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EVKAF PROJELERİNİN DESTEKLENMESİNDE İSLAMİ KARMA FİNANSMAN İLAVESİNİN ARAŞTIRILMASI

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ÖZ

Mevcut çalışma, karma finansmanın vakıf projelerinin geliştirilmesinin olumlu etkisini ne ölçüde artırdığını ve çeşitli İslami ticari sözleşmelerin (temel olarak takas ve katılım sözleşmeleriyle paylaşım sözleşmeleri) harmanlanmasının net finansman yükünü nasıl azalttığını ve vakıf finansmanını nasıl daha imtiyazlı hale getirdiğini incelemektedir. Çalışma, İslam Kalkınma Bankası'nın Evkaf Gayrimenkulleri Yatırım Fonu'ndan (APIF) alınan iki vaka çalışmasının niteliksel incelemesine dayanmaktadır. Bu inceleme, vakıf mülklerinin geliştirilmesinin etkisini artırmak için ilgili paydaşlar tarafından benimsenebilecek çeşitli politika önerilerine yol açmaktadır.

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INVESTIGATING THE ADDITIONALITY OF ISLAMIC BLENDED FINANCING FOR SUPPORTING *AWQAF* PROJECTS

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ABSTRACT

It is observed that financing revenue generating *awqaf* projects to serve socio-economic development purposes requires considerations and provides opportunities that are different from those of typical development finance. Notably, the positive impact of these projects fully depends on their ability to generate revenue utilizable for social purposes, requiring minimization of the debt burden on such projects. Furthermore, the nature of awqaf projects provides an excellent avenue to attract legacy-conscious donors, looking for long-term impact. In light of these observations, the pertinent question that arises is: what is the impact of using Islamic blended financing to support revenue generating awqaf projects? The literature has been silent on this issue. The present study examines the extent to which this type of financing increases the positive impact of developing awqaf projects and how blending the various Islamic commercial contracts (mainly exchange and sharing contracts with contributory contracts) decreases the net financing burden and makes awqaf financing more concessional. The study is based on a qualitative review of two case studies from the Islamic Development Bank's Awqaf Properties Investment Fund (APIF). This review leads to various policy recommendations that can be adopted by relevant stakeholders to enhance the impact of developing awqaf properties.

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INTRODUCTION

Islamic history is rich with examples of *awqaf* at the heart of community development. In fact, although the basic concept of *awqaf* was known to pre-Islamic cultures, the Islamic civilization was the first to employ this concept extensively as a cornerstone of its socio-economic structure. The example of this model was set by Prophet Muhammed (PBUH) himself, and it was adopted by his companions and followers, growing into a crucial socio-economic and even political institution.

Despite its religious importance and basis, however, *awqaf* in Islamic civilization played an important secular civic role; they supported intuitions of so-called "social infrastructure" such as hospitals and universities, both of which are institutions that only truly began to take their modern shape during the golden era of Islamic civilization. Also, both healthcare and education as well as travelers' lodges (caravanserais) were also heavily supported by *awqaf*, facilitating upwards social mobility by ensuring that the basic infrastructure was freely available and accessible to all, subsidized by *awqaf*. The role and importance of Islamic charitable institutions generally and *awqaf* specifically in economic development in the Islamic civilization is summarized by Berner as follows:

> Islamic charities historically have played an additional role in society, that of promoter of decentralized economic. Whether the charity is a *waqf* in the medieval Levant establishing commercial centres or building a khana for travelling business people, or an Indonesian zakat-funded charity teaching business management skills in today's Indonesia, Islamic charities have been actively engaged in economic development for centuries. In this respect, they reflect the blending of the religious and the secular, the social and the economic, that is the key characteristic of the Islamic idea (Ebrahim & Sheikh, Debt Instruments in Islamic Finance: A Critique, 2016, p. 195).

The stewardship, maintenance and growth (i.e. development) of *awqaf* properties has always been a core function at the heart of *awqaf*. The management and growth of *awqaf* properties is typically detailed in the *waqf* deed, which has historically designated an individual nadir or mutawalli (*waqf* trustee or manager), with a strong emphasis on fiduciary responsibility and stewardship.

