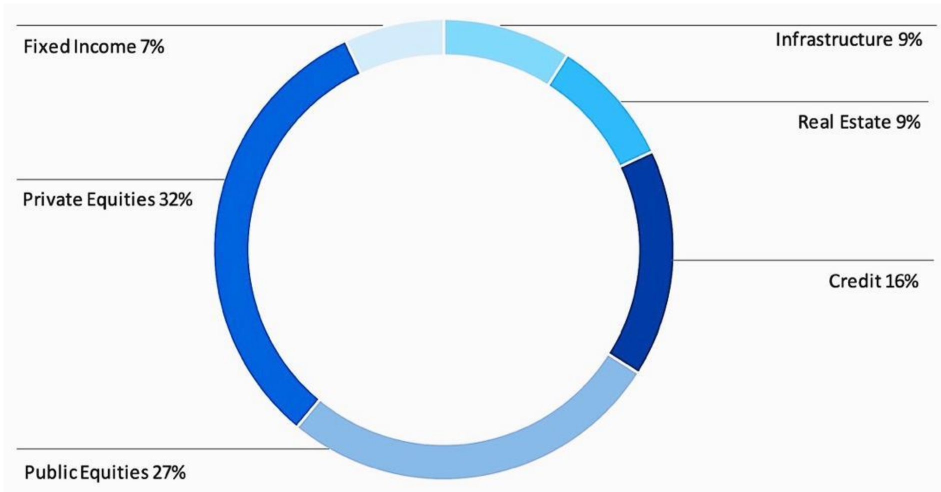
Source: UMT IPS, 2018, p.8

4.3.2 - Asset Allocation – the Yale Endowment Model versus the Canadian Model

As mentioned earlier, given the importance of asset allocation, Brinson, Hood and Beebower (1986) found that 94% of the variability of a portfolio's returns are derived from a long-term investment policy reflecting a strategic asset allocation (SAA) approach. Nonetheless, there are differences with regard to asset allocation strategies adopted by Western academic endowments, such as the well-known Yale endowment model, which has been adopted mainly by U.S. university endowments (Phalippou, 2022, p.224), as opposed to the Canadian model (Phalippou, 2022, p.246) developed by Canadian pension plans, which has been adopted by the U.K. academic endowments, such as Oxford University. Both have adopted a strategic asset allocation (SAA), but the Canadian model provides freedom to invest broadly in equities, credit and real assets, by focusing on risk assets. This allows for investments in public or private equities. Within credit, investments can be across more liquid credit vehicles or private credit. Within real assets, investments can be a mixture of direct private real estate and private real estate investment funds. In this section, our analysis will begin with a focus on the Canadian model, then evaluate the SAA approach and mean variance optimization (MVO) to find the optimal portfolio, and finally contrast the asset allocation for both the Yale and Canadian models, in order to assess which asset allocation strategy might be more appropriate for academic *waqf* endowments.

The Canadian model is reflected in the The Canadian Pension Plan Investment Board, or CPP Investments (CPPI), manages contributions paid by workers and employers. As of 3rd quarter fiscal 2021 (31st Dec. 2020), it managed C$ 475.7 billion of assets under management (AUM) for 20 million Canadian contributors and beneficiaries (CPPI, 2022). Its mandate is "to invest its assets with a view to achieving a maximum rate of return, without undue risk of loss" (CPPIB, 2017, 5.c). Hence, its strategic investment framework and primary objective is "to deliver a well-balanced and globally diversified portfolio that will maximize sustained long-term returns without incurring undue risk" (CPPI, 2022), which involves asset, risk, geographic and program diversification. CPPI's Total Portfolio Approach (TPA) diversifies portfolios according to risk and return streams. In terms of investment governance to create value, CPPI adopts active management and has developed internal capacities to invest directly in target assets, in conjunction with external partners. The TPA avoids buying or selling illiquid investments at inappropriate times just to adhere to asset allocation targets and therefore relies on assessing risk rather than targeting specific asset classes. Whilst income earned by CPPI is tax-exempt inside Canada, 85% of CPPI assets are invested externally, thus CPPI structures "foreign investments to maximize the after-tax investment returns available to CPP contributors and beneficiaries" (CPPI, 2022). Given the CPPI asset allocation (figure 1), public and private equities total 59% (equities), fixed income and credit total 23% (debt), and real assets total 18%. This is significantly different from the more conservative 60:40 equity-debt split in a standard market portfolio.

