

The Case for an Investments Office: Autonomy, Preservation, and Sustainability of Educational Institutions through Endowment Foundation or *Waqf* Institution

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Abstract: Institutions, especially those in education, are established in perpetuity. An educational institution loses its autonomy once it must divide its energy to search for funds to operate rather than focus on what is most important, educating the next generation. Today we are faced with pious endowment or *waqf* as an estranged concept. The success of Western Endowments has caused us to relook into successful solutions to address autonomy, preservation and sustainability of educational institutions.

Keywords: *Waqf*, pious endowment, investment management, *mudarabah*, *musharakah*, *qard hasan*

1. INTRODUCTION

Institutions, especially those in education, are usually established in perpetuity. Think Al-Qurawiyin in Fez (est. 859), the oldest existing, continually operating and the first degree awarding educational institution in the world according to [UNESCO](#) and [Guinness World Records](#) (Wikipedia) founded by Fatima bint Muhammad Al-Fihri Al-Qurayshiah. Ez-Zitouna (est. 737) where Ibn-Khladoun graduated, Al-Azhar (est. 972), Oxford (est. 1096), Cambridge (est. 1209), Harvard (est. 1636), Yale (est. 1701), Princeton (est. 1746), and MIT (est. 1861).

It would be very unproductive for any of these institutions to annually solicit and plead for donations for operations and capital expenditures – especially after the huge investment and capital expenditure invested to setup the institution in the first place. Other solutions have been to approach financial institutions for loans and overdraft facilities by promising future income of the educational institution therefore subjecting them to the mercy of secular institutions and the risk of default. If it wasn't for the *Waqf* or endowment that supported the above-mentioned educational institutions – some for centuries, chances are that these institutions would not be around today. Absent the support of an actively managed *Waqf* or endowment, the fate of these institutions is to wither and die spiritually and literally.

2. OBJECTIVES OF THE STUDY

It is the responsibility and the right of every institution to have the freedom to grow and develop as they see in their long-term best interest without having to resort to lobbying and raising tuition fees to unmanageable levels beyond levels of inflation. Sometimes haphazardly based on poor decision-making process and lack of information or

questionable information. Furthermore, Institutions should also have the funds to support eligible exceptional students through scholarships and grants. Institutions should also have the freedom to build, expand, and grow, increasing their offerings and better serving their community and society in general.

Thus, an endowment or *Waqf* at an institution attached to an investments office with an effective team or individual running the endowment funds or *Waqf* from earnings, gifts and grants, with the sole responsibility of preserving and growing this fund over the lifetime of the institution is absolutely necessary.

3. WESTERN ENDOWMENT AND ISLAMIC WAQF

Endowments have the following objectives: To generate enough returns for an educational institution to take care of their yearly expenditures and also preserving the purchasing power of the fund due to factors such as depreciation and inflation.

There is a lack of published empirical research regarding *Waqf*- or endowment-based universities in the Muslim world. The two countries with advanced Islamic finance models in this respect are Malaysia and Turkey.

For an endowment of either Islamic or Western to be viable and sustainable, there is need for commitment, transparency and accountability on the part of the organization. The donors would be happy to donate more where they observe that the organization is transparent, shows a lot of commitment as well as rendering the account of their stewardship to stakeholders on a regular basis. Also local residents who are the beneficiaries of the endowment should be co-opted into the decision making process so as to determine their needs in the community and address it squarely (Cohen, R. and Ocejo, A. 2001).

Furthermore, in order to have a vibrant endowment institution of both (Islamic and Western) donations should be efficiently invested and distinct battle drawn between high risk and low risk investments knowing fully well that the funds belong to the public. Investment of such funds in high risk security or any investment of whatsoever might jeopardize the chances of poverty alleviation. Efficient investment could also mean diversification of investment portfolio in such a way that yields could be maximized and the proceeds used to address the needs of the community effectively (Common fund Institute 2011).

Rendering the accounts of their stewardship on regularly basis to the donors would allow for the appraisal of the organization's levels of honesty, transparency as well as their activities at any particular time. The organization must not also relent in its efforts to monitor the various activities of the beneficiaries just to check abuses. The researchers recommend that other future researchers may find it useful to examine the ethics and morals in Islamic and Western endowment (Oladapo, Oseni, Rahman, Mustafa, Mohammed, 2016).

