

Islam's Perspective Towards the Sustainable Development Goals: The Role of Islamic Finance Industry in Achieving Sustainable Development Goals

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Part 2

Glossary of Terms

Zakat	Obligatory alms, is one of the fundamental pillars of Islam and considered among one of the essentials forms of worship. It requires Muslims whose wealth exceeds a certain threshold (nisab) to distribute a percentage of their wealth and income among specified heads annually. The percentage of zakat varies from 2,5% paid on assets such as gold, silver, goods for trade, cash, etc. to 5% on agricultural products if the crops are irrigated or 10% if they use water from natural sources such as rain, rivers or springs (World Bank, 2015)
Nisab	The Nisab is the minimum amount of wealth a Muslim must possess, before they become eligible to pay Zakat. Two values are used to calculate the Nisab threshold – gold and Silver. The Nisab is the value of 87.48 grams of gold or 612.36 grams of silver. You can find the current values published or in jewelry stores (Islamic Relief).
Hawl	A Hawl [lunar year] is 354 days long. Some people may refer it to as an Islamic year (Islamic Relief).
Sadaqa	Sadaqa or giving alms means: "Giving something to somebody without seeking a substitute in return and with the intention to please Allah". Sadaqa usually refers to voluntary alms in particular. al-Khatib al-Shirbeeni says: 'Voluntary alms is what is meant when Sadaqa is mentioned out of a particular context'. Sadaqa can also be used to express the Waqf (endowment) as in the Hadith reported by al-Bukhari that the Prophet said, "If you like you can give the land as endowment and give its fruits in charity". So Umar gave it in charity as an endowment on the condition that would not be sold nor given to anybody as a present and not to be inherited" (Islamweb 2002).

Waqf (plural: Awqaf)	Waqf, in Arabic language, means to stop, contain, or preserve. In Islamic terms, waqf refers to religious endowment i.e. a voluntary and irrevocable dedication of one's wealth or a portion of it- in cash or kind (such as a house or a garden), and it its disbursement for Sharia' compliant and charitable projects. Difference between waqf and charity: waqf is a permanent donation. Once a waqf is created, it can never be donated as a gift, inherited or sold. Distribution of its returns is done in accordance with the endower's wishes. Charity on the other hand is a broader concept; it encompasses alms, grant, inheritance, loan, waqf, etc. (UAE General Authority of Islamic Affairs & Endowments)
Qard Hasan	Alternatively spelled: Qard Hassan and Qard Al Hassan. It is an Interest-free loan.
Sukuk	Islamic bonds
Riba	Interest charged on loans
Gharar	Gharar is variously defined in English as 'uncertainty' or 'deceptive uncertainty'. The Qur'an uses the word "al-gharūr" to mean "deceptive". (Islamic-Finance.com)
Bahrainization	A strategy of nationalizing the labor force in order to increase their contribution to the economy.

4. Case Studies

Case 2: Role of Waqf in Enhancing Muslim Small and Medium Enterprises (SMEs) in Singapore

SDG Served: SDG 1. No poverty

Overview

(Shabana Hasan) presents in her study the situation of SMEs and Awqaf in Singapore and studies the potential for awqaf to enhance the third-sector economy, also known as the social economy. This section is based on her research *“Role of Waqf in Enhancing Muslim Small and Medium Enterprises (SMEs) in Singapore”*.

Notably, the third sector economy plays a pivotal role in a country, as it embraces both the public segment and the government so as to gratify the members which have been uncared for by the private or public sectors.

In case of Singapore, it has a diverse population of 5 million people and comprises Chinese, Malays, Indians, Caucasians and Asians of various descents. In a recent study carried out by Kearney, according to the Globalization Index presented in that research, the city-state, which is also the world's fourth leading financial center, was

found to be the most globalized economy in the world. Singapore is also ranked as the fourth richest country in the world in terms of its GDP per capita. In addition, Singapore has a large and vibrant SME community, and the Association of Small and Medium Enterprises (ASME) was established in order to facilitate the growth of such SMEs. Unfortunately, however, it is noteworthy to state that the immense wealth of the city state is not shared amongst the Singaporean Malays, i.e. the indigenous population of the island.

The contribution of awqaf in Muslim societies of the past has been significant, as is evident from the size of such institutions. However, many non-Muslim countries do not have any law which specifically caters to the needs of awqaf and zakah institutions; in contrast, secular Singapore wishes to make waqf a tool for the country's economic strength, as is mentioned in the speech of Mr Lee Kuan Yew, Singapore's Mentor Minister, at the International Waqf Conference 2007 held in Singapore.

