

## ***Waqf*-Based Social Micro Venture Fund: A Proposal for the Malay-Muslim Community in Singapore**

**Norliana Mohammad Hamber**

*Chief Operating Officer in Kapital Boost, Singapore*

**Mohamed Aslam Haneef**

*Professor, Department of Economics, International Islamic University Malaysia*

**Abstract.** The institution of *waqf* in Singapore is limited from playing a broader developmental role in society, especially with respect to the ethnic Malay community who consistently underperformed when measured against key socio-economic indicators. It maintains a largely religious orientation, as evidenced by the launch of Wakaf Ilmu for Islamic education in 2012. As a way of reinvigorating its developmental role to be in sync with the current needs of the Malay community in Singapore, this paper proposed the establishment of a *waqf*-based social micro venture fund (WSMVF) that promotes inclusive financial development for micro-entrepreneurs. This would help strengthen the community's economic status, amidst existing efforts on education, social and religious fronts. It reduces vulnerabilities of low-income families, strengthens their earning capability and promotes upward social mobility. This paper looked at charitable institutions which practice innovative and progressive forms of giving that the WSMVF could adopt. Resultantly, WSMVF is conceptualized based on the content analysis of cash *waqf* operations, profit and loss sharing modes and venture capital strategies. The organizational structure and operations of WSMVF bring new features into the present institution of *waqf* in Singapore, effectively expanding its role in the community.

**Keywords:** *waqf*, socio-economic objectives, social finance.

**JEL Classification:** N30, Z12.

**KAUIE Classification:** E22, E23, I77.

## 1. Introduction

### 1.1 Background of study

The multi-racial state of Singapore comprises of the majority Chinese (76.2%), Malay (15%), Indians (7.4%) and others (1.4%) (Population in Brief, 2014, p. 10). Despite its astonishing transformation over 50 years since independence, it also suffers from one of the widest income gap amongst developed nations as measured by the Gini coefficient of 0.478 (Chan, 2014). A concern with income inequality is its impact on social mobility as those at the bottom of the economic pyramid need to have a sense of hope and optimism to aspire for a better life (SMU, 2012). This should alarm especially the Malay-Muslim community (hereinafter called “community”) which falls behind other ethnic groups in relative socio-economic standing. According to Rahim, Lily Zubaidah (2012, p. 171), the gaps with the majority Chinese in critical areas such as university placements, average monthly household income and private home ownership have not reduced. It is a worrying phenomenon that reflects the extent of the community’s participation in the national economy as well as its resilience to weather crises and challenges affecting Singapore and its people.

For the community to improve itself, it is imperative to be equipped with assets which according to Green and Haines (2002, p. viii), are divided into 5 types. These are: human capital, social capital, physical capital, environmental capital and financial capital that form the primary building blocks of sustainable community development.

Historically, enhancing human capital through education is the center of community efforts in ameliorating its socio-economic status. The social capital, as revealed during *Suara Musyawarah* or Conversations with the Community, is commendable. Accordingly, there is a “strong sense of social consciousness manifested by numerous organizations set up to help the community, block committees and ground-ups, sometimes spontaneous self-help initiatives” (Suara Musyawarah Committee, 2013, p. 5). Physical and environmental capital that includes infrastructure, natural resources and weather are in order given the nation’s advanced economy. This leaves the final and fifth type of asset which is financial capital.

Financial capital takes the form of community financial institutions or development banks, micro loan funds and the likes of it (Green and Haines, 2002, p. 149). In broad terms, they provide capital and financial services to those underserved by the mainstream financial sector. It supports critical community programs, local entrepreneurship, and grows wealth for community reinvestment amongst others (Cooperative State Research, Education, and Extension Service (CSREES), 2009). Ford Foundation takes this further to also include philanthropic capital or permanent endowments of financial resources.

According to CSREES (2009, p. 3), financial capital is money that is invested to generate further resources, not money spent for consumption. A component of this “investment” that is scant within the community is funding support for businesses by enterprising low-incomers. It is noteworthy to mention that the only mainstream micro-loan facility is interest-based and hence not compatible for Muslims. Thus far, the various community efforts at capital accumulation to augment its financial capital has met limited success.

The equation for sustainable community development is incomplete without building on these 5 forms of community assets. It is therefore opined that working towards a stronger financial capital, via capital accumulation and investments, could foster better economic well-being for the Malay-Muslim community.

A preliminary observation on the financial capital of the community finds that while monies are pooled to fund a range of community needs, it lacks the promotion of community (re)investment. The value of *waqf* real estate properties and cash *waqf* funds are \$711 million and \$9.45 million respectively, as of December 2015. Its largest beneficiaries are mosques followed by Islamic religious schools.

In facing socio-economic problems such as poverty and inequitable distribution of wealth, Islam has divinely revealed a gamut of institutions and tools to address these issues. These include the obligatory payment of *zakāh* and charitable instruments like *sadaqah* and *infāq*. But beyond achieving an equitable distribution of wealth, charitable acts also fulfill certain social objectives. *Waqf*, especially, has played

a significant role in sustainable development as it, amongst others, “creates a permanent, cumulative and ever-increasing capital base and infrastructure for benevolent activities” (Kahf, 2003, p. 24).

In Singapore, the *awqāf* assets are largely inherited from early Muslim philanthropists who donated generously to the community in helping them meet religious needs then. In more recent times, the religious orientation is still apparent following the launch of Wakaf Ilmu to support Islamic education in Singapore. No doubt these are legitimate needs of the community but it is felt that the current *awqāf* fall short of making a deeper socio-economic impact on the Malay-Muslim community in Singapore. Therefore, this paper proposes the establishment of a new cash *waqf* cum economic fund that would partake directly in the creation of new businesses or facilitate its growth and thus contribute to the community’s economic development. It targets persons or groups of people who have prospective businesses but are incapable of accessing financial capital as they are deemed high risk by mainstream banking standards. Hence, this economic fund empowers them, typically known as micro-enterprises, through the provision of risk capital via Shari’ah-compliant modes of financing.

### 1.2 Research objectives

The research therefore aims to explore, understand and identify factors that could contribute to the eventual establishment of a new cash *waqf* cum economic fund. By looking inwardly into the community, it is a critical step in understanding the suitability and applicability of the proposed model for the socio-economic development of the community. At the same time, the novelty of this *waqf* model requires looking outwardly to find innovative structures that exhibit both social and economic orientation.

### 1.3 Research methods

To achieve the above-mentioned objectives, this paper has utilized both primary and secondary sources of materials or information.

- Primary sources: Interviews were conducted with seven key stakeholders ranging from non-governmental organizations (NGOs), religious regulatory bodies to social activists. They represent expert opinion in

addressing the suitability and applicability of the proposed WSMVF for the socio-economic development of the community. Semi-structured interviews were adopted to strike a balance between consistency and depth of response.

- Secondary sources: Annual reports, government statistics, newspaper articles, academic journals, ministerial speeches and post-graduate thesis were used.

### 1.4 Structure of paper

Section one brings to light the need for a new cash *waqf* institution in Singapore, followed by the research objectives and research methods.

Section two presents the literature review that critically discusses the current socio-economic position of the Malays together with the Malay-Muslim voluntary sector. Focus will be on community-initiated economic empowerment programs and the assessment of its success or lack thereof.

Section three deliberates on the general concept and application of cash *waqf*. Basic characteristics and roles of *waqf* are described so as to form the foundation upon which the recommendations of this research are built upon.

Section four looks at innovative and progressive forms of giving in other parts of the world which would help in the overall design of the proposed *waqf* model.

Section five conceptualizes the proposed *waqf*-based social micro venture fund (WSMVF) which is illustrated by key operations and organizational structure. Section six concludes the paper.

## 2. Literature Review

### 2.1 Socio-economic profile of the Singapore Malays

In her book titled *Singapore Dilemma: The Educational and Economic Marginality of Singapore Malays*, Lily Zubaidah Rahim asserts that the Malays are a marginal community in the multi-ethnic and cosmopolitan city of Singapore. The term “Malay problem” was coined sometime in 1971 to encompass the multifarious issues faced by the community, amongst which were “educational underachievement, drug abuse, disadvantaged and dysfunctional families, poor socio-economic standing and low skills of Malay workers” (Hafsah Kassim, 2006, p. 9).

Nevertheless by no means did the Malay community not advance alongside the country's development and growing prosperity. The Malays are employed in better jobs, earning a higher salary, more are owning homes and educational performance is also improving (Hussin, 2005, p. 54). Yet this does not cloud the persisting fissures in the socio-economic position of Malay community viz. other ethnic groups, especially the Chinese majority. Lily Rahim (2012, p.3), reiterates that the educational and economic gaps between the Malays and Chinese in critical areas such as university placements, average monthly household income and ownership of private homes have not narrowed.