Waqf is connected with Tawhidic approach that reflects the Oneness of God. Man is created by God as His steward to cultivate and enjoy His bounty on Earth. In addition, it is prescribed in the Qur'an (51:56) that men are created to serve and worship the Almighty. It is very important that this core tenet be embraced by every Muslim in achieving the spirit of taqwa (God-consciousness) (Nor, 2012). Thus, by acknowledging God as the Creator and Owner of the Universe (Al-Qur'an 2:107; 3:109; 4:132; 5:18; 6:12; 7:158; 9:116; 10:66; 42:53), man, as a *Waqf* donor in this particular discussion, forgoes his right of ownership on the condition that the product serves some charitable purposes. In any case, men are only in the position of trustees (57:7) responsible for distributing their wealth among people in need (Mahamood, 2006) as well as ensuring that this property is used in a wholesome and responsible way that does no harm to themselves or to others (Rahman, 2015).

In terms of UK example, Professor Dr Murat Cizakca, a Turkish Islamic Finance scholar, stated that the Oxford and Cambridge universities had adopted the idea of Islamic *Waqf* to initially fund themselves (Siti Mashitoh Mahamood, Asmak Ab Rahman, 2015).

An educational institution should not depend on *Waqf* funds per se, rather it should also accept other types of charitable donations, like *sadaqah* and *hibah*. The generation of income from subsidiary properties of the *Waqf* should be provided for the upkeep and maintenance of the institution. Thus the income of the institution be diversified to ensure a level of stability and produce a self-reliant institution that does not depend on other external

sources to survive. Most Oxford and Cambridge colleges rely on endowment income to secure their operations. Simultaneously, their diversified income base provides them with a level of stability that empowers them to pursue higher risk, higher return strategies (Siti Mashitoh Mahamood, Asmak Ab Rahman, 2015).

4. CURRENT EXAMPLES OF WESTERN ENDOWMENT AND ISLAMIC WAQF

Based on the literature on the models below in Figures 1 and 2 from the University of Western Ontario (Western Endowment) and University of Ife Nigeria (Islamic Endowment *Waqf*), the first model receives donations from the graduates of the University and their friends. These funds are invested and the income from the investment is used for the benefits of the institution and students. (Oladapo, Oseni, Rahman, Mustafa, Mohammed, 2016)

The Investments Office decides and has the responsibility to define the avenues of where to invest.

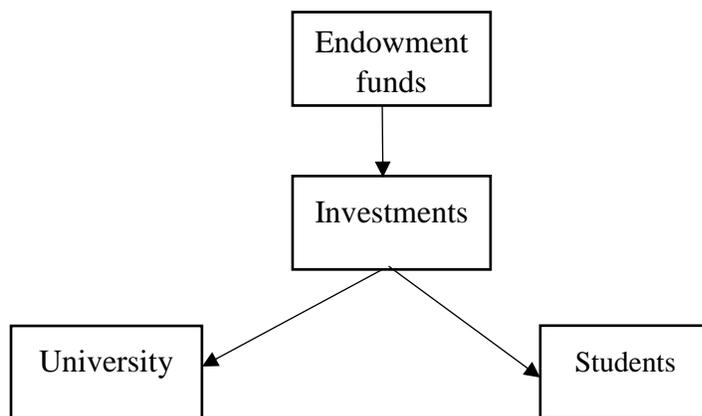


Figure 1: Model Extracted from UWO Report 2010/2011

On the other hand, the second model as displayed Figure 2 below, also receives voluntary donations from the graduate of the University who are also working in the same University. The contribution is deducted at source from their respective salaries on monthly basis. However, it took the human resource of the Muslim community of the University of Ife Nigeria a lot of persuasions to convince the donors and the University authority to achieve this aim of steady monthly income for the purpose of a Mosque edifice in the University campus for the use by Muslim *Ummah* in the campus as well as from outside the campus. (Oladapo, Oseni, Rahman, Mustafa, Mohammed, 2016)



Figure 2: Model Extracted from OAU *Waqf* Practice, Olasupo 2011

The major difference in the two models is that University of Western Ontario invested the donations received and made use of the income for the benefits of both the University and students. While the other model in this context channel the funds direct for the construction of the edifice. In view of the above, the University of Ontario model appears to be compatible with sustainability of *Waqf* whereas, the other model from University of Ife, Nigeria appears not to display the trait of sustainability feature of *Waqf*. . (Oladapo, Oseni, Rahman, Mustafa, Mohammed, 2016)

5. EXAMPLES OF SUSTAINABLE WESTERN ENDOWMENTS

Let me list below endowments from US Ivy League Universities (top 5):

- Harvard \$34Billion

- Stanford \$22Billion
- Yale \$25Billion
- Princeton \$22Billion
- MIT \$15Billion

It is not by chance that the investment chiefs of each of the above institutions are some of the brightest in the investment management industry.

