Role of *Waqf* in Enhancing Muslim Small and Medium Enterprises (SMEs) in Singapore

Shabana Hasan[1]

The research aims to develop a waqf-based model for application to Muslim small medium enterprises (SMEs) in Singapore, which benefits the general society and the Muslim community in particular. At the outset, the research will show how the present Islamic Financial Institutions in Singapore are deficient in their social attributes. The research will then elaborate on how the proposed waqf-based model is able to plug this social gap. The research will also consider the project management of conventional SMEs in Singapore and point out the obstacles and factors that cause the Muslims to shy away from these projects. This research will also highlight the previous two Muslim co-operatives in Singapore namely Amanah Saham Mendaki (Mendaki Growth Fund) and Ufuk Mendaki which had failed and the lessons to be learnt in applying the waqf-based model. In particular, considerations like transparency, reputation, accountability, credibility, good collaboration, productivity, risk management and Shari'ah-compliant will be crucial for the sustained success of the proposed waqf-based model. It is therefore important in view of the research that the waqf-based model is established under the auspices of MUIS (Islamic Religious Council of Singapore), which is one of the most reputable and respected Muslim organizations in Singapore.

Chapter One: Introduction

(1.1) Overview and Research Background

The development of Islamic finance (banking) in Singapore, though recent, has witnessed spectacular developments. With the enactment of the Banking Act in 2005, which allows for the operation of special branches based on the *Shari'ah* law—namely Islamic windows or Islamic banking units—many conventional banks in Singapore have jumped onto the Islamic finance bandwagon. These include global banks, such as SCB, HSBC and Citibank, all of which have implemented a dual banking system within their operations. In 2007, the first full Islamic bank was opened in Singapore—IBA—which is a joint venture between DBS and 34 Middle Eastern investors. Soon thereafter, various Islamic financial institutions, including Arcapita and KFH, have since set up operations in Singapore.

It is widely accepted that the equitable distribution of income and maximising socio-economic benefits are the primary goals of Islam. Unfortunately, however, the institutionalisation of Islamic savings is a barrier which relatively small businesses in particular find difficult to surmount. Notably, Islamic financial institutions tend to focus on ostentatious projects where the process of empowering small businesses to become economically sufficient is not a part of the

[1] Associate Researcher, International Shar'iah Research Academy for Islamic Finance (ISRA).

equation. This is counter-productive, as economic development is hampered, given that resources do not flow naturally into areas of relative scarcity or growth. Accordingly, it is imperative that such key Islamic goals are imbued in an Islamic financial system. In particular, it is vital for Islamic savings to flow into areas of relative scarcity of growth, which will ultimately ensure that the resulting economic growth is distributed both widely and fairly. One of the main possible channels for Islamic savings is the small business sector, which it tackles humanitarian, social and developmental objectives. As identified by Zarqa (1997), there are diverse institutions and arrangements which Islam has fundamentally encouraged, which redistribute income and wealth for the accomplishment of the basic needs of all in society. One such key institution is *waqf*. With these in mind, it is suggested that the proposed *waqf*-based model reflects the objectives of Islam, namely the equitable distribution of income, eradication of poverty and socio-economic justice (Chapra & Ahmed, 2002).

This research will illustrate that a *waqf*-based model, which caters solely to SMEs, is needed by the Muslim community in Singapore for the following reasons:

1. Singapore has a large and vibrant society of some 148,000 SMEs. Altogether, they make up 99% of all enterprises, are employers of six out of every 10 workers in Singapore, and account for 46% of the total value added to the economy.[2]
2. Only one bank in Singapore, namely *Maybank* Singapore, offers Islamic finance facilities for SMEs. Nevertheless, none of the bank's products involve direct contact with 'micro' and small entrepreneurs.
3. A *waqf*-based model, which is based on 'looking after those who cannot be looked after by the market, who cannot play with economic forces or do not have admittance to economic means in order to enable them to exploit the economic opportunities around them' (Khan, 1997:12-13) can plug the prevailing gap.

It is, however, important to state that the proposed model comes under the auspices and management of MUIS, and not other Malay-Muslim organisations, owing to the high level of respect afforded to MUIS. Furthermore, the Muslim community may still bear mistrust of these other organisations as a result of the past failures of the two co-operatives, set-up by another Malay-Muslim organisation—*Yayasan Mendaki* Singapore. Both co-operatives failed due to various different reasons, such as poor internal control, mismanagement of funds and inadequate staff knowledge and inexperience in terms of operating Islamic finance instruments. On the other hand, as mentioned above, the community has a wealth of trust for MUIS, simply owing to its position as the main advisory body for all matters relating to Islam and Muslims in Singapore.

(1.2) Research Aim and Objectives

The aim of this research is to investigate the role of *waqf* in relation to the promotion of the lower-end small and medium entrepreneurs to climb the social ladder in accordance with the tenets of Islam. In order to achieve this aim, the following steps will be taken:

- Further elaborate the importance of SMEs in an economy and consider the prevailing situation of SMEs in Singapore, as well as how the present banking systems for SMEs in Singapore are socially deficient.
- Further illustrate how the proposed *waqf*-based model—which is founded upon the tenets of Islam—can achieve two principal objectives: (1) to reach out to Muslims who refuse to

[2] Joint statement by Spring Singapore, International Enterprise Singapore and Infocomm Development Authority of Singapore on the SME Development Survey 2009

partake in conventional finance, which is interest-based and which is in contravention of *Qur'anic* teachings; and (2) to provide the poorer segments of society, which have been largely ignored by the conventional financial institutions, with access to finance.