### **Education**

Although the number of Malay graduates has more than doubled from 2000 to 2010 (table 2.1), Hussin (2012) argued that 5% is still a low figure and he, like the government, echoes the call for more Malay graduates.

In national examinations, namely PSLE, GCE "O" and GCE "A" levels, Malays performed the lowest amongst the three ethnic groups over the period 2000-2010 (table 2.2). In addition, they have not performed on par with the Chinese in core subjects like English, Mathematics and Science. As Singapore steers into a knowledge-based economy, Mathematics and Science are essential subjects to acquire and promote economic growth. Without a good grasp of these subjects, the Malays could possibly be left behind from participating in the national economy.

All 3 ethnic groups have witnessed progress over a 25-year period to 2010 but the race to close the gap with the majority Chinese must continue as even the Indians have outperformed the Malays in education.

**Table (2.1) Proportion of University Graduates by Ethnic Group**

	2000	2005	2010
<b>Malays</b>	2.0	3.4	5.1
<b>Chinese</b>	12.6	17.7	22.6
<b>Indians</b>	16.5	25.1	35.0 <sup>(1)</sup>
<b>Total</b>	11.7	17.0	22.8

Adapted from Department of Statistics (2005), "General Household Survey 2005: Chapter 2 education and language" and Department of Statistics (2010), "Census of population 2010 statistical release 2: Households and housing"

**Table (2.2) Performance in National Examinations by Ethnic Group**

	Percentage passes in PSLE			Percentage of GCE 'O' Level students with at least 3 'O' Level passes			Percentage of GCE 'A' Level students with at least 3 'A'/'H2' passes and pass in General Paper or Knowledge and Inquiry		
	1990	2000	2010	1990	2000	2010	1990	2000	2010
<b>Malays</b>	74.1	88.6	92.5	77.1	79.5	87.1	56.6	64.7	82.9
<b>Chinese</b>	91.1	97.9	98.8	90.7	94.7	96.9	78.3	82.6	91.5
<b>Indians</b>	80.2	91.6	95.3	82.4	87.2	91.7	70.6	80.6	88.3
<b>Overall</b>	88.2	95.8	97.3	88.9	92.3	95.2	76.5	81.6	90.8

Adapted from Ministry of Education (2010), "Performance by ethnic group"

(1) Inflow of Indian permanent residents with university qualifications contribute to the large proportion of Indians with university qualification.

**Economic Position**

The rising affluence in Singapore has resulted in rising income across the board (table 2.3). There are also more families living in bigger-sized public housing as well as private homes (table 2.4). However, across ethnic groups, there is a widening income gap between the Malay households and other ethnic groups. The prevailing inflation and high cost

of living can severely impact the financial standing of Malay families.

In a meritocratic system like Singapore, there is a strong causal relationship between academic achievements and job prospects. It is no surprise then that the low-skilled job categories are over-represented by the Malays (table 2.5).

**Table (2.3) Monthly household incomes from work by ethnic group of head among resident households (\$)**

	Average Household Income		Median Household Income	
	2000	2010	2000	2010
<b>Malays</b>	3,151	4,575	2,709	3,844
<b>Chinese</b>	5,258	7,326	3,880	5,100
<b>Indians</b>	4,623	7,664	3,438	5,370
<b>Total</b>	4,988	7,214	3,638	5,000

Adapted from Department of Statistics (2010),  
 “Census of population 2010 statistical release 2: Households and housing”

**Table (2.4) Percentage of resident household by type of dwelling and ethnic group**

	HDB Dwellings		Condominiums and private flats		Landed properties	
	2000	2010	2000	2010	2000	2010
<b>Malays</b>	98.2	96.8	0.8	1.9	0.7	0.9
<b>Chinese</b>	86.4	81.3	6.9	11.7	5.7	6.3
<b>Indians</b>	89.1	82.7	5.2	11.9	4.4	4.4
<b>Total</b>	87.7	82.4	6.3	11.2	5.1	5.7

**Table (2.5) Occupational distribution changes (%)**

Job category	1990	2010
Administrative/Managerial, Professional/Technical, Technicians/Associates	10.8	27.8
Clerical, related, sales/services	29.48	37.7
Production, related, other	59.8	34.5

Adapted from Shantakumar, G. (2012),  
 “Singapore Malays in the new millennium: Demographics and development”

**Social Condition**

Although the Malay problem was historically defined as “an economic one where focus is given to education” (Suriani, 2004, p.21), the community has been saddled with the same three core social issues which are low-income families, high drug abuse and high divorce rates over the past 10 years (table 2.6). Kamaludeen (2007, p.312) views these social problems as suggestive of the working class and not necessarily a problem intrinsic within the Malay community.

All in all, it is crucial to raise the self-esteem and self-worth of these families to prevent helplessness from taking over. While social support or assistance are important to bringing these families back on their feet, a sense of resignation and dependence on assistance cannot be allowed to take root as this can lead to a multi-generational problem of underperformance (Association of Muslim Professionals (AMP), 2012, p. 68).

**Table (2.6) Drug abusers arrested by ethnic group**

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
<b>Malays</b>	1502	462	177	133	346	1033	1123	1158	1376	1603
<b>Chinese</b>	1389	1098	688	581	626	813	1048	1036	1050	1109
<b>Indians</b>	429	217	75	61	133	313	330	374	403	539

Adapted from Central Narcotics Bureau (2014), "Drug situation report"

## 2.2 Waqf in Singapore

*Waqf* in Singapore is notable for its rich history that dates back to as early as 1820. Despite Islam being a religion of the minority, the contribution by these philanthropists who left behind a legacy of *waqf* is immense. They were merchants or traders of Arab descent and a small number were Bugis and Indians. As of December 2015, there are a total of 130 *waqf* properties valued at \$711 million.

Today, *waqf* in Singapore is most visible as mosques, religious schools (*madrasah*) and commercial buildings. The locally distributed *waqf* proceeds for the fiscal year of 2013 showed mosques as the largest beneficiary (47%), followed by religious schools (19%) and then the poor, burial and rice category<sup>(2)</sup> (9%). In other words, the distribution pattern postulates two types of *waqf* - religious *waqf* and philanthropic *waqf*. According to Ahmed (2004), it is only the philanthropic *waqf* whose income will benefit the poor directly and/or indirectly. Additionally, it has to be a *waqf* for the general society, and not family *waqf*, in order to be a wide-reaching poverty alleviation tool for society. Evidently, only 21% of the *waqf* annual revenue in 2013 was distributed for local philanthropic causes<sup>(3)</sup>.

The social aspect of *waqf* is manifested in the organizing of feast for the poor and needy during the fasting month of Ramadan, giving free medicine, scholarship and other general acts of charity.

The economic impact of *waqf*, according to Shamsiah Abdul Karim (2010, p. 19), is felt through the development of *waqf* properties. When the

financing instrument of *shukūk*, or Islamic bonds, was issued, it created a Shari'ah-compliant investment opportunity for Muslims and Muslim NGOs including mosques. When old dilapidated mosques are refurbished, its accompanying commercial assets are also treated likewise to enhance the income stream for the mosque. The construction of serviced apartments, built atop *waqf* land on Bencoolen Street created jobs for those in the service sector.

However, creating an economic impact that hinges on the development of *waqf* implies a tardy response towards meeting the economic aspirations of the community, since real estate projects have generally long germination period. Furthermore, specific groups of people in need of economic empowerment may well be excluded, for whatever reasons, from enjoying the economic benefits of *waqf* developments that are arbitrary in nature.

Hence the setting up of a new *waqf* with defined objectives, purpose and beneficiaries geared towards effecting greater economic impact on the community is warranted. It is also a valid social cause since by assisting these socially and economically disadvantaged micro-enterprises, it creates employment for themselves that would lead to a better livelihood.

The following section will discuss the concept of philanthropy in Islam and its embodiment that is *waqf*. Here, basic characteristics and roles of *waqf* are described so as to form the foundation upon which the recommendation of this research are built upon.

## 3. Waqf

### 3.1 Introduction

The Islamic system has laid down many measures of redistributing income and wealth to reach a certain level of social justice and equity (Iqbal, 1986), which is summarized in table 3.1.

(2) Rice category refers to the distribution of free food for the poor and under-privileged segments of the community, as stipulated in the *waqf* deed

(3) Philanthropic *waqf* that benefits the local poor directly or indirectly is only 21%, calculated as total less of distribution to mosques (47%), distribution to madrasah (19%) and overseas distribution (13%)

**Table (3.1) Schemes for redistribution of income in Islam**

Positive measures	Voluntary measures	Prohibitive measures
<i>zakāh, farā'id</i>	<i>infāq, ṣadaqah and waqf</i>	prohibition of <i>ribā</i> and <i>al-iḥtikār</i>

Adapted from M. Iqbal (1986), "Distributive justice and need fulfillment in an Islamic economy"

These schemes help bridge the gap between the rich and the poor by heightening the awareness of the well-to-do towards the plight of the less fortunate. It invokes a sense of obligation and social responsibility that is built upon the basis of brotherhood and mutual care and concern. Furthermore, it nurtures a sense of compassion amongst members of the society so that those at the bottom of the pyramid are not isolated.

