

TOWARDS A REGULATORY FRAMEWORK FOR THE GOVERNANCE OF ENDOWMENT ORGANIZATIONS IN SAUDI ARABIA

Mohamed Sharif Bashir ^{*},
Zohoor Abdallah Mahmoud Hussin ^{*}

^{*} Applied College, Imam Mohammad Ibn Saud Islamic University (IMSIU), Riyadh, Saudi Arabia



How to cite: Bashir, M. S., & Hussin, Z. A. M. (2025). Towards a regulatory framework for the governance of endowment organizations in Saudi Arabia. In A. M. Gallo, U. Comite, & A. Kostyuk (Eds.), *Corporate governance: International outlook* (pp. 74–80). Virtus Interpress. <https://doi.org/10.22495/cgiop15>

Received: 30.04.2025
Accepted: 12.05.2025
Keywords: Endowment Governance, Islamic Endowment, Governance Framework, Nonprofit Organization
JEL Classification: G34, G38, L31, N35
DOI: 10.22495/cgiop15

Copyright © 2025 The Authors

Abstract

This research study examines the significance of a regulatory framework for the governance of endowment organizations in the Kingdom of Saudi Arabia (KSA). It underscores the urgent need for such a framework in light of the growing interest in the role of endowments in the nation's social and economic development, and the importance of leveraging government supervisory efforts to support the endowments sector. The study outlines the rationale for endowment governance and its benefits to endowment organizations and institutions by reducing systemic, operational, and institutional risks. Drawing on governance practices suited to the endowments sector, this study offers recommendations for a regulatory framework for endowment governance in the KSA, along with the core principles and provisions that should be included. It concludes by recommending the prompt issuance of a regulatory framework to complement existing advancements in organizing and enhancing the effectiveness of the endowments sector, while enabling its growth and alignment with KSA's strategic vision.

1. INTRODUCTION

Interest in governance related to the management and development of endowments has grown significantly in recent years. This increased focus is attributed to the regulatory and administrative structures that governance provides, which help enhance the operational efficiency of endowment institutions (Al-Khateeb & Amuda, 2024). Accordingly, there is an urgent need to establish a regulatory framework for the governance of endowment organizations in the Kingdom of Saudi Arabia (KSA). Such a framework is now more essential than ever, given the importance of these institutions and their expanding role in supporting the growth of the national gross domestic product. Furthermore, ensuring their sustainable development is critical to maximizing their societal impact and accelerating the achievement of the Kingdom's Vision 2030 objectives. Endowments constitute a key component of KSA's nonprofit sector, supporting eleven goals within sustainable development plans and programs. They also play a vital role in strengthening other social and service sectors, including education, healthcare, social welfare, and housing. In addition, endowments contribute significantly to social protection efforts that benefit various community groups, as illustrated by the Health Endowment Fund and university endowment funds (Saudi Central Bank [SAMA], 2021; United Nations [UN] & Islamic Corporation for the Development of the Private Sector [ICDPS], 2021).

The growth of the endowment economy has not kept pace with the overall expansion of the Saudi economy. An estimated 120,000 endowment facilities or properties currently exist in KSA, led by the Endowments of the Two Holy Mosques (General Authority for Endowments [GAA], 2023). In recent years, there has been a notable rise in institutional efforts grounded in a deep understanding of the developmental role of endowments within frameworks supported by the state. The government has demonstrated a strong interest in complementing societal and community initiatives in this area. According to published data, the value of public endowments managed by the GAA is approximately 14 billion Saudi riyals, while private and nonprofit sectors manage an estimated 40 billion Saudi riyals (GAA, 2023).

2. TYPES OF ENDOWMENTS IN THE KINGDOM OF SAUDI ARABIA

In Islamic jurisprudence, an endowment is defined as the dedication of an asset and the allocation of its benefits (Al-Zahrani, 2023). This entails retaining the endowed asset and prohibiting its ownership by any means, including its sale, mortgage, or gifting. Instead, the asset's benefits, returns, or revenues must be allocated to charitable purposes specified by the endower.

In practice, endowments in Islamic countries serve several vital roles, particularly in providing stable funding for sectors such as healthcare, education, social services, and religious affairs (Yunus et al., 2024; Zulkifli et al., 2022). As governance practices in KSA's endowment organizations continue to improve, endowments operate more efficiently, achieving their goals and supporting the Kingdom's strategic vision for charitable and endowment work and its developmental impact.

Endowments are classified into three types based on the beneficiary (Al-Azmi, 2023; Farhan, 2023):

1) Family endowment: This type designates benefits for specific individuals, such as descendants (children, grandchildren, great-grandchildren) or relatives (uncles, aunts, and their children), or the poor.

2) Charitable/public endowment: This type is created to allocate proceeds to charitable causes of a perpetual nature. These causes may be specific, such as aiding the poor and needy, or general, such as supporting mosques, schools, and hospitals.