Figure 1: CPPI Asset Allocation, as at 31 Mar. 2022

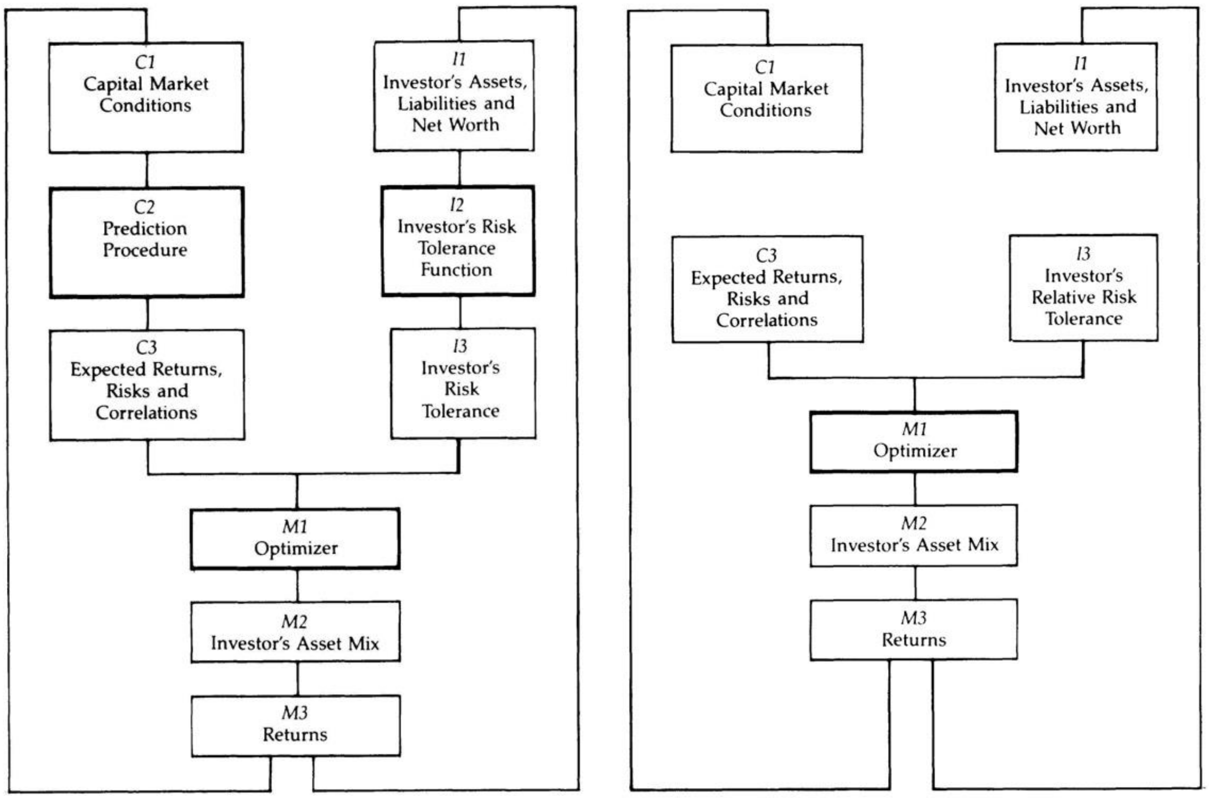


Source: (CPPI, 2022)

CPPI's strategic asset allocation (SAA) total portfolio approach is not constrained by asset class targeting and is similar to the investment strategy of the Ontario Teacher's Pension Plan (OTPP, 2022), which also includes inflation sensitive investments (such as commodities and natural resources). As a pension fund, CPPI's reference portfolio reflects a simple public markets benchmark and risk target, that is equivalent of 85% global equity and 15% Canadian government bonds. CPPI's strategic portfolio provides a diversified long term investment plan, which optimizes the long-term risk and return for the portfolio. CPPI's target portfolio defines the asset class and geographic targets for the current year and re-balances the portfolio within these targets, so that the portfolio conforms to the long-term plan. This allows CPPI to diversify investments into private equities (32%), and similarly with other pension funds such as California Public Employees' Retirement System (CalPERS, 2022) and OTPP.

The SAA approach involves a baseline asset allocation that takes into account returns, risks and investment constraints. The SAA process (figure 2) goes through Sharpe's integrated asset allocation model once and then removes boxes (C2) and (I2), thus removing any temporary adjustments to the baseline allocation. SAA is typically determined by mean variance optimization (MVO) to find the optimal portfolio (M1).