According to Alterman, Hunter and Phillips (2005, p. 3), the notion of social justice by Islam is both a government responsibility and societal ideal. Islam expects the government to, for example, house the orphans, feed the hungry and heal the sick but it is also an endeavor that individual Muslims are expected to partake in.

In response to this, Islamic societies have developed specialized sets of institutions to manage the contributions for the poor, needy and less fortunate (Bremer, 2004, p. 5). These institutions are roughly grouped into two, namely Islamic endowments and the *zakāh*-managing institutions. Given the objectives of this research paper, focus and further deliberation will only be on the voluntary measures, specifically Islamic endowments or *waqf*.

**3.2 Socio economic role of waqf**

In its basic form, *waqf* is an endowment of privately-owned properties which generate revenues for the sustenance of defined beneficiaries perpetually (Singer, 2008). The corpus is preserved in order to extract the usufruct and benefit without diminishing or consuming the property itself (Kahf, 2003, p. 2).

Historically, *waqf* has brought about a myriad of crucial services for the society, including those that were under-produced or not afforded by the government (Hasan, 2006, p. 3). In various Muslim countries, there were evidences of expansive *waqf* land and properties. For example, the Ottoman sultans endowed *waqf* that "supported urbanization and backed the economic and commercial life in the town" (Orbay, n.d.). Within the Suleymaniye complex, there

were inns for travelers, public toilets, baths, covered market and a courtyard providing social spaces for recreation which served to promote community wellbeing (Singer, 2008). Rightly so, Imam Shāfi'ī accorded *waqf* the unparalleled system of socio-economic support (Mahmud and Sayed, 2010, p. 6).

The perpetual nature of *waqf* makes it a convenient tool for creating and preserving long-term assets by locking it into income generating activities that indirectly helps the process of wealth creation. This transforms the non-profit sector together with its role in social welfare since buildings and infrastructures can be privately provided for on a dependable basis without the need for government intervention (Hodgson, 1974, p. 124).

Waqf can be a potent institution that strongly supports community growth, when the community is involved in mobilizing, controlling and managing the endowed assets (Cajee, 2011). It is highly adaptable to whichever stage of development the society is in and can be flexible directed towards virtually any Shari'ah-compliant needs, including humanitarian purposes that are beneficial to all regardless of religious beliefs (Cajee, 2011).

**3.3 Cash waqf**

To date, cash *waqf* is widely practiced in both Muslim and non-Muslim countries (Abdel Mohsin, 2009; Cizakca, 1998). For example, Kuwait Awqaf Public Foundation (KAPF) created multiple cash *waqf* for different purposes. There are *waqf* funds for mosques, disabled and handicapped, preservation of al-Qur'ān as well as education in the form of scientific research and innovation (KAPF, n.d.).

Cash *waqf* is gaining popularity as unlike endowments of immovable assets, gifting cash, even if small in amount, is within the means of the vast majority of people. Also, the resurgence of the Islamic financial system, especially the Islamic asset management industry, presents a formal structure for the professional management of endowment monies.

Instead of earning bank savings rates, now there is potential for promising returns from the investments of cash *waqf*. Professional management also helps to mitigate the risk of misuse and fraudulent practices in managing *waqf* monies.

The modus operandi of a cash *waqf* typically comprises of 3 parts which are:

*a) Mobilization or accumulation of funds:*

In its simplest form, endowment can be done through direct cash contribution into the *waqf* fund. In countries like Kuwait, the United Kingdom and Malaysia, the *waqf* shares model is commonly practiced. Here, the usage of the term “shares” is unlike in the conventional financial terms as it resembles neither equity nor ownership. Rather, the donor first purchases shares which the *waqf* sells in specific denominations and he then endows these shares for *waqf*. In return, he may be issued a certificate stating his contribution to the *waqf*.

In recent times, an innovative method of creating *waqf* is through *takāful*. At the onset, several things are agreed upon such as the total pledged amount, number of *takāful* installments and *waqf* beneficiaries. Upon maturity of the *Takāful Waqf* plan, or triggered by the untimely death of the participant, the *Takāful* Operator (TO) would remit benefits payable under the plan, which is the pledged amount, to the *waqf* beneficiaries. If the total installments made have not yet reached the pledged amount, TO will top up the shortfall which is the unpaid amount of installments. Only if the participant withdraws before the date of maturity will the *waqf* recipient not receive the full pledged amount. In this case, then whatever is accumulated from installments made thus far will be relinquished to the *waqf* recipient (Hashim, 2007, p. 68).

*b) Management of assets for income generation:*

Conventional modes of fund placement are ruled out by virtue of Shari‘ah prohibition on *ribā* or interest. Hence, investments must be in Shari‘ah-compliant instruments which are broadly divided into two modes namely *shirkah* (partnership) and *mu‘āwadah* (exchange contracts).

*c) Distribution of income to beneficiaries:*

As part of fund management, a mechanism should be instated for the purpose of selecting beneficiaries

based on a specific list of criteria. For example, if NGOs are the target beneficiaries, then the criteria could be growth potential or track record for efficient tackling of social issues within the community. When giving to the poor, the money can be a source of empowerment by funding entrepreneurial ventures or other productive projects that affect them. In this sense, charitable donations are viewed as “capital investments of precious resources” (Kavanagh, 2000).

In April of 1997, an article published in the Harvard Business Review posed a question on why philanthropic donations worth trillions of dollars did not cause a great impact on the societal problems of the United States over the past decades. To be more effective, Grossman, Letts and Ryan (1997) suggested learning from the practices of venture capital, specifically in employing strategies like due diligence, risk management, investment duration and exit strategy.

Hence, a changing landscape of philanthropy is seen whereby traditional philanthropic model is shifting into an impact-driven form of philanthropy. Some charitable foundations and intermediaries are altering the game by measuring social impact and suggesting ways to channel monies to the most effective non-profits (Kaplan and Grossman, 2010).

At this juncture, it would be timely to look at the practices of charitable institutions that are geared towards innovative and progressive forms of giving.

#### **4. Selected Institutions in Non-Muslim Countries**

##### **4.1 Chicago Islamic Microfinance Project**

The Chicago Islamic Microfinance Project that was developed in 2011 aims to help small businesses through profit sharing concept of *muḍārabah* (Goud, 2011). Motivated by the need to manifest the social concern emphasized in Islamic finance, the project targets to raise an endowment sum of USD\$10 million via individual donations and grants from community groups.

It plans on injecting \$10,000 to \$25,000, with a cap of \$200,000, to qualified businesses (Chicago Islamic Microfinance Project, 2009, p. 5). This is more than what microloans offer in developing countries given the high cost of doing business in America. The project is socially oriented as it targets



businesses that are overlooked by the formal banking system as well as those likely to increase community education, health or well-being of women and children. Overall, this has the potential of revitalizing economically depressed neighborhoods (Chicago Islamic Microfinance Project, 2009).

In addition to receiving funds, the entrepreneurs will undergo training on business management and be required to open an Islamic bank account with Devon Bank. It helps in monitoring the cash flow from the business through transparent accounting of profits and losses and detecting any irregularities such as cash being used for non-business related activities.

Other than banks, the project also partners with mosques to host the supportive services for the entrepreneurs.

An Investment Advisory Board will be established to review the applications. There will be an investment underwriting criteria to govern the selection of each *muḍārabah* investment as well as a Shari‘ah Board to ensure Shari‘ah compliance. The Investment Advisory Board is comprised of individuals “knowledgeable in the financial and legal aspects of entrepreneurship, joint venture funding, business development and community relations” (Chicago Islamic Microfinance Project, 2009, p. 7).

At the end of the investment tenure, the entrepreneur will buy out shares from the project to become the sole owner of the business. Investment profits accrued to the project is reinvested to increase the capital pool for financing to more businesses. To keep costs low, the project is staffed by business and law students from local universities in the USA.

Currently, the project is still within its 5-year pilot period.

#### **4.2 Social Impact Bonds (SIBs)**

Social impact bonds (SIBs) first made their appearance in the UK in 2010 as a form of social

innovation financing which brings private and public actors together to tackle some of the most persistent societal problems. Structured as a bond, it raises private-sector capital to finance the expansion of social service programs that the local government lacks resources or long-term commitment to take on (Pettus, 2013). If the programs are successful in meeting social outcomes set by the government, the latter would repay the investors with returns. If unsuccessful, government pays nothing and all costs are borne by the investors. The mechanics of a SIB is summarized in figure 4.1.