Administration of Muslim Law Act (AMLA) divides waqf into two categories, namely the general waqf and the specific waqf. General waqf means that proceeds from property will be allocated for religious or charitable purposes recognized by Sharia'. On the other hand, with a specific waqf, proceeds from the property would be paid to persons or for purposes specified in the waqf.

For a small country with a minority Muslim population, Singapore has a surprisingly large number of waqf properties which are largely administered by Majlis Ugama Islam Singapura / Islamic Religious Council of Singapore (MUIS). One of the main roles of MUIS in waqf development is to channel the proceeds towards community development and to ensure that the waqf is a model formula for charitable spending. Presently, there are three types of waqf administered in Singapore: the family waqf, the charitable waqf, and a combination of the family and charitable waqf. MUIS seeks to reduce the disparity gap between the rich and the poor through proceeds from the second and third types of waqf. This form of waqf falls under the category of awqaf institutions which are considered to be philanthropic (Ahmed, 2004:72). Moreover, in the macroeconomic framework, the possibilities of using this type of waqf will be broader than zakah as, unlike the latter, the beneficiaries of waqf funds are not limited to specific categories of people (Ahmed, 2004:63).

Therefore, in order to determine which awqaf institutions can be used for the mitigation of poverty in Singapore, it will first be necessary to identify and distinguish between the religious and philanthropic awqaf institutions. Examples of religious awqaf institutions are those institutions in which assets are used in relation to mosques, madrasahs (religious schools) and Muslim cemeteries, and examples of philanthropic awqaf institutions are those institutions where the assets or properties

are used or otherwise given away for the use of a defined group of beneficiaries, such as family members or the general community (Ahmed, 2004:72). This is further illustrated table 3.

Table 3: Religious vs. philanthropic awqaaf

Beneficiaries Type	Religious	Philanthropic
Family	A	B
General Public	C	D

(Source: Ahmed, 2004:73)

For the purposes of poverty alleviation and providing opportunities to lower-end SMEs, the only type of waqf relevant is D; this is further affirmed by Ahmed (2004:73) who asserts that this type of waqf income is the only one which will benefit the poor directly and/or indirectly. As of 2008, the proceeds achieved from the different types of awqaf institutions administered by MUIS are set out in Table 3 below.

Table 4: Types of Awqaf Institutions Administered by MUIS

Types	%	Amount of Proceeds (S\$ million)
Mosques	65	195
Madrasah (Religious School)	11	33
Poor & Needy (Category D)	11	33
Charitable (Category D)	6	18
Others (Category D)	6	18
Total	100	300

Source: MUIS- Zakat and Waqf Strategy Units

As can be seen from Table 4, the percentage of awqaf institutions which have income-generating potential (category D) in Singapore can be deemed as low to moderate (i.e. 6% to 33%), although the proceeds involved are quite significant (between S\$18 million to S\$69 million).

Opportunities

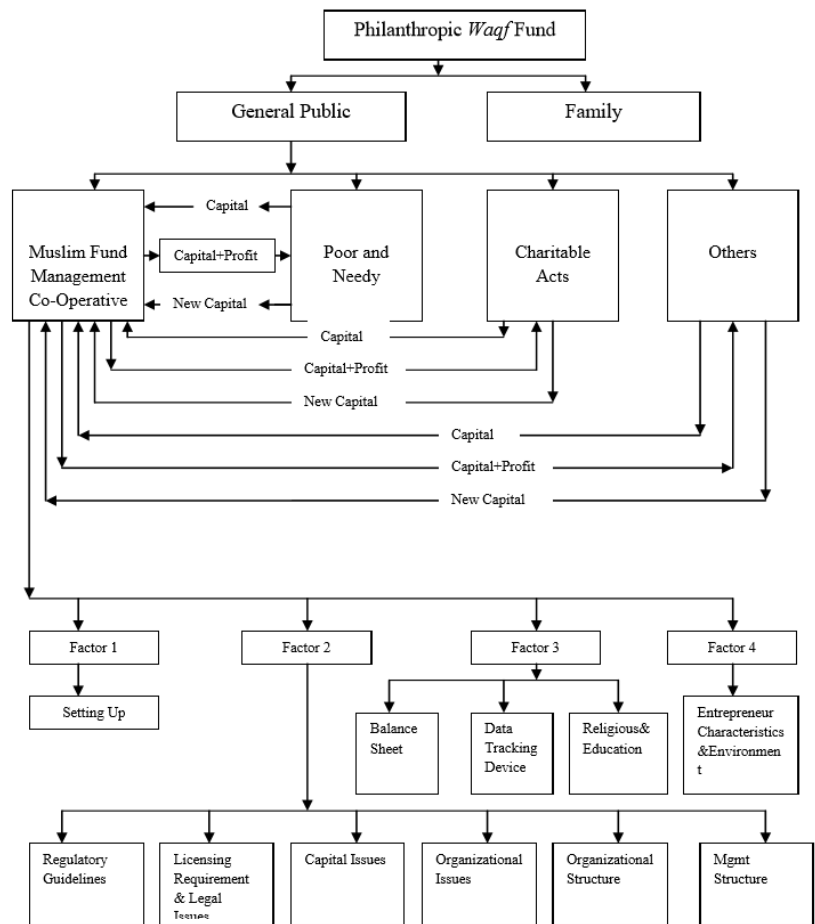
Taking into account the above considerations, this research proposes a model through which the necessary infrastructure—both social and physical—is founded on Islamic