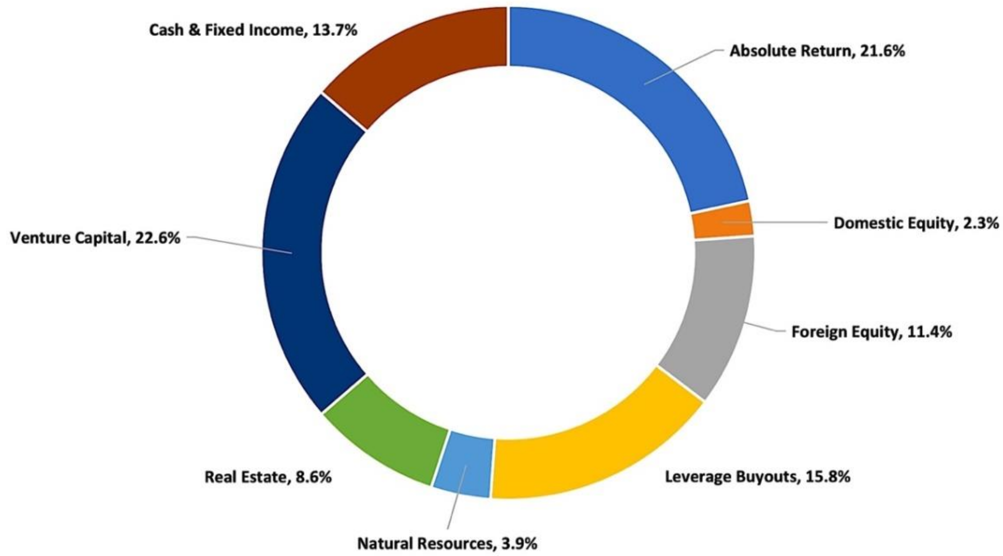
Figure 2: Integrated Asset Allocation (*left*) and Strategic Asset Allocation (*right*)



Source: Sharpe, 1987, pp.26,28

With regard to the SAA and the Yale model, "Yale's portfolio…relies on mean-variance analysis, an approach developed by…Harry Markowitz…Using statistical techniques to combine expected returns, variances and covariances of investment assets, Yale employs mean-variance analysis to estimate expected risk and return profiles of various asset allocation alternatives and to test sensitivity of results to changes in input assumptions" (Yale Endowments, 2020, p.5). Markowitz formulated his mean-variance analysis, or modern portfolio theory (MPT), as a framework for diversification to maximize the expected return for a portfolio of assets for a given level of risk, where the variance of asset prices is used as a proxy for risk (Markowitz, 1952). Yale argues that "the rigor required in conducting mean-variance analysis brings an important perspective to the asset allocation process" (Yale Endowments, 2020, p.5), as reflected in Yale asset allocation for its portfolio in June 2020 (figure 3):

Figure 3: Yale University Endowment Asset Allocation, as at 30 Jun. 2020

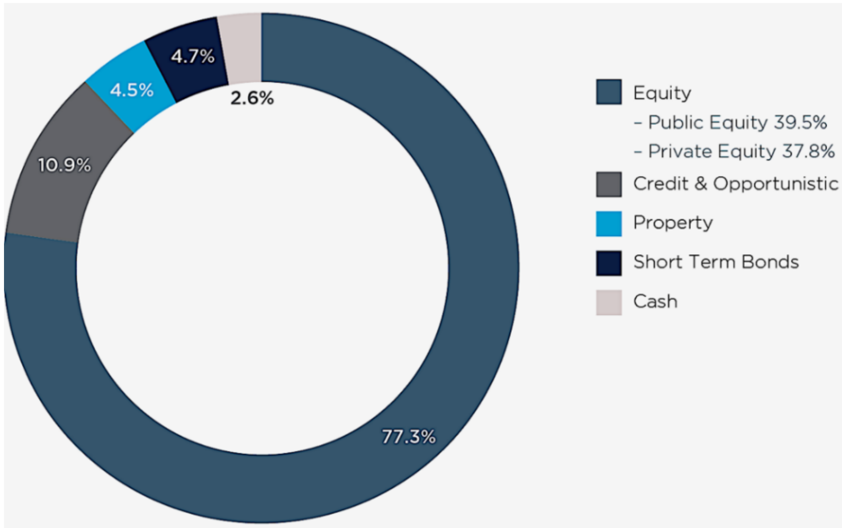


Source: Yale Endowments (2020, p.5)

As long-term investors, eendowment funds are not reliant on public market liquidity and can therefore hold illiquid assets. Academic endowments are suited to both public and private equities, generating higher long-term returns as compared to fixed income. For example, Yale eendowment externally invests in general partners (GPs) for private equity (PE) and hedge funds for public markets. Whilst the Yale endowment model adopts an SAA involving MVO that targets a fixed allocation of assets by deciding amounts to invest in each asset class, the CPPI approach reflects the Canadian SAA model which allocates investments more broadly to equities, credit and real assets. Thus, when considering equities, it allows freedom to allocate to public or private equities in order to improve returns given the associated risks, as opportunities arise.