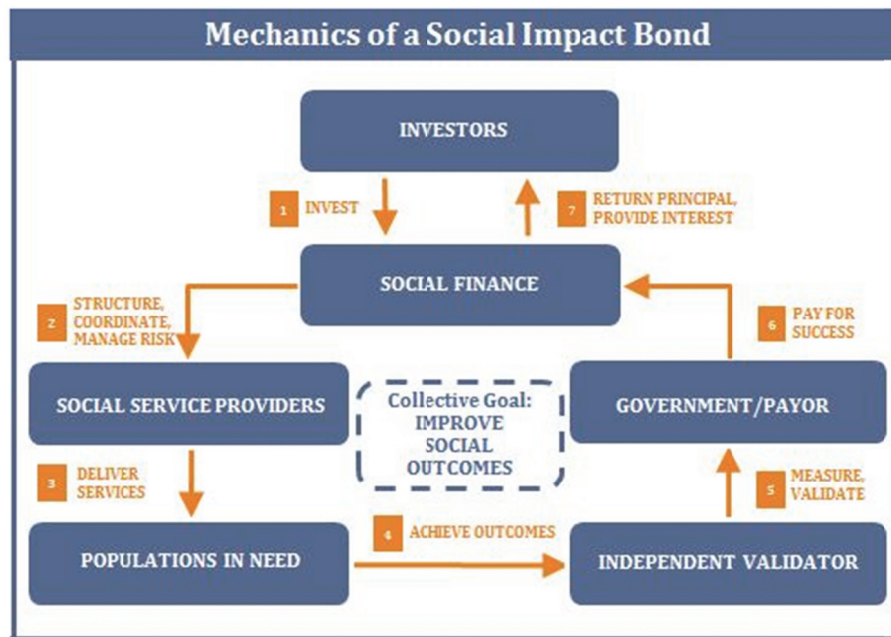
Effectively, the underlying philosophy of SIBs is to generate both financial and socially desirable returns, also known as the double bottom-line to investment. The various stakeholders are brought together in a synergistic fashion where each stands to gain from a successful SIB (How do SIBs work?, n.d.).

a) Government - pays for favorable outcome or results in an almost risk-free way as it transfers the risk of ineffective programs onto investors. Effective programs reduce government expenses since it reduces the need and therefore costs of remediation services such as imprisonment.

b) Social service providers - the inflow of stable funding enables programs with a successful track record to expand their outreach. They can thus direct more energy, resources and time into improving their programs rather than on fund-raising.

c) Private and/or philanthropic investors - includes banks, foundations and individuals. They benefit from a positive social outcome and returns on their investments.

d) Beneficiaries/communities - receive a steady flow of services or opportunities for them to lead better lives, for example, finding employment or managing their health. Overall, social welfare is improved.



**Figure (4.1) Mechanics of social impact bond**  
Adapted from How do SIBs work? (n.d.)

The “pay for success” contract is unlike traditional philanthropy whereby money spent on a program is completely consumed. In an SIB, the money has the potential to generate returns that can be recycled back into helping more people. According to Kohli, Besharov and Costa (2012, p. 3), it may encourage stakeholders to focus on outcomes rather than activities.

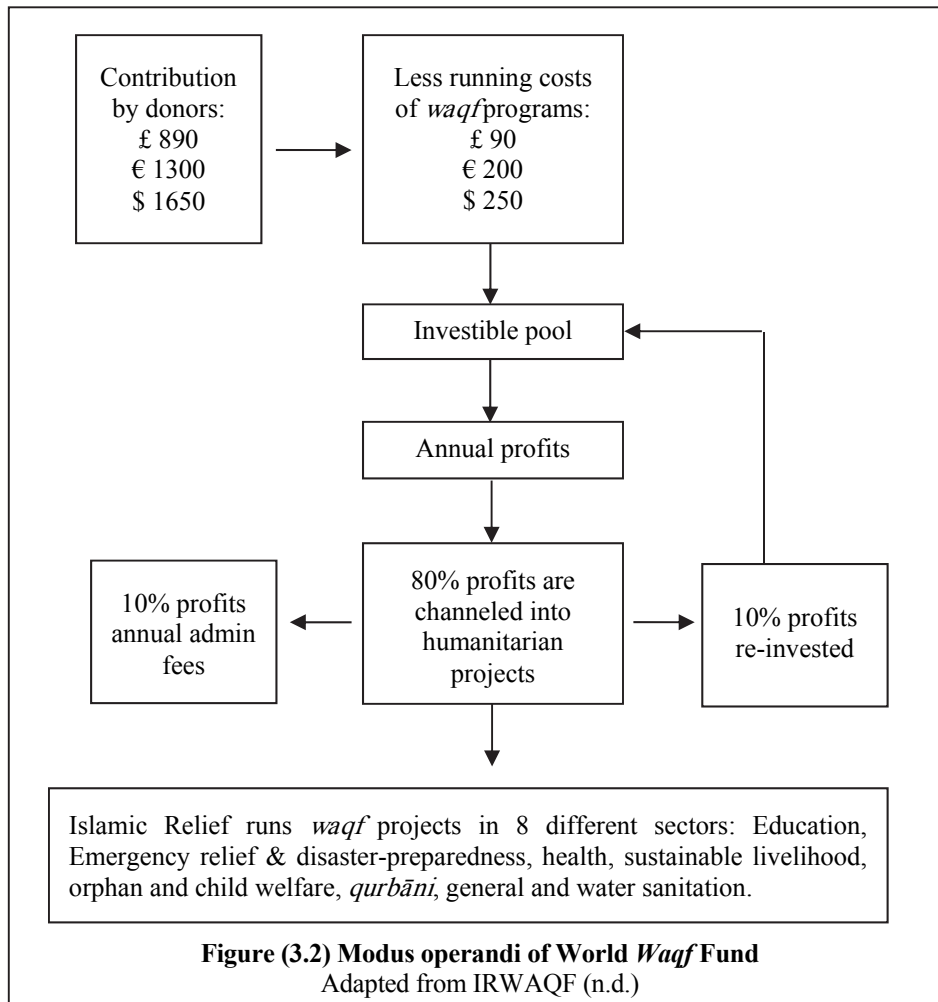
Nevertheless, the success of an SIB hinges on several factors. For example, a simple cost and benefit analysis should convince the rational investor that the expected payout would be greater than the risk-adjusted costs of running the program. Intermediaries cum independent evaluator conducts rigorous due diligence and assessment of program outcomes to determine its success (How do SIBs work?, n.d.).

### 4.3 World *Waqf* Fund

Islamic Relief Worldwide is a UK-based NGO set up in 1984. As an Islamic charity, it strives to “alleviate suffering, hunger, illiteracy and diseases worldwide

without regard to color, race or creed and to provide aid in a compassionate and dignified manner”. It believes that relief is an important step to getting the recipients involved in their own development and ultimately to secure a future that is independent of external help (Islamic Relief UK, n.d.).

To achieve this objective, Islamic Relief established the World *Waqf* Fund (WWF) that is based on the *waqf* shares model. The *wāqif* will first buy shares at €1,300 (£890/ \$1,650) per share and then gives it away to WWF (Islamic Relief UK, n.d.). After deducting costs of running *waqf* programs, up to 90% of the initial donation is invested in low risk Sharī‘ah-compliant instruments that yield 5% to 10% returns. The returns, less the admin fees and capital re-investment, are channeled into whichever of the *waqf* projects across eight different sectors that the *wāqif* had selected as beneficiary(ies) of his endowment (Abdel Mohsin, 2009). The modus operandi of the World *Waqf* Fund is shown in figure 3.2.



As part of good governance and transparent practices, Islamic Relief releases annual reports detailing the *waqf* fund performance, investments of principal and distribution of proceeds.

#### 4.4 Aavishkaar India Micro Venture Capital Fund

Aavishkaar is a micro-venture capital fund that invests in entrepreneurs who “combine sound business and financial aims with social objectives and a rural focus” (Sonne, 2012, p. 643). It seeks to empower the local entrepreneurs and enterprises with risk capital that they would otherwise not obtain from the mainstream system.

During the selection process, screening and measurement of social performance from the potential investees’ companies is critical; whether the resultant social impact could be maximized as the business

scales up. To receive investments, one or more of these criteria has to be met (Brett, 2013, p. 9):

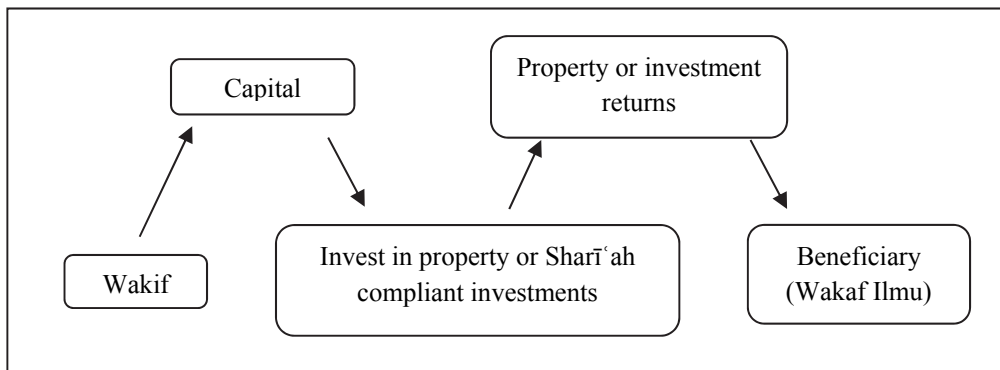
- a) The products or services must impact the locals living in rural, underserved India.
- b) The products or services must be of lower costs than what the target populace would otherwise incur.
- c) The usage of the company’s products would result in efficiencies that translate into increased incomes for the targeted populace.
- d) The company must create greater than before employment opportunities in the area it operates.
- e) The company must effect a transparent and more efficient distribution chain resulting in improved income for rural producers.