Nevertheless, historical contracts and methods to develop *awqaf* assets have remained limited and limiting. Indeed, even in modern days, *awqaf* development has continued to be financed using traditional mechanisms, and the requirement that *awqaf* must typically be held in perpetuity and cannot be sold has hindered access to commercial financing; *awqaf* properties cannot easily be used as collateral, given that they cannot be sold in the case of default.

One of the most crucial challenges hindering the development of the *waqf* sector is a serious lack of liquidity, leaving *awqaf* properties largely undeveloped or underdeveloped. Indeed, there is a notable shortage of liquidity in the sector, the vast majority of which is comprised of fixed assets. Among other reasons, this is partially due to the non-conduciveness of *waqf* properties to being used as collateral as they cannot be sold in case of default. However, even where financing mechanisms exist, the debt burden can be high (especially given the high perception of risk by financial institutions) and repayments can consume the lion's share of the investment *waqf*'s income. As a result of this lack of resources, other symptoms appear such as poor management and informality, as the *waqf* cannot afford professional management. This raises the question of how to make the financing of investment *awqaf* more concessional.

In the face of this challenge, there has been a recent shift towards employing new tools based on blending concessional with non-concessional resources. Furthermore, there has been a revived focus on financing revenue generating *awqaf* projects (i.e. investment *awqaf*) to meet the growing demand and socioeconomic needs that include access to social services as well as relieving fiscal pressures on governments. The experience of the Islamic Development Bank (IsDB)'s *Awqaf* Properties Investment Fund (APIF), an impact investment fund dedicated to financing revenue generating *awqaf* projects, serves as a good example of new, innovative and successful models for the financing of revenue generating *awqaf* projects in a sustainable way.

The success of the APIF model is largely attributed to the use of Islamic blended finance in developing revenue generating *awqaf* properties. This approach is contrary to other approaches used by several *waqf* institutions globally, where investments are in the form of cash *waqf* or directly into specific limited physical assets only. There is a dearth of literature that has examined the impact of such a practice of using blended financing to finance revenue generating *awqaf* properties.

This study adopts a qualitative method to achieve the following objectives:

1. To analyze conceptually the impact of Islamic blended finance towards developing revenue generating *awqaf* properties;
2. To examine two cases from APIF on the impact of using Islamic blended finance in developing revenue generating *awqaf* properties, in light of the conceptual analysis in objective 1, above; and
3. To provide policy recommendations to the relevant *awqaf* stakeholders based on the results of objectives 1 and 2, above.

The paper is structured into six sections. The subsequent section (i.e. the second section) takes a brief look at related literature, noting the shortage of directly relevant works. The third section examines blended development financing generally and Islamic blended financing particularly, explaining its applicability and relevance to investment *awqaf* financing. The fourth section discusses the practical manner of blending Islamic commercial contracts for *awqaf* financing. The fifth section presents two empirical case studies of APIF projects. Based on the above, the sixth section provides policy recommendations, and the seventh section ends with a conclusion and a suggestions of possible future research in the area.

RELATED LITERATURE

Most literature on blended financing comes from the domain of conventional development finance. However, recent work within the Islamic finance sphere has articulated the idea of Islamic blended finance, although this works has focused mostly on financing retail clients and SMEs rather than *awqaf* projects.

Conventional Economics and Development Finance Literature on Blended Financing

The earliest academic discussion of the economic significance and potential of charitable funds is to be found in literature on the economics of philanthropy, gifts and the sharing economy. Kenneth Boulding, an early writer in this area, called the interactions between the for-profit and not-for-profit domains "intersects" and described some of the special characteristics of such institutions (Boulding, 1973, as cited in Grassl, 2011, p. 109). However, work on the economics of philanthropy really flourished starting in the early 1980s, when works such as "On the Economics of Philanthropy" by Robert Sugden inspired a heated debate. For example, Sugden (1982) challenged the basic theoretical framework and assumptions of "those economists who argue that, because of the free-rider problem, private philanthropy will be unable to supply charitable activities in economically efficient quantities" (p. 350). Such work opened the door for an economically significant role to be played by philanthropic activity.