3) Joint endowment: A hybrid of family and charitable endowments. It may begin as a family endowment and, upon the extinction of the beneficiaries, convert to a charitable endowment if specified by the founder.

3. LEGISLATIVE AND REGULATORY DEVELOPMENTS IN THE SAUDI ENDOWMENT SECTOR

The KSA has taken a significant step toward regulating the endowment sector through the issuance of Royal Decree No. (M/11) dated 26/02/1437H, which defined the responsibilities of GAA across three main areas (Awqaf, 2023a, 2023b; Awqaf, 2022a, 2022b; GAA, 2023):

1) Regulating the endowment sector: This includes drafting regulations, stimulating the sector, exercising supervisory oversight over endowment trustees, and taking legal measures to ensure fulfillment of endowment objectives, without directly managing the endowments. It also involves preparing policies, regulations, and frameworks.

2) Developing endowments: This includes empowering and building the sector's capacity, establishing a reliable database of endowment assets, approving applications for new endowments, taking necessary development actions, raising public awareness, conducting endowment research, enhancing governance and management systems, and strengthening institutional capacity.

3) Operating and managing endowments: Responsibilities include managing and developing public endowments, registering and documenting endowments, inventorying endowed assets, maintaining a verified database, acting as trustee for public and unspecified endowments, collecting revenues, and disbursing proceeds according to the founders' purposes.

4. PRINCIPLES OF THE REGULATORY FRAMEWORK FOR ENDOWMENT GOVERNANCE

The essential principles and provisions that should be incorporated into the governance framework for endowments are summarized as follows:

1) Compliance with Shari’ah (Islamic law): In Islamic thought, the establishment of endowments is fundamentally an act of worship and a means of seeking closeness to Allah. Therefore, strict adherence to Shari’ah rules is essential, whether in investing endowment assets, managing funds, or disbursing proceeds. This requires Shari’ah supervision, overseen by a Shari’ah board or legal advisor, to ensure that all institutional activities fully comply with Islamic legal standards and conditions specific to endowments (Bashir & Babiker, 2023; Farhan, 2023).

2) Interest as the basis for managing endowments: The core principle of endowment governance is serving the legitimate interests of the endowment. This entails ensuring that decisions by trustees or management are directed toward maximizing benefits for the endowment and its beneficiaries. It also requires a commitment to fulfilling beneficiary rights by facilitating access to endowment proceeds and ensuring their fair and effective use (Al-burshaid & Alomair, 2022).

3) Establishing conditions for the trusteeship: To prevent potential misuse of authority by the trustee, governance emphasizes selecting qualified trustees based on clear, objective criteria, rather than relying solely on the founder’s opinion, which may lack sufficient knowledge of suitable candidates. Establishing selection conditions for the Board of Trustees is therefore essential. These may include, but are not limited to, diligently collecting and distributing the endowment’s revenues to rightful beneficiaries and supervising and managing its assets.

4) Competence in the management of trustees: Whether the trustee is an individual or a collective Board of Trustees, competence is a requirement under Islamic law to ensure effective management, development, and optimal use of endowment assets.

5) Appropriate institutional management for endowment organizations: Institutional management should be established within a unified legislative framework, adapted to suit the nature, activities, and founding conditions of each endowment. This framework must also remain flexible, allowing for revisions to better achieve endowment goals.

6) Organizing relationships among stakeholders: Governance must define and regulate the relationships among all endowment stakeholders, including founders, beneficiaries, and supervisory or regulatory bodies. This should be accomplished through clear bylaws outlining responsibilities, authorities, and roles, including the administrative structure. Authority matrices must also be established to define administrative, financial, and legal responsibilities and boundaries, along with a system of internal and external auditing.

7) The importance of having governance standards: The effectiveness of governance depends significantly on sound evaluation and control practices, which serve as key tools in protecting endowment organizations from corruption, negligence, and misconduct (AlNemer, 2022).

8) The necessity of internal and external auditing: Internal auditing is crucial for improving operational efficiency and protecting the endowment from harmful practices. The governance framework must emphasize the independence of internal auditors to ensure effective application of governance principles and compliance with relevant regulations and standards. Similarly, appointing an external auditor to review financial statements and conduct accounting audits (Al Abdulghani, 2022; Al-Azmi, 2023).

5. CONCLUSION AND RECOMMENDATIONS

Establishing a governance framework for endowments is essential, as it enhances the organization, protection, and management of endowments while maximizing their social and economic impact. The governance framework should aim to increase the sector's attractiveness by broadening its scope, strengthening and directing endowment expenditures, and introducing innovative models that address contemporary needs.

The governance framework should incorporate clear evaluation and oversight metrics as essential tools for protecting endowment organizations from corruption, negligence, and harmful actions by trustees or executive management. It must serve as a catalyst for the broad implementation of governance systems across all endowment organizations and generate a positive impact both within the sector and across the broader economy. Through this framework, the sector can be empowered and encouraged to play an active role in sustainable development, including the diversification of endowed assets such as real estate, movable property, usufruct rights, shares, and contracts.