The above criteria are important for internal decision-making process by the Investment Committee, who also assess Aavishkaar’s risk exposure. Between 2002 and 2011, Aavishkaar invested USD\$6.5 million in 23 seed-stage companies using a combination of equity, convertible debt and a small amount of short-term debt.

Typical of venture capital funds, Aavishkaar also provides non-financial support which includes getting local MBA students to work on market strategies as well as develop internal structures and processes for the portfolio companies (Sonne, 2012, p. 646). Additionally, in-depth business advisory support is provided to these early-stage companies, in areas such as financial management, human resource policy development and marketing amongst others.

**4.5 Wakaf Ilmu**

Wakaf Ilmu that was launched in 2012 is the first formally introduced cash *waqf* in Singapore. “Ilmu” means knowledge in both Arabic and Malay and so the objective of Wakaf Ilmu is to meet funding needs of Islamic education in Singapore specifically for the full-time and part-time *madrasah* (MUIS, n.d.). These religious schools are highly dependent on community funds as at least 50% of their funding are sourced from *sadaqah* and *infāq*. However, this is neither a sustainable nor tenable source of funds especially in meeting their immediate needs. The endowment model via Wakaf Ilmu would initiate a more sustainable and stable income stream to the *madrasah* since only the returns from the invested principal is disbursed, while the principal is kept intact. The modus operandi of Wakaf Ilmu is shown in figure 4.2.



**Figure (4.2) Modus operandi of Wakaf Ilmu**

**5. The Proposed Model**

**5.1 Introduction**

Microfinance grabbed the world’s attention in the 1980s with the establishment of Grameen Bank by Nobel Peace Prize recipient, Muhammad Yunus. Amongst others, it grants the poor access to financial means that enables them to engage in productive activities thus potentially improving their household economic welfare<sup>(4)</sup>. Despite microfinance being widely accepted as a powerful tool for sustainable development, Obaidullah (2014) cautioned that when microfinance institutions become centered on making

profits from interest earnings, they tend to compromise on their social objectives. As seen in the case of Andhra Pradesh, unethical lending behavior leading to overburden of debt had cost lives and a worsening of the borrowers’ financial status. In view of this, Obaidullah (2014, p. 121) asserts that using a profit and loss sharing (PLS) model has the potential of better aligning the profitability of the project with the costs of capital. Furthermore, from an Islamic perspective, PLS rather than debt-based financing facilitates the achievement of Islamic socio-economic objectives such as social justice and economic growth (Dusuki and Abozaid, 2007, p. 145).

(4) Unfortunately, it is an interest-based organization.

In line with Islamic ideals, the proposed model will, therefore, utilize the PLS mode as the dominant, but not the only, means of financing the start up or growth of Malay micro-enterprises in Singapore. A stark resemblance of PLS or equity financing is venture capital (VC) that has an established universal practice. As such, the proposed model is closely structured after VC firms, but tuned to be socially oriented as it targets micro-enterprises. This is exemplified by the earlier described Aavishkaar Micro Venture Capital Firm which displays both social and economic orientation in its activities. While conventional VC firms typically raise capital from cash-rich institutional investors, the proposed model collects capital from *waqf* contribution. This enables participation by the wider community as well as an opportunity to expand the role of *waqf* in Singapore. As a cash *waqf*, it will be structurally similar to WWF as well as Wakaf Ilmu in terms of the capital preservation and investment. The remaining of this section will henceforth discuss the proposed model which is the *waqf*-based social micro venture fund (WSMVF).

## 5.2 Overview of WSMVF

The target investee micro-sized enterprises include owner-operated business, home-based business and social enterprises.

As a social micro-venture capital fund, it will exhibit more rigorous operations due to its non-arbitrary and strategic allocation of funds. Its mission is to facilitate enterprise building through community investments as a way of achieving sustainable economic development of the Malay community. WSMVF aims to support promising and meaningful micro and social enterprises by providing them with funding, training and management support.

It will have a strong social orientation since these enterprises, through its operations, must create employment and effect upward mobility of those at the bottom of the pyramid. Additionally, WSMVF targets those who are financially excluded in the mainstream banking system. By helping to start or grow these micro or social enterprises, it contributes to stronger economies of these group of people. Hence this model is built upon values of mutual assistance, partnership and brotherhood which is reflective of the spirit of *waqf*.

### 5.2.1 Collecting *waqf* contributions

The Fund is created by endowing cash of any sum, therefore allowing the larger populace regardless of social and economic status, to become a *wāqif*. There are various ways of contributing such as:

a) Monthly contribution: Setting up an interbank recurring fund transfer between donor account and the bank account belonging to the *waqf*. Any amount can be transferred, but preferably with a nominal sum, on regular basis.

b) One-off donation: Collection points or boxes can be set up in mosques and places of interest frequently visited by the community.

c) *Wasīyyah* or planned giving: An individual can bequeath only up to 1/3 of their assets as contribution. For example, from the sale of HDB flats after one's demise (MUIS, n.d.).

Although this *waqf* depends highly on the goodwill and charitable spirit of the community, a special outreach could be made towards successful Muslim businessmen in Singapore. This group of people could empathize, to a larger extent than other individuals, with the cause or objective of this *waqf* in helping promising enterprises overcome financial hurdles.

Since mobilizing funds from the community may take some time, a seed funding by *bayt al-māl* is needed to initiate WSMVF. Additionally, it has to actively campaign and raise awareness for its cause in order to accumulate *waqf* contributions from the community.

### 5.2.2 Investing *waqf* principal

To uphold its principle of perpetuity, the *waqf* principal has to be invested and only its returns disbursed for the stated beneficiaries. An investment policy will be set up to guide the effective management of the cash corpus. Amongst others, it will include the goals and objectives of investment, desired rate of return, risk tolerance and time horizon.

The principal should be invested only in Sharī'ah-approved sectors and Sharī'ah-compliant investment products. Other than investing in capital markets, there is also the unique opportunity of investing in the Muslim community, through *waqf* development

projects. Warees<sup>(5)</sup> introduced the Institutional Investments Initiative or 3I wherein entities such as mosques and other organizations can directly invest in the development of *waqf* properties which Warees is responsible for.

This can be illustrated by the recent Red House Project which is a development project for *waqf* Sheriffa Zain Alsharoff Bte Syed Mohamed Alsagoff. The 3I initiative was executed here to raise capital investments worth \$5 million that is projected to yield 3.5% annually (Warees, n.d.). So far, the investee list includes 5 mosques as well as Wakaf Ilmu. With two other *waqf* development projects in the pipeline, this presents an extremely viable investment opportunity to grow the community assets given the relatively lower risk profile than investing in the capital markets.

### 5.2.3 Disbursement

Applicants may be individuals or enterprises. In the latter, the enterprise must have 5 or fewer employees and has little or no access to affordable Sharī'ah-compliant financing.

A due diligence process is performed for the Fund to review potential investees on aspects such as marketing, financial, operational and social impact. Key parameters for evaluation include social benefits, commercial viability, size of investment capital sought, business size, entrepreneur's competence and management abilities. The social benefits or impact can be upon the investee himself; for example, income generation for single parents in order to wean off financial aid or social enterprises that hire marginalized segments of the community.

As an equity investor, due diligence would also require a forward thinking assessment to anticipate a realistic exit strategy. However, an exit would only be feasible after the business has reached stable and sustainable financial and social impact. To this end, a well-thought out business plan is an important part of this due diligence.

Upon the Fund's exit from the beneficiaries' business, it should pave the way for two options; firstly that it has gained considerable success and scalability to attract larger investors who would continue capitalizing the business. Alternatively, the business can now qualify to apply for the Islamic business financing facility offered by a foreign bank for SMEs in Singapore. The modus operandi of the WSMVF is shown in figure 5.1.

### 5.2.4 Other activities

As a model that is built on the spirit of mutual assistance, partnership and brotherhood, it is manifested by the setting up of a network of community mentorship programs for the entrepreneurs. It can take place in several ways:

- a) Successful businesses step forward as mentors to beneficiaries of the Fund.
- b) The beneficiaries who have succeeded, return to mentor other beneficiaries.