More recently, the concept of "blended financing," generally based on combining concessional and non-concessional resources to maximize the development impact of financing, has emerged as an important tool for development finance and filling the SDGs financing gap. Work in this area has blossomed over recent years, encompassing a broad array of different definitions and practices all considered part of blended financing. For example, Khan and Radjie (2020) have summarized the wide spectrum of definitions relevant to this domain (p. 12).

The development finance community has been especially attracted to this concept, upscaling its engagement with major foundations, philanthropists and donors. For example, Sachs and his co-authors (2019) recently prepared a report for the Sustainable Development Solutions Network in which they highlighted the important role and strong potential of blended financing to close the SDGs financing gap and how this is directly linked to SDG 17 on "partnerships for the goals." They highlight potential financing options and the associated potential revenues for closing the annual SDGs financing gap until 2030. Within these financing options, blended financing and philanthropic giving feature prominently.

Islamic Finance and Economics Literature

A crucial distinction extensively dealt with by the literature is between Islamic social finance, especially so-called contributory (tabarru') contracts (e.g. *awqaf*, sadaqah or hibah, and qard hasan) on the one hand and exchange- and sharing-based Islamic commercial contracts used as modes of financing (e.g. murabahah and mudarabah, respectively) on the other. However, literary discussion of the intersection of these two categories of contracts (broadly concessional and non-concessional, respectively), which considers combining contracts in new blended structures with a higher degree of economic justice, is somewhat lacking.

Despite this dearth of literature on Islamic blended financing, some exceptions exist. One such exception is the work by Muhammed Shahid Ebrahim and Mustapha Sheikh (2016) who have written about "blending philanthropy with social service," "integrating charitable funds in the Islamic financial architecture," and integrating qard hasan "in the Islamic financial intermediation system to alleviate financial exclusion" (pp. 195,196,198). Another prominent exception, most relevant in the current context, is recent work by Khan and Badjie (2020), who have defined it as "an optimal mixture of Islamic social funds like Zakah, *Waqf*, Sadaqa, Qard and grants, etc. with financial instruments to finance impactful SMEs for SDGs" (p. 14). As this definition reveals, however, the focus of this work was on SMEs specifically. On the other hand, there is a need to for an explicit discussion of the impact of using Islamic blended financing to support revenue generating (i.e. investment) *awqaf*, which is the focus of this paper.

BLENDED DEVELOPMENT FINANCE AND ITS APPLICABILITY TO INVESTMENT *AWQAF*

The concept of blended finance, quickly gaining popularity in international development, is perfectly aligned with Islamic values and can help unlock the potential of *awqaf* financing. The international development sector has pioneered the exploration of blended financing and examining it can provide multiple useful examples. One such example of the successful blending of philanthropic concessional funds with non-concessional financing is the use of matching funds (Roesch, Doebbel, & Rahmaty, 2017, p. 17).

Furthermore, the development sector has struggled with, and advanced solutions for, some of the difficult issues related to blended financing. One such concern is that philanthropic and public funds might subsidize investment that the private sector would have made anyway. For example, to counter this concern, the World Bank has developed a "cascade approach," which "involves first considering private sector solutions, then blended finance, and only then public sector solutions" (Roesch, Doebbel, & Rahmaty, 2017, p. 18).

Beyond mainstream development practice, the important economic role of philanthropic grants as a catalyst especially for social entrepreneurship is increasingly being realized (Lall & Park, 2020, p. 3). Indeed, "[p]hilanthropic grants are one of the range of financial instruments used in the emerging field of social finance, which have grown in parallel to and are intrinsically interlinked with social entrepreneurship" (Lall & Park, 2020, p. 6).

Despite the developments described above, the typical approach to blended finance has been largely limited to a supply-side perspective. It has considered the positive impact of using public and philanthropic funds to catalyze and incentivize private-sector investment (e.g. via guarantee schemes and to mitigate risks). This is no doubt an important aspect of blended finance, as "[i]t is estimated that leveraging public and philanthropic funding could lead to as much as a tenfold increase in overall investment" (Roesch, Doebbel, & Rahmaty, 2017, p. 17).