The Oxford endowment (Oxford, 2022) is similar, allocating to primarily to equities, credit markets, and real asset investments (figure 4), specifically, 77.3% to public and private equity, 15.6% to credit and short-term bonds, 4.5% to property and 2.6% to cash. This allows for efficient market timing in venture, growth and niche PE investments, with increased capacity from internal asset management teams. This form of SAA seems more suited to smaller *waqf* academic endowments that permits more freedom and efficiency in targeting assets that would optimize long-term risks and returns. This is also in line with the investment objective of Oxford's Merton College: "Endowment funds are invested in assets which fundamentally underpin and sustain the operations of the College at the desired level of activity in the long term" (Acharya and Dimson, 2007, p.93), which confirms that "endowment income is critical in underpinning the activities of Oxbridge institutions" (Acharya and Dimson, 2007, p.94) in sustaining educational objectives.

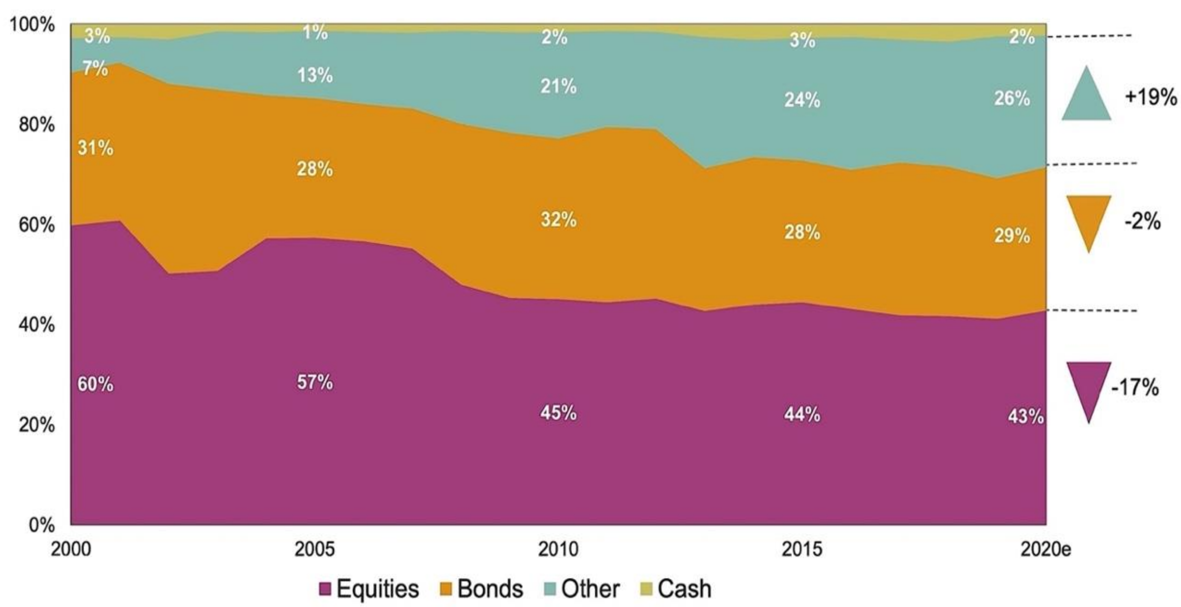
Figure 4: Oxford University Endowment Asset Allocation, as at 31 Dec. 2021



Source: OUem (2022)

In terms of the overall trend in asset allocation, the top seven country's pension assets (P7), which total USD 48,221 billion in 2021, can be a useful guide. In Figure 5, aggregate P7 asset allocations have increased in alternative real estate and private markets investments, from 7% in 2000 to 26% by 2020 and increase of 19%, whilst bonds have reduced by 2% over the same period and public equities have fallen by 17% (Willis Tower Watson, 2021). This confirms that private markets investments are providing higher returns as compared to public markets.

Figure 5: Aggregate P7 Asset Allocation, 2000-2020



Source: Willis Tower Watson (2021)

5 - Conclusion

This research has re-examined issues and challenges regarding the role of selected *waqf* and Western academic endowments. This study began by analyzing issues relating to the pioneering role of *waqfs* in education and their impact on Western charitable trusts. Human capital development and the acquisition of knowledge is central to Islamic teachings. Historically, under the *dar al-Islam*, all institutions of learning were financed through *waqf* and many evolved from *madrasahs* into universities. Equally, this study highlighted that not only did the West imitate their universities based on the structure of the *madrasah*, but they also financed their universities and colleges from charitable trusts which were based on *waqfs*. As western scholars visited universities across the Islamic world, so the West became infused with knowledge that facilitated their Renaissance Period and the Age of Enlightenment. From a Western perspective, Muslims were knowledge givers and from the Muslim perspective knowledge flowed from the *Shari'ah*.