It creates a platform for businesses, both young and old, to interact and share valuable knowledge and experiences in surviving the world of business. This community network can also facilitate business tie-ups for example, forging a supplier-distributor relationship to help increase distribution channels for investees' products.

When individuals with similar business interests gather, there is an opportunity to achieve economies of scale. For example, the Waqaf Dana Niaga program run by Waqaf An-Nur Corporation Berhad (WANCorp) is expanding its concept through Projek Komuniti. It aims to house a group of entrepreneurs under one roof, whereby they will be given assistance to purchase equipment, premise and equipping them with skills. It will be headed by a management team taking charge of marketing, administration and finances (WANCorp, 2012).

In Singapore, the Fund can help overcome rising costs of raw materials or goods by purchasing them at wholesale prices and quantity and then on-selling them to businesses. These businesses will combine their orders and request the Fund to purchase on their behalf. In effect, it is a purchase order *murābahah* transaction involving buyers, more than one, who have mutually agreed, in this arrangement, to reap economies of scale and enjoy costs savings (see figure 5.2).

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(5) Warees Investments Pte Ltd is a wholly owned subsidiary of Majlis Ugama Islam Singapura (MUIS), or the Islamic Religious Council of Singapore. One of its core capabilities is managing endowment portfolios and institutional assets worth over half a billion Singapore dollars for community interests.

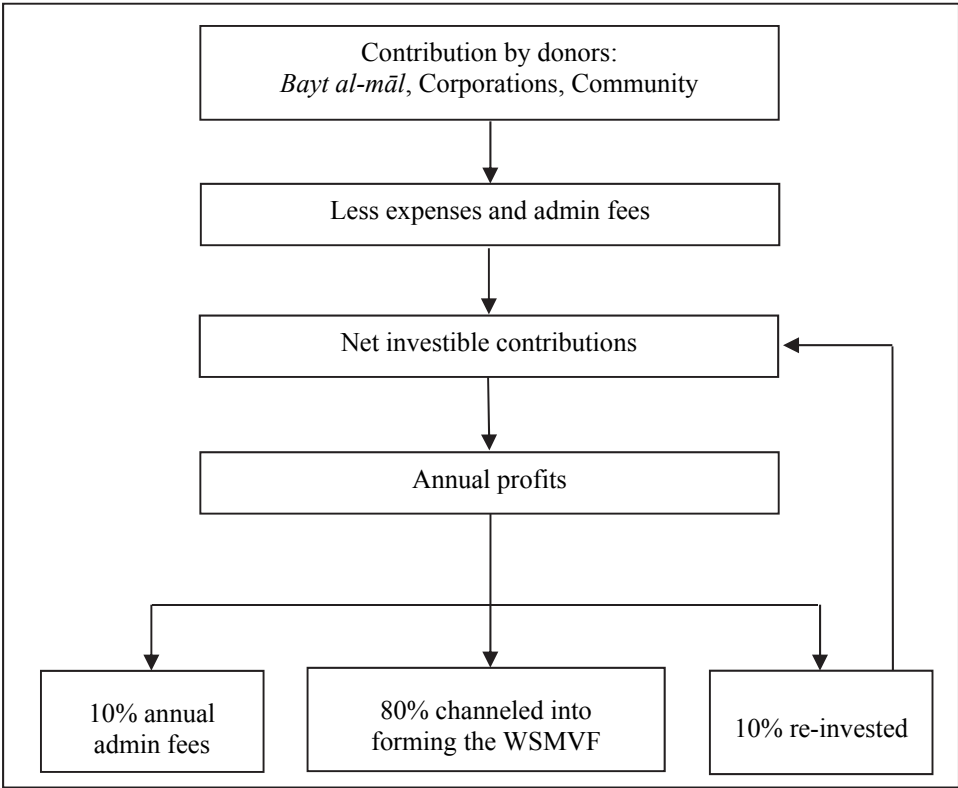


Figure (5.1) Modus operandi of WSMVF

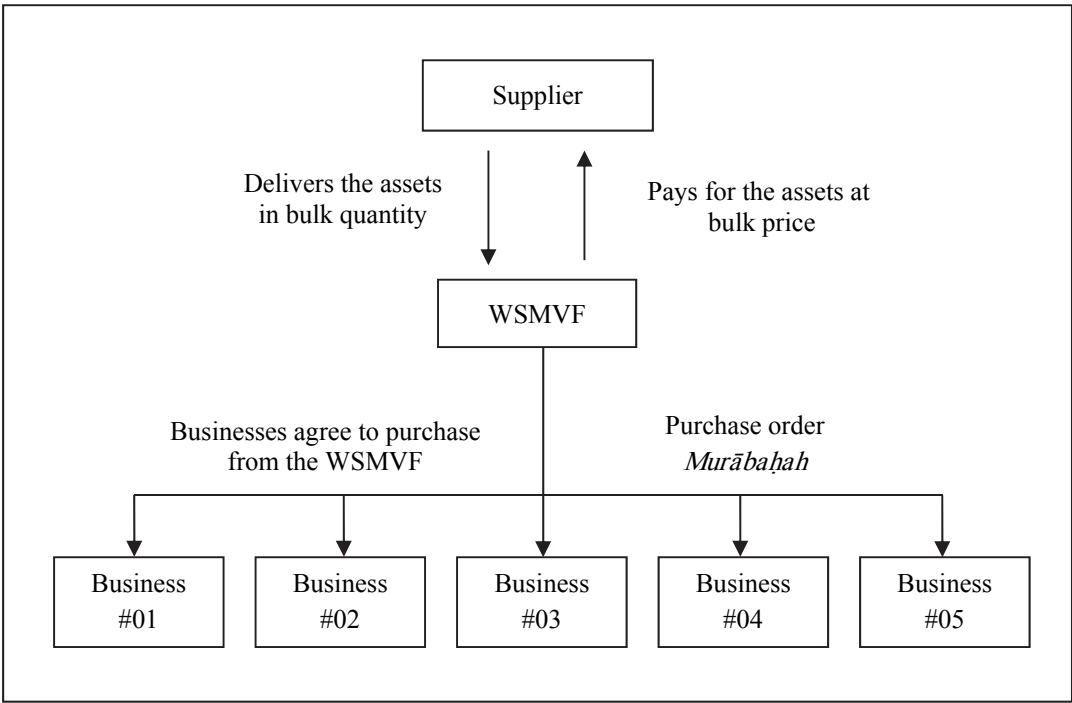


Figure (5.2) Example of Purchase order murābahah

### 5.3 Institutional Structure

Pursuant to Section 59 of the Administration of Muslim Law Act (AMLA), all *waqf 'āmm* and *waqf khāṣṣ* in Singapore must be vested in MUIS<sup>(6)</sup>. MUIS is both the regulator and trustee of the *waqf* which it manages but its commercial function is delegated to Warees (Abdul Karim, Shamsiah, 2010). In other words, where the *waqf* has no private trustees, MUIS appoints Warees as *mutawallī* to manage and develop the real estate.

Similar to Wakaf Ilmu, WSMVF will be administered and managed by MUIS. Although the option to appoint a corporate trust company is available, a centralized management of *waqf* in Singapore has proven to be a workable formula. Furthermore, it will reduce the operational cost pressure as WSMVF can leverage on existing infrastructure, resources and system.

The institutional structure of the subsidiary together with its components is briefly described below. Also as a subsidiary, its governance and other functions like finance, fund management and internal audit are at the Warees Group level.

#### 5.3.1 Investment Committee

The Investment Committee is a universal feature of VC firms whose general purpose includes consideration of deals on behalf of the Fund and overseeing the Fund's entire portfolio. It ensures that investments in portfolio companies are in line with the mission, vision and objective of the Fund. It also checks that risks undertaken are within acceptable limits to avoid possible erosion of the *waqf* principle.

The Committee should comprise experienced individuals who preferably possess both technical skills (e.g. operational, financial, consulting) and soft skills (e.g. business intuition). The committee size can range between 3 to 7 people.

#### 5.3.2 Executive team

##### *Research and planning department*

Amongst others, this department undertakes research to keep abreast of business trends and opportunities as well as defining development strategies for the Muslim business community. It would also study opportunities for collaboration with other MMOs and governmental agencies.

##### *Public relations and marketing department*

Other than planning and executing all marketing and educational campaigns, it will also manage communications with the public, specifically through annual reports, impact statements and periodic newsletters, etc.

##### *Business consultancy department*

The business consultants provide advisory to the portfolio companies as part of the non-financial support package. Generally, these consultants should have a background in business administration, project management and other related experience in order for them to:

- a) conduct market research,
- b) identify profitable business opportunities,
- c) advise on restructuring and response to changes in the business environment,
- d) provide consultancy service on financial management, manpower planning, recruitment and training etc. (Suhaimi et al, 1985).