Nevertheless, the demand side gains from blended financing are perhaps no less essential. When mixing philanthropic funds with commercial financing, the debt burden is relieved, which has a positive development effect on beneficiaries. Here, it should also be noticed that the starting point is an assumption of private and commercial financing, to be supplemented by philanthropic funds, rather than the typical blended-finance discourse, which takes public and concessional development financing as the starting point and attempts to catalyze private participation.

In the same spirit, although the signaling effect of receiving philanthropic donations on social businesses by helping to attract private investment has been discussed in the literature (Lall & Park, 2020, p. 6), the argument here is the reverse. The detailed due diligence and legitimacy brought by a reputable *awqaf* financing institution such as the Islamic Development Bank (IsDB) can send positive signals to philanthropic donors. This is already exemplified in the activities of the IsDB's *Awqaf* Properties Investment Fund (APIF), and it is especially relevant given increased global concerns regarding the funding of terrorism and money laundering.

The Islamic civilization is perhaps best positioned to claim full ownership of the concept of blended finance. In fact, it has been argued that this concept emanates directly from, and is in perfect harmony with, fundamental Islamic principles that set Islam apart from other traditions and religions. Berner summarizes this as follows:

> [*Awqaf*] reflect the blending of the religious and the secular, the social and the economic, that is the key characteristic of the Islamic idea… This combination can be found present in the West in urban development-oriented civil society, as well, such as pro-poor non-profits that address inner-city economic development and civic business associations that promote the development of their respective cities. Generally, however, the mix of economic development and social service with charity is much more developed in the tradition of Islamic charities than more 'purely' charitable tradition of Western society (Ebrahim & Sheikh, 2016, pp. 195-196).

Unfortunately, despite its rising interest in blended financing as described above, the development community continues to be oriented towards the short-term satisfaction of observing their projects materializing. In practice, concern for the accumulating debt burden and its serviceability (i.e. sustainability) often takes the backseat. From the perspective of the typical project officer in a traditional development project, the total debt accumulating on the government is a mere externality and is not an organic part of his or her incentive structure.

Interestingly, however, the financing of revenue generating *awqaf* projects internalizes this externality, at least to an extent, as it is in essence project financing. A revenue generating *waqf* project that is unable to service its own debt using its own income is a clear failure, often directly or indirectly affecting the project officer and his or her institution. In other words, the feedback mechanism is effective.

Nevertheless, this feedback mechanism is limited by the fact that the real development impact of *awqaf* projects comes from the excess revenue available over and above debt service, which can be diverted to serve the core objectives of the *waqf*. This implies that it is in fact insufficient for a *waqf* project to meet its debt service obligations. Rather, free utilizable funds over and above repayment instalments should be a crucial part of the calculus. Unfortunately, this aspect of a successful *waqf* project is not a natural part of a project officer's incentive structure, giving rise to the need for more awareness on the importance of not overburdening the project with debt.

Fortunately, *awqaf* projects do provide an excellent avenue for resource mobilization, potentially attracting various forms of private funds. Although some modern scholars have preferred to define *awqaf* by their property of frequency (e.g. frequency of distributing a return vs. a one-time donation, allowing for temporary *awqaf*), the more classical and common understanding and practice of *awqaf* involves perpetuity. *Awqaf* are typically meant to be held intergenerationally, and some historical *awqaf* have been giving for over a millennium.

Due to this intergenerational dimension, strong non-materialistic temporal and religious incentives to give to *awqaf* exist. From the temporal perspective, the concept of planned or legacy gifts to endowments in the West and such major *awqaf* as established by political figures (e.g. Ottoman Sultans) have a strong aspect of eternalizing one's legacy. From the religious perspective, the same individuals might be equally motivated by a scripture-based encouragement of everlasting deeds – i.e. sadaqah jariyah (literally, flowing charity).

On the other hand, from a materialistic perspective, *awqaf* again provide a strong avenue for mobilizing private domestic savings in the form of investments, which ultimately serve development purposes. Introducing a revenue generating layer (the *waqf* project) between private capital and public development needs can unlock the potential of this capital as a source of development finance, while at the same time providing an investment option for domestic savings in a secure, asset-based sector with a stable yield. In this way, areas that would typically be entirely beyond the reach of private investment (such as areas of fragility and conflict or distant rural areas) could benefit by attracting private capital to *awqaf* projects situated in more favorable locations, whose ultimate beneficiaries are nonetheless in those difficult areas.