In the modern era, the situation has reversed. Muslim universities have fallen far behind, especially in research and development, and have become knowledge takers from the West, often blindly following their curriculum and educational standards, forgetting that Western education is often infused with misguidance. This study re-examined the significance of academic endowments in the West and linked successful university development with sustainable academic endowments. This study also focused on the role of governance regarding selected endowment funds and found that Western endowments are better managed, with investment management structures that are independent of their university, as the beneficiary of their academic endowments.

In terms of the endowment value and performance, Muslim *waqfs* universities or academic endowments are far behind in terms of investment growth, which increasingly threatens sustainable development given declining government financial support. In this regard, this study found that the strategic asset allocation approach was central to endowment performance over the long term, concluding that the Canadian model (adopted by Oxford University) would provide better flexibility over the Yale model. Coupled with genuine *Shari'ah* compliant investment opportunities in public and private markets, with proper independent governance and professional asset management structures, academic *waqf* endowments should experience a significantly improved growth trajectory, thereby enhancing the quality of education, research and development from universities in Muslim countries.

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Adam Abdullah is currently an Associate Professor and Head of the Department of Economics at the College of Economics and Management, Al-Qasimia University, U.A.E. He was the former Deputy Dean (Research & Publications) at the International Islamic University Malaysia (IIUM) Institute of Islamic Banking and Finance (II*i*BF). He holds a PhD in (Islamic) Economics from University Malaysia Terengganu (UMT) and was awarded best PhD prize (2012). He specializes in Islamic economics, finance and investment, and has published 70 articles and books. He has written extensively on Islamic monetary economics, publishing *The Islamic Currency* (2016), which included an analysis of monetary performance over 1,300 years involving gold, silver and commodity price data in Egypt, Ottoman-Turkey, England, America and Malaysia. He has also presented at a number of international conferences, including as guest speaker. E-mail: aabdullah@alqasimia.ac.ae.

مراجعة لأوقاف مختارة مقارنة بأوقاف جامعات غربية

آدم عبد الله

أستاذ مشارك، كلية الاقتصاد والإدارة

الجامعة القاسمية، الإمارات العربية المتحدة

المستخلص. يهدف هذا البحث إلى مراجعة دور الأوقاف مقارنة بأوقاف جامعات غربية، من حيث عرض المشكلات والتحديات التي تواجهها؛ وتحول دون تحقيقها لأهدافها في النمو المالي المستدام؛ إذ أن ريع هذه الأوقاف يوجه للصرف على احتياجات التشغيل، وزيادة رأس المال، لضمان استمرارية التدريس والبحث العلمي، وتوفير موارد مالية بما يتفق مع أهداف المؤسسة العلمية ورسالتها. تسعى هذه الدراسة إلى إجراء بحث مكتبي؛ من حيث التوثيق، وتحليل المحتوى، باستخدام البيانات الثانوية لتحقيق أهداف البحث. كما تهدف أيضًا إلى تحليل القضايا والتحديات المتعلقة بالحوكمة والأداء والنمو المستدام للأوقاف الجامعية؛ خاصة عندما تواجه المؤسسات الأكاديمية تعثرًا في الدعم المالي الحكومي الذي أضحى يُهدد التطور الأكاديمي لهذه المؤسسات. فعلى الرغم من التجربة التاريخية الناجحة لمؤسسات الأوقاف الأكاديمية الإسلامية إلا أنها تراجعت مؤخرًا عن نظيراتها الغربية، على الرغم من أن فكرة الأوقاف الغربية مُستمدة من مؤسسات الأوقاف الإسلامية نفسها. كما سلطت الورقة الضَّوء على نماذج الحوكمة المتعلقة بالحاجة إلى إدارة مهنية مستقلة للأوقاف ومراقبتها، بالإضافة إلى نموذج تخصيص الأصول لتحقيق دخل مُستدام من الاستثمارات المتوافقة مع الشريعة الإسلامية في الأسواق العامة والخاصة. وأخيرًا، أكدت الدراسة على أهمية الجوانب العملية والاجتماعية التي تنطوي على تطبيق أفضل الممارسات في الحوكمة، وإدارة أصول الأوقاف الجامعية لتحقيق النمو المستدام للمؤسسات الأكاديمية.

الكلمات الدَّالة: الوقف، الأوقاف الأكاديمية، الحوكمة، تخصيص الأصول

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