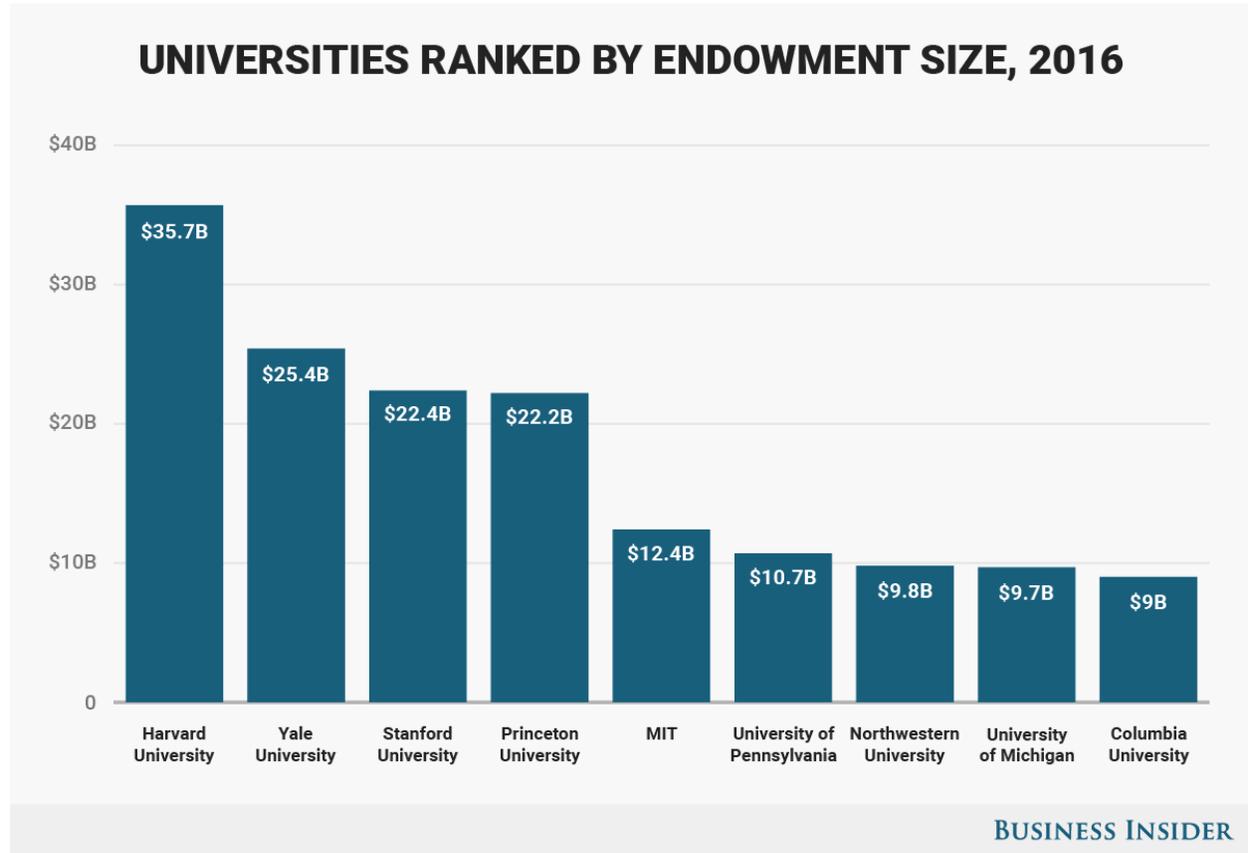


Figure 3 Business Insider - Universities Endowment Size

Table 1 Inside Higher Ed – Endowments (January 31, 2017)