Relevant Islamic Contracts to Blend For *Awqaf* Financing

In addition to the obvious use of gifts in the form of *sadaqah* or *hibah* for blending, the zero-interest loan (*qard hasan*) mechanism emphasized by Islam has excellent potential to be blended with more commercial financing to help decrease the debt burden on revenue generating *awqaf* projects. In Islam, *qard hasan* is no less of a good deed than *sadaqah*, and in fact it is described in the Qur'an as a "loan to God" (64:17) Furthermore, the Prophet (PBUH)'s tradition emphasizes this idea, as it "ranks interest free loans higher than voluntary charity (*sadaqa*)" (Ebrahim & Sheikh, 2016, p. 194).

Furthermore, beyond the contributory (*tabarru'*) contracts of *sadaqah* or *hibah* and *qard hasan*, reintroducing the fundamental principles of sharing contracts, albeit in a an engineered manner, could be useful for Islamic blended financing. This idea has been advanced by Ebrahim, Salleh and Sheikh (2014) who argue for the adoption of a "family of hybrid financial securities (or structured financial facilities)… which are generically called the participating preferred ijarah (PPI) facility" (p. 297). This facility merges *ijarah* with aspects of *mudarabah*, allowing a controlled form of profit and loss sharing to occur, which is perhaps more realistic and achievable than earlier utopian ideas of this concept within Islamic economics. This facility is well designed for real estate finance and provides an added measure of resilience against downturns, making it potentially a suitable solution for financing *awqaf* projects. It is an example of "giving respite to borrowers" (Qur'an, 2:280, as cited in Ebrahim, Salleh, & Sheikh, 2014, p. 300).

In light of the above, both the importance of developing more concessional and less burdensome financing products for *awqaf* projects and also the viability of developing such products (through introducing both private philanthropy and investment) become apparent. This points to the need to devise blended Islamic financing structures for this purpose, combining both typical Islamic exchange contracts (debt financing tools) such as *ijarah* or *murabahah* together with contributory contracts (e.g. *hibah* and *qard hasan*) and/or sharing contracts (e.g. *musharakah*). This is achievable, for example, through ensuring that *awqaf* debt financing funds are supplemented by parallel funds of a charitable nature to co-finance projects. For example, blending *qard hasan* resources with ordinary debt financing can decrease the effective markup, whereas blending *hibah* (grant) resources with ordinary debt financing could potentially cover the entire markup or even relieve part of the principal. An example of this from the international development context is the IsDB's Lives and Livelihoods Fund (LLF), which blends philanthropic funds from donors with ordinary financing from IsDB, targeting crucial basic sectors in IsDB's least wealthy countries.

Nevertheless, devising such Islamic blended financing schemes is not a simple task, especially given the general lack of relevant research in this domain. Ebrahim and Sheikh (2016) have elaborated this point (pp. 196-197), arguing that more studies are needed on the structure of financial institutions integrating charitable and non-profit funds such as cooperatives.

Ebrahim and Sheikh further identify various challenges to integrating charitable resources in the Islamic financial architecture. These involve adverse selection, moral hazard, financial fragility, and economic inefficiency. As an example of the latter point, they refer to the experience of Rotating Savings and Credit Associations (ROSCAs) and Accumulating Saving and Credit Associations (ASCRAs) as possible models to imagine a more blended non-profit form of financing, structured via financial cooperatives to accommodate the concept of *qard hasan*. ROSCAs and ASCRAs are based on arrangements among individuals to pool their resources typically via periodic contributions and then withdraw based on a predetermined selection method. A similar arrangement could be imagined at an institutional level for *awqaf* project financing, whereby *awqaf* institutions could establish similar cooperative funds to act either independently or for the purpose of blending with ordinary financing.