There is an urgent need to establish governance for endowments in the KSA. Such governance would support the development of a comprehensive economic vision for the endowment and charitable work sector, recognizing it as a vital third sector alongside the public and private sectors. This, in turn, would contribute to achieving sustainable economic growth and socioeconomic development. Expediting the issuance of a regulatory framework for endowment governance is necessary to incorporate recent developments and enhance sector effectiveness. Providing the sector with the necessary enablers for growth and development will directly support the achievement of KSA's strategic vision targets.

REFERENCES

- Al Abdulghani, B. A. A. N. (2022). Impact of endowment governance fundamentals on endowment investment quality. *Arab Journal of Administration*, 42(3), 25–58. <https://doi.org/10.21608/aja.2022.107333.1180>
- Al-Azmi, M. S. (2023). *Governance of endowment institutions* [Doctoral thesis, National University of Malaysia (UKM)]. National University of Malaysia (UKM).
- Al-burshaid, F. A., & Alomair, M. A. (2022). Governance of endowments in Saudi public universities. *World Research of Business Administration Journal*, 2(3), 200–221. <https://doi.org/10.56830/DUZO4057>
- Al-Khateeb, A., & Amuda, Y. J. (2024). Application of legal principles of Islamic objectives on the regulation and management of Islamic endowment (Waqf): Drawing lessons from different contexts. *Journal of Infrastructure, Policy and Development*, 8(14), Article 9638. <https://doi.org/10.24294/jipd9638>
- AlNemer, H. (2022). Strengthening governance of waqf in the Kingdom of Saudi Arabia: Status, obstacles, and institutional transformation. *Archives of Business Research*, 10(5), 78–91. <https://doi.org/10.14738/abr.105.11974>
- Al-Zahrani, R. F. R. (2023). Governance of endowments. *Journal of Jurisprudential and Legal Research*, 35(42), 1541–1647. <https://doi.org/10.21608/jlr.2023.191077.1163>
- Awqaf (2022a). *Rules for reporting anonymous and unravels Waqfs*. https://web.awqaf.gov.sa/en/Regulations?field_category_target_id=35
- Awqaf (2022b). *Awqaf general authority system*. https://web.awqaf.gov.sa/en/Regulations?field_category_target_id=35
- Awqaf (2023a). *Regulations on the establishment investor portfolios*. https://web.awqaf.gov.sa/en/Regulations?field_category_target_id=35
- Awqaf (2023b). *Regulations for organizing the work of endowment principles*. https://web.awqaf.gov.sa/en/Regulations?field_category_target_id=35
- Bashir, M. S., & Babiker, A. (2023). Evaluation of shari'ah governance practices in Saudi Arabian banks. *Malaysian Journal of Syariah and Law*, 11(2), 243–270. <https://doi.org/10.33102/mjssl.vol11no2.480>
- Farhan, O. M. A. (2023). *Hawkamat almuasasat alwaqfiat fi almamlakat alarabiat alsaeudia* [Governance of endowment institutions in the Kingdom of Saudi Arabia]. <https://saee.store/products/Governance-of-Endowment-Institutions>
- General Authority for Endowments (GAA). (2023). *Annual report 2023*. Awqaf. <https://web.awqaf.gov.sa/sites/default/files/2024-10/Awqaf-16-09-2024-v5-compress.pdf>
- Muslichah, M., Aryani, D. N., & Bashir, M. S. (2024). Altahadiyat alati tuajih tanfidh alwaqf alnaqdii fi munazamat nahdat aleulama' aldiyniat al'iislamia [The challenges of implementing cash waqf in Islamic religious organization Nahdlatul Ulama]. *Al Waqf Journal*, 4, 142–167. <https://doi.org/10.59723/AWQ004/20>
- Saudi Central Bank (SAMA). (2021). *Excellence and leadership* (Saudi Arabia Islamic financial report). SAMA and Islamic Financial Services Board (IFSB). https://www.sama.gov.sa/ar-sa/Documents/Saudi_IF_Report_2021_Final_DIGITAL_v3.pdf

- United Nations (UN) & Islamic Corporation for the Development of the Private Sector (ICDPS) (2021). *The role of awqaf in achieving the SDGs and Vision 2030 in KSA*. <https://saudiarabia.un.org/en/146145-role-awqaf-achieving-sdgs-and-vision-2030-ksa>
- Yunus, M. H. S. M., Muwazir, M. R., Noordin, K., & Ishak, S. N. (2024). Enhancing waqf governance for sustainable development: A critical review. *International Journal of Law, Government and Communication*, 9(35), 89–96. <https://doi.org/10.35631/IJLGC.935008>
- Zulkifli, N., Ismail, M., Osman, G., & Zulkarnain, Z. (2022). A systematic literature review on waqf governance. *Journal of Social Science and Humanities*, 19(4), 31–42. <https://doi.org/10.17576/ebangi.2022.1904.03>