Institution	2015 Endowment Value (in \$1,000)	2016 Endowment Value (in \$1,000)	Percent Change
Harvard University	36,448,817	34,541,893	-5.2
Yale University	25,572,100	25,408,600	-0.6
The University of Texas System	24,083,150	24,203,213	0.5
Stanford University	22,222,957	22,398,130	0.8
Princeton University	22,723,473	22,152,580	-2.5
Massachusetts Institute of Technology	13,474,743	13,181,515	-2.2
University of Pennsylvania	10,133,569	10,715,364	5.7
The Texas A&M University System and Foundations	10,477,102	10,539,526	0.6
University of Michigan	9,952,113	9,743,461	-2.1
Northwestern University	10,193,037	9,648,497	-5.3
Columbia University	9,639,065	9,041,027	-6.2
University of Notre Dame	8,566,952	8,374,083	-2.3
University of California	7,997,099	8,341,073	4.3
The University of Chicago	7,549,710	7,001,204	-7.3
Duke University	7,296,545	6,839,780	-6.3
Washington University in St. Louis	6,818,748	6,461,717	-5.2
Emory University	6,684,305	6,401,650	-4.2
University of Virginia	6,180,515	5,852,309	-5.3
Cornell University	6,037,546	5,757,722	-4.6
Rice University	5,557,479	5,324,289	-4.2
University of Southern California	4,709,511	4,608,714	-2.1
Dartmouth College	4,663,491	4,474,404	-4.1
Vanderbilt University	4,133,542	3,822,187	-7.5
Pennsylvania State University	3,635,730	3,602,312	-0.9
Ohio State University	3,633,887	3,578,562	-1.5

The capital markets fluctuate, they also are measured and indexed. Institutions should take into considerations the merit of investments such as real estate and rentals as another option in parallel.

According to YaleNews¹ (September 23 2016), at Yale, the Investments Office has managed the fund for the past 30 years generally annual returns of about 14% per year. Investment return of 3.4% in 2016 brings Yale endowment value to \$25.4 billion. Led by Chief Investment Officer David F. Swensen and operating under the guidance of Yale’s Investment Committee, the [Investments Office](#) manages Yale’s endowment. Yale continues to maintain a well-diversified, equity-oriented portfolio, with the following asset allocation targets for fiscal 2017:

¹ <https://news.yale.edu/2016/09/23/investment-return-34-brings-yale-endowment-value-254-billion>

Yale Investments Office - Asset Allocation Classes			
Absolute Return: 22.5%	Venture Capital: 16%	Foreign Equity: 15%	Leveraged Buyouts: 15%
Real Estate: 12.5%	Bonds and Cash: 7.5%	Natural Resources: 7.5%	Domestic Equity: 4%

MIT News² (September 9 2016) released endowment figures for 2016. Massachusetts Institute of Technology Company (MITIMCO), a unit of MIT, created to manage and oversee investments of the institute’ endowment, retirement, and operating funds. As of June 30, 2016, MITIMCO had approximately \$20.8 billion of assets under management. Over the past decade, MIT Endowment earned 8.3% per annum³.

MIT over the past 10 years returned 8.3% per annum.

6. ASSET CLASSES USED BY SUSTAINABLE WESTERN ENDOWMENTS

Here’s a list of asset classes that Ivy league use to preserve and grow endowments:

- Venture Capital
- Private Equity
- Hedge Funds
- Real Estate
- Commodities
- US Equity
- Foreign Equity
- Emerging Markets
- Bonds and Cash

The capital markets exist to serve the businesses of a nation by allowing individuals and institutions to invest in them, while also allowing the business access to available cash to grow and produce products& service. In the capital markets over the past one hundred years, stocks of good companies have returned profits to shareholders (profits in dividend & growth) an average of 8-10% annually.

7. WAQF MODELS

Various models ranging from mosque financing, *Waqf* for religious purposes such as building and maintenance of mosque and madrassah have been proposed and written about. Khalili et al. (2014) focused on joint venture. This is usually between the *Waqf* institution and the financier or developer and takes the form of Mudarabah or Musharakah model. El-Gari Model proposed the establishment of non-profit drive financial intermediary, using cash *Waqf* voluntarily donated by the rich and meaningful Muslims to form *qard hasan* financial institution.

In addition to active fundraising, it is vital for a *waqf* university [institution] to engage in prudent investment so as to secure against any economic contingencies, for example, in times of economic and stock market uncertainty. This has been the practice of the American endowment universities, such as Harvard, Princeton and Yale (Siti Mashitoh Mahamood, Asmak Ab Rahman, 2015).

It is worth noting here that the Turkish universities have received very significant contributions from businessmen as they provide funds for the establishment, maintenance and continued existence of *Vakif Üniversitesini*. In fact, they have been involved in various activities of the *Üniversitesi* including research surveys and workshops. Moreover, in Turkey, there has been a legal policy that *Vakif Üniversitesini* 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,

² <http://news.mit.edu/2016/mit-releases-endowment-figures-2016-0909>
³ <http://www.mitimco.org/wp-content/uploads/2017/03/MITIMCo-Alumni-Letter.pdf>

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 (Siti Mashitoh Mahamood, Asmak Ab Rahman, 2015).