Empirical Case Studies of Investment *Awqaf* Supported By Islamic Blended Financing

As discussed above, the *Awqaf* Properties Investment Fund (APIF) is an impact investment fund, which is managed by IsDB as the *mudarib* of the fund and is dedicated to the financing of revenue generating *awqaf* properties. As such, it attracts investment from private, public and third-sector investors seeking both a financial as well as a developmental social dividend, not to mention a religious dividend as well. Launched in 2001 with the mandate to finance *awqaf* properties, its paid-up capital of USD 114.54 million today includes 19 different institutional investors. It is also supported by a line of finance from IsDB (Islamic Development Bank, 2023). APIF exclusively finances revenue generating (investment) *awqaf* projects via Islamic modes of debt financing (mostly *murabahah*, *ijarah* and *istisna'*).

From its unique position as the only fund of its kind managed by a multilateral development bank (MDB) and also one of the few of its kind dedicated to *awqaf* globally, APIF presents relevant examples of where some form of blended financing has been used to finance *awqaf*. This arises organically out of the requirement of auto-financing by APIF beneficiary organizations of at least 25 percent of the total cost of any given project. This requirement has encouraged donations under the hibah contract in the past, either to the organization or directly to the project facilitated by IsDB. Nevertheless, such blended financing remains on an ad hoc basis, and new structured schemes based on a pre-determined blended formula are yet to be established and standardized.

The examples of the IsDB-Bangladesh Islamic Solidarity Education *Waqf* (IsDB-BISEW) and Towfiq Trust, Kenya could be used as case studies to show the potential of Islamic blended financing (Awqaf Properties Invesment Fund (APIF), 2019).[a]

The IsDB-Bangladesh Islamic Solidarity Education Waqf

Despite being one of the earliest *awqaf* projects funded by IsDB, IsDB-BISEW remains one of its most successful *waqf* projects. There is no question that this success is largely attributable to the initial financing structure, which included a sizable grant component. Whereas other supporting factors such as a strong governance structure and competent management also contributed to IsDB-BISEW's success, these factors can themselves be attributed to the initial blended financing structure.

IsDB-BISEW was established as a *waqf* project with an educational mandate in the late 1990s, formulated as a joint initiative of IsDB and the Government of Bangladesh. The Government contributed a 2-acre plot of land and the IsDB contributed USD 10 million in the form of a grant and

[a] The Development Impact of the Awqaf Properties Investment Fund: A Model for Sustainable Development

USD 3.2 million in financing. The resulting structure was a landmark 20-storey office tower in the capital, Dhaka, known as the IsDB-Bhaban Tower together with an adjacent specialized computer mall, which remains the largest in Bangladesh. Today, the tower houses the offices of the United Nations (UN), IsDB's own Regional Hub, and various multinationals, and it is a well-designed, well-maintained facility providing all necessary security precautions.

The prime tenancy of the facility has provided a stable income since inception, allowing IsDB-BISEW to support various development programs. Since launching its first program in 2003, the *Waqf* has developed five different education-centered programs, including the following: its flagship IT Scholarship Program; Vocational Training Program; Madrasah Program; Scholarship for 4-Year Diploma in Engineering Program; and Orphanage Program. In its flagship IT Program alone, IsDB-BISEW has enrolled around 13,000 students to date, placing around 6,000 students in life-changing full-time career jobs.

Furthermore, beyond financing programs with a cumulative program disbursement over around USD 20 million to date, the *Waqf* has also directed one-third of its net income to a sinking fund annually, accumulating nearly USD 11 million. This has put it in a position today to undertake a new *waqf* project, partially utilizing its own saved resources. The inputs, outputs, outcomes and impacts of IsDB-BISEW are summarized in the Table 1, below.

Table 1: *IsDB-BISEW Inputs, Outputs, Outcomes, and Impacts*

Inputs	Outputs	Outcomes	Impacts
• Land from the Government • US$ 10 million IsDB grant • US$ 3.2 million IsDB ordinary financing	• 20-storey office tower • Computer mall	• IT Scholarship Program • Vocational Training Program • Madrasah Program • Scholarship for 4-Year Diploma in Engineering Program	• 13,000 students sponsored for IT scholarship alone • 7,000 students placed in long-term jobs

		• Orphanage Program • USD 20 million in program disbursements • USD 11 million in a sinking fund	

Source: *Awqaf Properties Invesment Fund (APIF), 2019*

Crucially, the governance of the *Waqf* is such that its Mutawalli Committee is comprised of three members nominated by IsDB in addition to three members nominated by the Government of Bangladesh. This Committee, which has met consistently since inception, has provided strong oversight and high-quality governance, which has trickled down to ensure professional management and a strong general sense of accountability.