##### *Risk and control department*

Managing risk is an important aspect to ensure the economic viability of WSMVF. This department will instate risk controls and ensure compliance throughout the operations of the Fund.

Figure 5.3 shows the diagrammatic representation of the corporate structure of the proposed WSMVF.

(6) *Waqf 'āmm* is *waqf* property meant for religious and charitable purposes recognized by the Muslim law while *waqf khāṣṣ* is *waqf* property endowed specifically for certain persons or purposes as stipulated in the *waqf* deed.



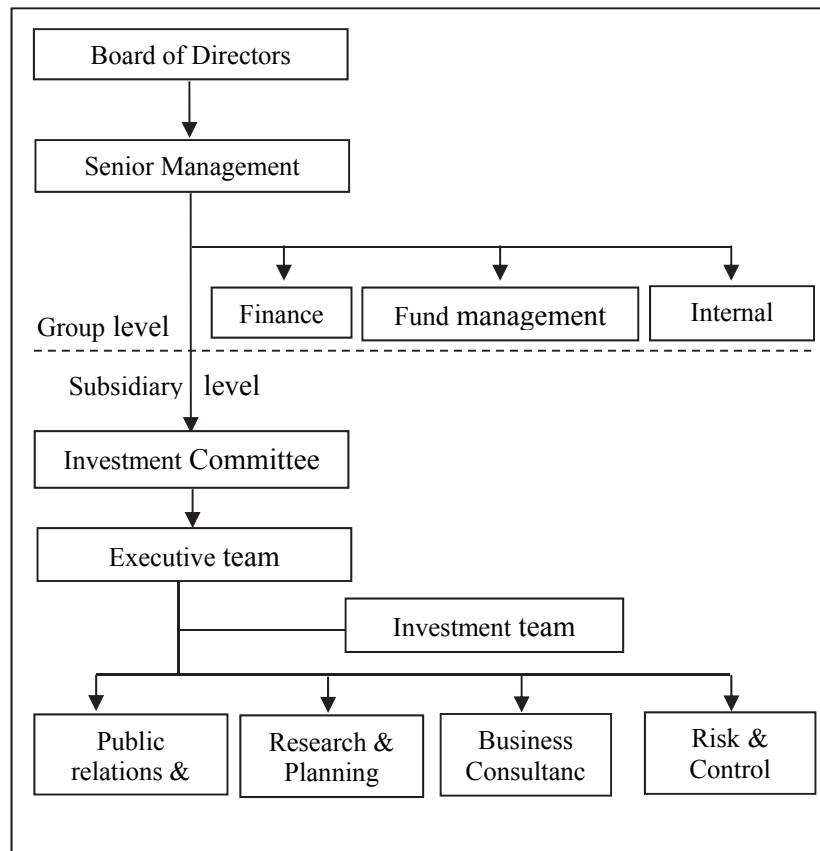


Figure (5.3) Proposed Corporate Structure of WSMVF

### 5.4 Operating the WSMVF

The disbursement of *waqf* returns will adopt the venture capital strategies in terms of how VC typically operates when sourcing for deals (or investees), screening, due diligence, deal structuring and post investment activities and exit (Jain, 2010, p. 55-56).

#### Stage 1: Deal origination

The deals originate in various ways such as the following:

- a) referrals from other organizations to reduce adverse selection. For example, AMP Micro Business Program may refer some of its graduates if they wish to obtain financing to start or grow their business.
- b) non-referrals, or the general public who applies directly to WSMVF

#### Stage 2: Screening

This round is focused on being acquainted with the applicant whereby the evaluation is based on motivation, social and economic background, level of competency and management abilities. It is to identify whether he has the drive, resilience, and enterprising spirit, amongst others, to withstand the rigors of self-employment.

In addition to the above, recipients must also be willing to undertake related business training and participate in the mentoring program.

At this juncture, the Head of the Investment Team makes the final decision on the applicants who will proceed to the next stage.

#### Stage 3: Evaluation or due diligence on the business

Once the applicant’s suitability as an entrepreneur is found satisfactory, the due diligence process then shifts to the business activity whereby evaluation is

based on social impact, commercial viability, market sustain-ability, size of capital or funding sought, business risk, growth potential and exit strategy. The applicant is required to submit a business plan and if the business is already running, then a site visit would also be necessary. The business proposal has to detail, amongst others, marketing strategies and projected cash flow.

From the due diligence process, the Investment Team will try to obtain details on fund requirements, usage of funds, monthly milestones and so on (Jain, 2010, p. 55-56). From this, the Investment Team will prescribe the suite of financial and non-financial support which the Fund will render for this potential investment. It will be tailored based on the business needs, risk assessment of the enterprise as well as the present stage of the business life cycle (see table 5.1).

In sum, these will be documented in a term sheet. According to Neal (2010, p. 1), a term sheet is the “roadmap to definitive agreements that will control

the investment an entrepreneur’s company receives from a venture capitalist”. It will also mention the Fund’s key terms and conditions of investment (Jain, 2010, p. 55-56). For example, capital injections are contingent on the enterprise’s achievement of agreed milestones.

The due diligence review, as well as the proposed investment term sheet, will be properly documented and tabled to the Investment Committee for feedback and approval. The Committee can raise questions and request for revisions of the proposed term sheet. Otherwise, the Committee could also out rightly reject the investment proposal. The final decision is made by way of a majority vote by the Investment Committee.

Upon receiving approval from the Investment Committee, the investment term sheet can still be negotiated with the applicant and when it is satisfactory to all parties, both the Fund and the enterprise will sign the agreement.

**Table (5.1) Risk Analysis for Capital Investment**

<b>7 stages of the business life cycle</b>	<b>Annual income</b>	<b>Risk profile of enterprise</b>	<b>Islamic financing technique</b>
Seed: When the business is just a thought or an idea.	\$0 to \$30,000 <sup>(7)</sup>	High	<i>Qard hasan</i>
Start-up: The business is in existence and has its first customers. Products or services are in production.		Medium high to medium	<i>Ijarah</i>
Growth: Revenue and customers are increasing, with new opportunities. Stable profits, but competition is surfacing		Medium-high to medium-low	<i>Musharakah</i> <i>Mudharabah</i>
Established: Matured business with a place in the market and loyal customers. Focus on improvement and productivity.		Medium-low to low	<i>Musharakah</i> <i>Mudharabah</i>
Expansion: New period of growth into new markets and distribution channels	Businesses at this end of the life cycle are deemed not financially excluded from the banking sector hence does not qualify to receive funding from the WSMVF.		
Mature: After years of stable profits and sale, fierce competition is causing sales to decline			
Exit: Is established enough to be valuably sold or at the phase of shutting down.			

(7) POSB's interest-based Micro Credit Business Scheme is the proxy. Furthermore, anyone earning above \$30,000 is eligible for a conventional bank loan.

## Stage 4: Deal structuring

### *Financial support*

The basic modes of financing to be offered are *muḍārabah*, *mushārah*, *ijārah*, *istiṣnā'* and *qard ḥasan*. Each round of funding is limited to \$20,000 although applicants can re-apply if they have reached the limit. The usage of funds should predominantly be for capital expenditure such as acquiring or upgrading physical assets and not for loan repayment, for example. This reduces the probability of funds being siphoned into non-productive or non-business related uses.

The employment of whichever technique depends on where in the business cycle the enterprise is in, the risk assessment as well as the business needs.

For entrepreneurs who are at the very early stage of enterprise building, debt-based modes are, as the researcher opines, unavoidable. Offering a soft loan in which WSMVF purchases a sewing machine on behalf of a needy individual is a stepping stone to becoming productive. VC relationships are long term and so with good performance, they stand a higher chance at obtaining more funding from WSMVF. On the other hand, PLS modes are more appropriately used for enterprises with stable cash flow, in other words, those in the later stages of the business cycle. Examples of possible PLS modes are described below:

*Mushārah mutanāqīṣah*: This contract is based on a diminishing partnership whereby both client and financier contribute capital to jointly own and acquire an asset. The financier then leases, on the basis of *ijārah*, its share of the property to the client. The client also agrees to gradually buy the shares of the financier to effect transfer of asset ownership. This will be calculated as part of the monthly payments or proceeds from client to financier. The agreement comes to an end when all of the asset has been acquired by the client.

*Muḍārabah muqayyadah*: This is a binding or restricted investment where the provision of capital is bound by terms and conditions, for example, stipulating a particular business activity or place in which the *muḍārib* may use the capital for. The *muḍārib* is bound by the restrictions and, if violated, would make the *muḍārib* liable for the resulting loss. The capital provider can also supervise the *muḍārib* to ensure all limits are being adhered to.

### *Non-financial support*

As part of the funding agreement, the entrepreneurs need to undertake training programs that are relevant to their business. Where possible, WSMVF will tie-up with other organizations, as part of creating a lean organizational structure. These partners would identify and match the recipients to appropriate business literacy training, financial management and support.