principles and no collateral is required. The model is established under the auspices of MUIS, as this research seeks to build upon the trust already established by MUIS with the target community, its unblemished history, as well as past successes, including the establishment of the Waqf Sukuk. Under the Waqf Sukuk, liquidity is generated in a risk-free manner with the use of risk-free bonds (sukuk). The funds obtained are subsequently used in order to renovate old and under-developed real estate properties into highly valued and market-rated properties. Based upon this success, it is argued that MUIS will have the moral authority to take leadership in the implementation of this model.

Through the establishment of the proposed co-operative, opportunities would be created for the lower-end Malay-Muslim SME entrepreneurs who can never otherwise be reached by banks or financial institutions in Singapore. This allows the transformation of the poorest sections of the community, from passive citizens to potentially dynamic entrepreneurs. Furthermore, the proposed co-operative offers the hope of establishing a socially responsible institution which fulfils a collective religious obligation.

Challenges

A possible future weakness, ■ Exhibit 4: Proposed waqf-based model that the proposed co-operative may encounter is in the effective utilization of the various different types of Islamic finance concepts. As opposed to using all the different permissible financing concepts, which may consequently lead to inefficiency, high costs and unnecessary complexity and confusion, the co-operative should instead select only the most appropriate instruments, which will subsequently help to raise employment levels in the target community. However, the most suitable way of determining this would be to experiment with all



the different Islamic finance concepts and to thereby establish through experimentation which would produce the most positive outcomes for members.

* Moreover, being a newly established co-operative with no efficient or professional supporting environment, there is the possibility of excessive spending or unnecessary waste in areas such as marketing and distribution, improper administration, or by following inadequate infrastructural and institutional arrangements. It has been estimated that more than 80% of small-scale businesses fail owing to management inefficiency (Mohsin, 1995:22).

* A further weakness of a waqf-based co-operative is that it is not able to receive the incentives offered by government agencies, as they impose certain terms and conditions which are in contradiction with Islamic principles and beliefs. Thus, this limits the potential funds which can be received for the purpose of aiding the operation of Islamic finance instruments.

* Regulatory issues: The main body which regulates banking activities in Singapore is the Monetary Authority of Singapore (MAS). However, as opposed to establishing a separate framework to deal with Islamic finance activities, MAS has sought to accommodate this fast-growing industry within its existing regulatory and supervisory framework. Accordingly, MAS also issued a series of guidelines on the application of banking regulations to Islamic banking and also introduced new regulations that should ultimately result in a landscape which is much more conducive for the growth of Islamic finance. In light of these changes, many conventional banks begun operating their own Islamic windows. Nonetheless, in spite of these changes, it is submitted that, for the benefit of lower-end SMEs, it is still imperative for a co-operative to be established. For a start, the majority of such changes relate only to the wholesale market, which is Singapore's main area of focus—not the retail market. Furthermore, the only bank in Singapore providing SME Islamic financing is Maybank Singapore, and the product offered is not intended to cater to lower-end SMEs.