From the above, the crucial observation with respect to the blended financing of *awqaf* is the critical effect of early-stage grants on the long-term trajectory of revenue generating *awqaf* projects. The low initial debt burden allowed a significant amount of the income to be readily available as utilizable (i.e. disposable) income for the *waqf*. This sizable income allowed the *waqf* to begin to achieve programmatic impact on the education sector from the year 2003, very early in the life of the *waqf*. Furthermore, it meant that the *waqf* could afford to hire top-notch management and was not pressed to meet maintenance and operational costs, preserving the high quality of the initial facility. Finally, the fact that IsDB contributed a sizable grant component mean that the Bank was more a founding partner than a financier, leading to the crucial governance structure, which included long-term IsDB involvement in the *Waqf*'s Mutawalli Committee and led to the trickle-down effect of this involvement.

Although the experience of IsDB-BISEW is not likely to be perfectly replicable today, given IsDB's limited grant resources, this experience suggests the crucial importance of searching for methods to decrease the debt burden on *awqaf* projects. The role of philanthropists and grant-making organizations and foundations is crucial in this context, to allow blending with such financing windows as IsDB's APIF. Furthermore, the in-kind contribution of governments to similar projects by allocating prime-location properties to be developed and held as *awqaf* can also be essential, crowding in private commercial financing for such projects and allowing them to be developmentally impactful while remaining financially viable.

Tawfiq Trust Waqf, Kenya

As one of APIF's early experiences financing the purchase of an asset to be held as a *waqf* (vs. the development of a greenfield *waqf* project), the experience of the Towfiq Trust *Waqf* in Nairobi, Kenya, approved in 2015, is illustrative of the power of *awqaf* to attract donations even where purely financial contributions are needed. This experience again represents the combination of grant resources with financing from APIF, although in this case the source of the grants was third-party donors.

The beneficiary organization of this *waqf* project is Towfiq Charitable Society, active in Somalia. Its main areas of activity are healthcare, education and the social sector. Noting its need for financial sustainability beyond dependence on donations, the Society established a Trust in neighboring Kenya, which it selected as a more conducive location for investments from both political and economic perspectives. Subsequently, the Towfiq Trust applied for financing from APIF to purchase a seven-storey, fully rented office tower in a prime location in the Kenyan capital, Nairobi.

However, as part of APIF's financing policy, the beneficiary should contribute at least 25 percent of the total cost of a given project. This requirement forces some degree of blending, requiring the beneficiary to search for philanthropic donations to be injected as equity into the project on the beneficiary's behalf.

For this purpose, Towfiq Trust approached various philanthropists and donors and it was able to secure USD 0.75 million of the total cost of the project, which amounted to USD 3.50 million. The donations came from an international NGO in addition to local philanthropists in the business community. Combined, the two sources filled the necessary financing gap for the project, encouraged by the involvement of IsDB. Notably, USD 300,000 was received directly into the IsDB bank account, reflecting the Bank's role in bringing trust and legitimacy to the transaction. The inputs, outputs, outcomes and impacts of this *waqf* project are summarized in the Table 2, below.

Table 2: *Towfiq Trust, Kenya Waqf Inputs, Outputs, Outcomes, and Impacts*

Inputs	Outputs	Outcomes	Impacts
• US$ 0.75 Mn from TWS • US$ 2.75 Mn IsDB Ordinary financing	• Purchase of a 7-storey fully rented office building in Nairobi, Kenya	• Supporting the following: ○ 5 schools in Kismayo, Somalia ○ an orphanage ○ a university and its hospital ○ drilling of Wells	• Over 4,000 students supported • Over 1,100 orphans supported • Providing a model for supporting areas of fragility and conflict

Source: *Awqaf Properties Invesment Fund (APIF), 2019*

The above experience of Towfiq Trust is illustrative of a number of crucial lessons in the financing of *awqaf*, although it also raises a number of questions. It reveals the strong potential of *awqaf* to attract philanthropic donations. It also illustrates the role IsDB participation plays in boosting the confidence of potential donors, due to its signaling of quality, oversight and legitimacy.