8. EQUITY ORIENTED WAQF MODEL

Ibn Khallikan⁴ tells a story of a farmer that came to a King asking for grain seeds. The King asked the farmer how many seeds would you like? The farmer asked the King to place one seed of grain on the first square of a chessboard, two on the second, four on the third, and so on doubling the number of wheat grains on each subsequent square⁵. The question is how many seeds of grain would be on the last square of the chessboard? Think of it and give an answer. Once you are ready, check your answer with the footnote below⁶.

The question you should ask is, how does this grain and big numbers relate to *Waqf* and its sustainability? Simple, let's go back to the example of Yale as it continues to maintain a well-diversified, equity-oriented portfolio. I wanted to expand on the equity-oriented *Waqf* model further and how it relates to sustainability and preservation of an educational institution *waqf* – and ultimately its autonomy.

For discussion sake, let's say David Swensen (Yale Endowment Fund Manager) was given a starting *Waqf* fund of \$1 million thirty years ago. We also know that David Swensen has averaged 14% return annually. What is the size of this *Waqf* fund today? For those of you familiar with finance and comfortable using this formula $PV = FV / (1+r)^n$ you should get a number close to \$51 million.

Moving to Peter Lynch who was the manager of the Magellan Fund at Fidelity between 1977 and 1990 and averaged a 29.2% annual return on equities. During his short reign at Magellan, Lynch was able to grow the portfolio from \$18 million to \$14 billion⁷.

I would like to tell you the story of Coke. Although Coca-Cola as a beverage began in 1886, the shares of Coca Cola only made IPO (initial public offering) in 1919 at \$40 each. According to a 2012 proxy statement from Coca-Cola, if you had reinvested dividends, your investment would be worth \$9.8 million. This represents an annual return rate of 14.27%⁸.

Softbank invested \$20 million in an unknown Chinese company called Alibaba in 1999/2000 during the Dotcom era. Softbank's 32% stake in Alibaba (market capitalization \$438 billion as of August, 30 2017) is valued at around \$50 billion.

Naspers (parent of DSTV, OLX, Dubbizzle, MultiChoice, SuperSport), a South African Company, founded in 1915 as a newspaper company and wanted to diversify into China in 2000. Naspers lost about \$100 million trying to establish companies in China. So rather than establish a company, they changed their strategy to invest in an already available Chinese-owned and managed company. Naspers purchased 46% of a nascent technology platform company called Tencent in 2001 for \$32 million. That investment is today roughly \$114 Billion and the shareholding ownership has been diluted to 35%.

⁴ https://en.wikipedia.org/wiki/Ibn_Khallikan

⁵ https://en.wikipedia.org/wiki/Wheat_and_chessboard_problem

⁶ 18,446,744,073,709,551,615

⁷ Mutual Fund Legend Peter Lynch Identifies His 'Three C's' Of Investing In A Rare Interview

<http://www.businessinsider.com/peter-lynch-charlie-rose-investing-2013-12?IR=T>

⁸ <http://www.investopedia.com/articles/markets/113015/if-you-had-invested-right-after-cocacolas-ipo.asp>

9. CONCLUSION & SUMMARY

In order to preserve and sustain educational institutions in perpetuity, it is important that we study success stories and try to learn from past experiences. Non-profits can achieve sustainable funding from investment income via judicious investing⁹. Educational Institutions, through their investments office, can focus on tailoring their sustainability in harmony with their needs. The use of *Waqf* or endowed funds for loan granting purposes only cannot support the principles of self-reliance. The use of *Waqf* or endowed fund has to be subjected to investments with commensurable returns first, that is when it may fall in line with perpetuity aim or permanence which both endowment foundation and *Waqf* institutions stand for (Oladapo, Oseni, Rahman, Mustafa, Mohammed, 2016). An investments office will have a chief investment officer (*mutawalli*) and team of specialized analysts whose responsibility is asset allocation guided and steered by trustees or investment committee or board members at the strategic level. An investments office will have the ability to choose between asset classes mentioned above such as equities, real estate development, farms, property rentals, houses, public baths, venture capital, private equity, hedge funds, commodities, US equity, foreign equity, emerging markets, sukuk and cash.

⁹ Key Insights For Managing an Asian Endowment Fund (from one who knows)
<https://www.ipe.com/countries/asia/key-insights-for-managing-an-asian-endowment-fund-from-one-who-knows/10003912.fullarticle>

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