### Stage 5: Post investment activities and exit

Post-investment, the team monitors, mentors and evaluates the progress of the portfolio companies. In the traditional VC model, the venture capitalist generally assumes the role of a collaborator and partner (Jain, 2010, p. 56). Here the consultants also keep track of milestones and completion of training programs upon which disbursement of funds are conditional.

VC investment begins with an end in mind wherein the Fund exits from the partnership when the enterprises have reached financial stability and commercialization. This is also identified as “graduation” which is a term closely used with microfinance. It occurs when the enterprise no longer needs microfinance as they can now access better sources of credit elsewhere and/or no longer needs credit (Holden, 2009).

A mutually agreed upon exit strategy would outline, amongst others:

- a) Period of investment,
- b) Liability of investor or the Fund,
- c) Conditions and arrangement for early dissolution of investment,
- d) Rights of investor and the enterprise upon early dissolution (Bank Negara Malaysia, n.d.).

## 5.5 Risk Management

WSMVF would instate safeguards or risk mitigation measures against information asymmetry, typical of PLS concepts:

- a) Opening up an account with an Islamic bank which the Fund also has access to in order to monitor the financial health of the business, specifically the cash flow and accounting of profits and losses.

b) Scheduled reviews on the progress of the business venture to ascertain its prevailing financial health and identify early warning signs of potential risks.

c) Plan and agree on achievable and measurable milestones throughout the investment tenure, upon which fresh injections of capital are contingent on. The milestones include not just financial performance, such as profits, but also its progress in continual learning and skills upgrading.

d) For defaults or non-performing loans, the investee's assets, namely the house, would be held as collateral in which the payables owed to the Fund will be paid upon death, through the *waṣīyyah*.

## 6. Conclusion

### 6.1 Concluding remarks

As early as the 1960s, the Malay grassroots leaders had been active in organizing programs or initiatives to tackle the lackadaisical socio-economic performance of the community. In light of this, the Malay-Muslim organizations were set up with the common goal of propelling the community's progress on the social, economic and educational front. Yet almost 50 years later, an equal socio-economic standing with other ethnic groups in Singapore still remains elusive. This became the impetus of the present paper, as it attempts to explore how *waqf*, as a potent developmental tool in Islam, can play a bigger role than it currently has in Singapore and boost the socio-economic development of the Malay-Muslim community.

By establishing it as a *waqf*, it leverages on the legal protection and perpetuity of *waqf* that can ensure the continuity of this cause. With a focus on micro-enterprise development, it can have a powerful and sustainable impact on the household economy by reducing the vulnerabilities and creating opportunities for those at the bottom of the pyramid. Via the social micro-venture fund setup, WSMVF aims to utilize equity mode of financing as the dominant, but not the only, means of establishing the relationship with the *waqf* beneficiaries. Furthermore, the adoption of venture capital strategies, albeit applying to micro-enterprises, would yield a favorable outcome for the micro-enterprises through the process of funding, training and management support.

Overall, the WSMVF presents itself as a tool of community investment that is socially responsible. It sets in motion the investment multiplier effect that could elevate the community to reach the level of economic strength that is on par with the other ethnic groups.

With respect to putting the model into place, here are some recommendations for the policy makers and other relevant organizations directly involved in WSMVF:

a) Appointing prominent and respected figures within the Malay-Muslim community to form the leadership or management team of WSMVF. This is to gain credibility and support from the community.

b) Changing the community mindset towards helping micro-enterprises can be facilitated by a top-down communication from the policy makers. It should relay the relevance of addressing financial exclusion, especially in offering accessible and affordable funding to low-incomers for enterprise building as a means of poverty alleviation.

c) To garner strong political will as this will make pushing for seed funding from *bayt al-māl* relatively easier. Otherwise, the Fund may have to seek other sources such as government grants and existing community funds, if applicable.

d) WSMVF could be adopted by an established financial institution or entity as part of their corporate social responsibility initiative.

e) Singapore's position as a philanthropic hub for the region means that it is witnessing a growing presence of social finance and impact investment activity. WSMVF could invite any of these industry experts to participate in the setting up of WSMVF and benefit from the knowledge transfer and industry insights.

### 6.2 Recommendations for future research

This research is an attempt to explore a new role for *waqf* in the context of the present socio-economic conditions of the Malay-Muslim community. While this research has proposed for a *waqf* that supports the economic development of micro-enterprises through funding, there are other avenues where *waqf* can be of service to the community. For example, *waqf* being directly involved in business creation to the effect that

the enterprise is entirely owned by the *waqf*. This could be a point for further research to discover possible legal structures of the *waqf* business, issues of intellectual property rights and related Shari'ah issues, if any. The model can also be expanded to include other Shari'ah-compliant services that could contribute to the overall development of micro-enterprises. One such service is micro-*takāful*. For this, future research can look into creating a seamlessly integrated model offering a full array of services.

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With respect to the general literature of *waqf* in Singapore, it is far and few in between and the researcher opines that it does not do justice to the legacy of *waqf* left behind by the early philanthropists. This could possibly explain why there is little appreciation of *waqf* within the community. Surely there is room to fill the gap in the existing work, from historical development of *waqf* from the 1800s to innovative *waqf* structures for application in Singapore.

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**Norliana Mohammad Hamber** is currently the Chief Operating Officer in Kapital Boost, an Islamic-focused crowdfunding platform for SME financing based in Singapore. Previously she worked in the Compliance department in several US and French banks for a combined 2.5 years. She holds a Masters in Islamic Banking and Finance from IIUM Institute of Islamic Banking and Finance and a Bachelor of Business Management from Singapore Management University.

E-mail: [norliana.hamber@gmail.com](mailto:norliana.hamber@gmail.com)

**Mohamed Aslam Haneef** is currently Professor at the Department of Economics, International Islamic University Malaysia. He received his PhD from the School of Development Studies, University of East Anglia, UK and also holds a Masters of Economics from the University of Malaya and Bachelors of Economics (Hons.) from the IIUM. He teaches economics and Islamic economics at both the undergraduate and graduate levels as well as in executive MBA and Post-Graduate Diploma programs. He has published books and articles and conducted research in various areas of Economics and Development Studies and is also involved in numerous public and private executive training programs, specializing in Islamic economics and contemporary development issues. Currently, he is Director of Centre for Islamic Economics, IIUM and a member of the editorial team for International Journal of Economics, Management and Accounting.

E-mail: [mdaslam@iium.edu.my](mailto:mdaslam@iium.edu.my)

## صندوق للتمويل الأصغر القائم على الوقف للمشاريع الاجتماعية: مقترح لمجتمع المسلم الماليزي في سنغافورة

نورليانة محمد هامبر

الرئيس التنفيذي للعمليات في شركة كابيتل بوست، سنغافورة

محمد أسلم حنيف

أستاذ، كلية الاقتصاد، الجامعة الإسلامية العالمية في ماليزيا

المستخلص. إن مؤسسة الوقف في سنغافورة تلعب دورا تنمويا محدودا في المجتمع، وخاصة فيما يتعلق بالمجتمع المالي الذي تدنى أدائه باستمرار مقارنة ببقية الجنسيات عندما ننظر إلى المؤشرات الاجتماعية والاقتصادية الرئيسية. وهو يحافظ على التوجه الديني إلى حد كبير، كما يتضح ذلك من إطلاق وقف علمو للتعليم الإسلامي في عام ٢٠١٢. وكوسيلة لتنشيط دور الوقف التنموي ليكون متزامنا مع الاحتياجات الحالية للمجتمع الملايو في سنغافورة، تقترح هذه الورقة إنشاء صندوق للتمويل الأصغر القائم على الوقف للمشاريع الاجتماعية لتعزيز التنمية المالية الشاملة لأصحاب المشاريع الصغيرة. وهذا من شأنه تعزيز الوضع الاقتصادي للمجتمع، وسط الجهود القائمة على الجهات التعليمية والاجتماعية والدينية. وسيقلل هذا الوقف من نقاط الضعف في الأسر ذات الدخل المنخفض، ويقوي قدراتهم على الكسب، ويعزز الحراك الاجتماعي الصاعد. وتدرس هذه الورقة بعض المؤسسات الخيرية التي تمارس أشكال مبتكرة ومتقدمة من الإعطاء والتي يمكن أن نستفيد منها في الصندوق المقترح. ونتج عن ذلك أن مفهوم الصندوق المقترح تم بنائه استنادا إلى تحليل المحتوى من عمليات الوقف النقدي، وصيغ تقاسم الأرباح والخسائر واستراتيجيات رأس المال الاستثماري. كذلك يقدم الهيكل التنظيمي والعملي للصندوق المقترح ميزات جديدة إلى المؤسسة الحالية للوقف في سنغافورة، وبالتالي توسع دورها في المجتمع.

الكلمات المفتاحية: وقف، الأهداف الاجتماعية والاقتصادية، التمويل الاجتماعي.