Nevertheless, a number of questions are highlighted by the experience of the Towfiq Trust, including the following: is a 25 percent unburdened contribution sufficient to achieve the objectives of a revenue generating *waqf* project, especially in the short term? Are greenfield *awqaf* development projects a better choice, given the higher likelihood of in-kind contribution of land by donors? Could a more active role by the financier in sourcing donations allow it to claim a role in the governance and/or management of the *waqf*? And, if so, what effect might this enhanced involvement have on the long-term success of the project?

POLICY RECOMMENDATIONS

Based on the above analysis and case studies, a number of general policy recommendations can be surmised, to be taken into account in future efforts to develop *awqaf* financing mechanisms. Designers of such mechanisms should do the following:

1. Blend debt financing for *awqaf* with early-stage grants and in-kind contributions, as this can critically affect the long-term trajectory of revenue generating *awqaf* projects.
2. Ensure a low initial debt burden, as this allows a significant amount of a *waqf*'s income to be readily available as utilizable (i.e. disposable) income, facilitating the following:
   a. Beginning to achieve programmatic impact early on;
   b. Affording to hire top-notch management;
   c. Ability to meet maintenance and operational costs (quality); and
   d. Making the financier more of a founding partner, leading to an enhanced governance structure, including long-term financier involvement in the *waqf*'s *Mutawalli* Committee with a positive trickle-down effect for management.
3. Leverage the strong potential of *awqaf* to attract philanthropic resources and use these for blending.
4. Leverage the strength of the financier as a partner to build trust, as this can play a strong role in boosting the confidence of potential donors, due to its signaling of quality, oversight and legitimacy.
5. Consider all relevant questions when financing a *waqf*, including the following:
   a. What percent of unburdened contribution is optimal to achieve the objectives of a revenue generating *waqf* project?
   b. Would a greenfield development project be better than a purchase, given the higher likelihood of in-kind contribution of land?
   c. Could a more active role by the financier in sourcing donations allow it to claim a role in the governance? What effect might this have on the long-term success of the *waqf*?

SUMMARY AND CONCLUSIONS

This paper has attempted to analyze the theoretical importance of Islamic blended finance for tackling the issue of *awqaf* financing. Specifically, this paper has sought to answer the following questions: what is the impact of using Islamic blended financing to support revenue generating *awqaf* projects?

This was done via the following: reviewing relevant literature at the intersection of various strands of inquiry; identifying the relevant intersection of these strands; using an argumentative approach to establish the theoretical relevance of blended financing to revenue generating *awqaf*;

and, finally, presenting two case studies of *awqaf* projects that provide relevant lessons learnt regarding the impact of blending concessional and grant resources with ordinary financing on the prospects and trajectories of revenue generating *awqaf* projects.

Considering the above, it is evident that applying the principles of blended finance utilizing relevant Islamic commercial contracts for financing *awqaf* can drastically improve the short- and long-term trajectories and success of revenue generating *awqaf* projects. Towards this end, a number of policy recommendations have been advanced by this paper, which could be useful in designing future mechanisms for financing revenue generating *awqaf* assets as well as improving current mechanisms.

Future research might focus on the following:

1. Developing the specific blended facilities, utilizing grants (*hibah*).
2. Expanding the scope of blended products to other tools, including diminishing *musharakah*, housing loan, and takaful (e.g. via cooperative structures).

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AUTHORS' PERCENTAGE-BASED CONTRIBUTION

The contributions of each author to the study by percentages are as follows: The percentage-based contributions of the 1st author, 2nd and 3rd author are 50%, 25% and 25%, respectively. 1st Author: Conceptualization, methodology, analysis, investigation, resources, writing-original draft, writing-review & editing, and visualization.

2nd and 3rd Authors: Conceptualization, resources, writing-review & editing, and supervision.

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