* Licensing requirement and legal issues: the model proposed in this research is a non-financial institution, but is merely a society established to promote the economic interests of segment who cannot otherwise be reached by the existing banks or financial institutions in Singapore. It is arguable that the best form of society is therefore the establishment of a co-operative society. The latest amendment to the Cooperative Societies Act (Chapter 62) occurred in October, 2008. Moreover, according to that document, no society shall be registered under the Act unless it comprises at least ten persons, all of whom qualify for membership under Section 39. The Act also states that the Registrar may refuse to register a society where the primary objective is to provide a financial service.

Nevertheless, it is necessary to note that the main aim of the proposed model is not to provide financial service, but rather to enhance the socio-economic conditions. The Act further states that the Registrar may ultimately refuse to register a society with insufficient start-up capital and operational maintenance. Similarly, the Registrar may also not register a society which does not have capable officers with the integrity to direct and manage the affairs of the society; this can have a clear impact on the proposed model in terms of the issues of skilled staffing. To register any type of business entity in Singapore, such an entity must be registered with the Accounting and Corporate Regulatory Authority (ACRA). However, in order to register a cooperative society, a referral authority is needed. In the case of Muslim Fund Management Cooperative Ltd., the referral authorities would be MUIS and MAS, as the proposed name contains both the phrases 'Muslim' and 'Fund Management'. However, ACRA further states that, if the proposed name contains the word 'Fund Management', it does not need to be referred to MAS unless it intends to engage in any of the activities which normally require licensing, registering, or approval by MAS. Therefore, owing to this, the Muslim Fund Management Co-operative Ltd. needs only to be referred to MUIS; this should not present a problem as the co-operative society is a wholly-owned subsidiary of MUIS.

5. Challenges faced by Islamic Finance Industry in relationship to SDGs

"Islamic finance could play a role -a modest one at least- in meeting some of the SDGs, particularly those that are in line with the core principles of Islamic finance," said Mr. Mohamed Damak, Standard & Poor's Global Head of Islamic Finance. Some Sukuk issues by global multilateral lending institutions over the past few years illustrate this point, although their overall amount remains small compared with multilateral lending institutions' (MLIs) conventional debt issuance.

"Still, Islamic finance will likely remain a moderate contributor due to the industry's small size and the issues it has yet to resolve to unlock its global potential," added Mr. Damak.

Besides the relatively small size of industry, it also lacks official framework, especially when operating in a non-Muslim country. However, this is not only evident in non-Muslim countries, as there are some Muslim countries that does not have clear fund management policies for Zakat and Awqaf.

Lastly, the industry still lacks marketability and awareness, which limit its growth in size and therefore contribution.

The Way Foreword

Despite all challenges faced by the Islamic finance industry, it has the potential to significantly contribute to the SDGs because most of these goals are directly relevant to many concepts in the Islamic religion. Also as discussed in this paper, the Islamic finance already possess powerful tools to fulfil these goals.

It is worth noting in this context that during times in the history of Islam, Zakat and Awqaf effective management led to eliminating poverty in the society.

World Bank (2015) and United Nations (2006) suggest that utilizing Islamic banking potential for inclusive finance can play critical role in poverty reduction.

World Bank (2015) also suggested that moving forward, the impact of Islamic finance on SDGs can be enhanced if the broader goals of Sharia' are integrated into its operations.

However, overcoming the aforementioned challenges requires serious efforts form different stakeholders in the industry, including policy makers, regulators and practitioners, etc.

The following points are some recommendations to enhance the effectiveness of Islamic finance industry contribution to the goals, its marketability and credibility:

- * A crucial step is enhancing the level of transparency and data collection. This will enable further studies to be conducted
- * Ideally, data well be sufficient to enable conducting impact assessment studies to measure the impact and effectiveness of awqaf and zakat, track Islamic finance industry contribution to the SDGs, gap analysis, etc.
- * Islamic banks can collaborate with Islamic relief institutions that have the capacity to conduct needs assessment.
- * More transparency is also required from Islamic banks in terms of reporting zakat expenditure by area/ sector served (e.g. healthcare, education, etc.), in addition to publishing cases and success stories.
- * Arranging for conferences that shares these cases and stories, mechanism and framework of achieving them, etc. should be very helpful in knowledge sharing, potential collaboration, raising awareness about Islamic finance concepts and increase its marketability.
- * Create new structures or enhance existing models and frameworks that combine zakat, awqaf, sukuk, microfinance and project finance to enhance their effectiveness and achieve sustainability of these tools.

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