(1.3) Significance and Limitations of the Research

The significance of this research is that it shows how a *waqf*-based model, which is premised on the concept of solidarity and brotherhood, can successfully address the social gaps caused by Islamic financial institutions. Despite their resounding success in many parts of the world, the Islamic financial institutions are still reluctant to endorse a wide scale shift towards Islamic entrepreneurship on micro-finance or growth-enterprise. It should, however, be noted that this research is limited in terms of covering all the pertinent issues, largely owing to time and word constraints. As a result, it focuses only on certain aspects of Islamic finance by providing a *waqf*-based model to finance SMEs.

Furthermore, this research also makes no serious effort to embark upon a quantitative analysis of various important related hypotheses. For instance, criticisms levelled against the past two Malay-Muslim co-operatives may be investigated in a more scientific manner by analysing the past financial data of both failed co-operatives and also with the undertaking of a cross-sectional comparison of costs associated with conducting various operations. It would also be helpful to procure additional information on the performance of *Maybank* Singapore—which was the first bank in Singapore to offer Islamic financing for SMEs—and to accordingly compare the data with the performance of conventional banks that received incentive packages from the government for SME financing.

Another limitation of this research is perhaps the sweeping nature of its assumption concerning the behaviours of the Malay-Muslim community in the area of abhorrence to *riba'*-based borrowing. A methodical survey needs to be urgently undertaken in order to shed more light on the demand-side of growth-enterprise services, in addition to the relative importance of *riba'*-based growth enterprises in relation to encouraging financial inclusion. There are also numerous problems which have been encountered during the course of writing this research, including the limited understanding of Arabic terms, which are widely used in the literature, and the available research data.

(1.4) Research Questions

The overall goal of this research is to explain how Islamic finance can help to enhance the Muslim SMEs in Singapore. With this in mind, the specific issues that the research hopes to address are the following:

- Given that contemporary Islamic finance is largely disengaged from the socio-economic objectives attributed to Islam, what are the various possible solutions in such circumstances?
- Can *waqf* institutions in Singapore play a significant role in the third-sector economy, also known as the social economy? 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.
- How is the proposed *waqf*-based model to be developed, and does it have the capacity to improve the social conditions experienced by lower-end Muslim small and medium entrepreneurs?

Noteworthy is that a Muslim SME is considered to be one which is managed by a predominantly Muslim Board of Directors.

(1.5) Research Methodology

This research adopts a qualitative design based largely on secondary sources. In this regard, the qualitative design approach is first conducted through an investigation of the existing literature. This research also considers the various banking regulations promulgated by MAS which have been amended so as to accommodate the development of Islamic finance. Besides this, it also touches on the concept of co-operatives in Singapore, which are governed by the Co-operative Societies Act, as well as the previous failures of a *Shari'ah*-based co-operatives controlled by *Yayasan Mendaki*. This research also studies the institution profile of MUIS. Importantly, secondary sources of information are considered through a study of al-*Qur'an*, al-*Sunnah*, Islamic economic books, research papers, journal articles, and the relevant banking legislation. This research also refers to the internet for information on contemporary issues related to the research theme.

(1.6) Structure of Research

The research is organised as described in this section.

The introductory chapter (Chapter One) sets out the framework of this research.

Chapter Two presents the literature review and progresses to explain the concept of SMEs. It also provides the cornerstones of Islamic financing by presenting an overview of the Islamic financial system, including Islamic finance techniques, such as *mudharabah, musharakah, murabahah, ijarah, istisna'* and *qardhul hasan.*

Chapter Three provides an overview of SME financing in Singapore, and accordingly discusses the role of ASME in Singapore, as well as the various government incentive packages provided for the conventional SME financing. This third chapter also considers the spectrum of Islamic financing facilities available for SMEs in Singapore, which is currently provided only by *Maybank* Singapore. In this section, the research will also comment on the economic background of the Malay-Muslims in Singapore, in addition to the various Malay-Muslim organisations, namely *MUIS* and *Yayasan Mendaki* Singapore, which have been established so as to cater to local needs. The chapter then touches on the previous failures of the two Muslim co-operatives in Singapore under the wings of *Yayasan Mendaki* Singapore. The chapter further outlines the properties of *waqf* in Singapore, and concludes by stating that the only bank in Singapore which provides SME Islamic financing is not able to cater to the lower-end SMEs, and therefore, the need to establish a *waqf*-based model which caters to the lower-end SMEs becomes more pressing.

Chapter Four provides a feasibility and SWOT analysis study before progressing into a more comprehensive discussion of the proposed model. This chapter considers the strengths, weaknesses, opportunities, and threats (SWOT) of the proposed model. The chapter then provides a comprehensive analysis of the operations of the proposed *waqf*-based model at the various relevant stages—i.e. the structuring, the operations and the impact of the model. It is noteworthy to point out that the crux of the research lies within this chapter.

Chapter Five, the final chapter, summarises the application of the *waqf*-based model in Singapore, along with its associated benefits.

Chapter Two:

Literature Review—Small and Medium Enterprises (SMEs) and Islamic Finance

(2.1) Small Medium Enterprises (SMEs)

In this section, the literature on SMEs is reviewed. In light of the recent financial meltdown (2008-2009), doubts have been raised concerning the sustainability of many countries' economies. A powerful tool for growth is therefore needed in order to ensure the sustained and stable growth of an economy. SMEs are considered to be a powerful engine for growth in both developed and developing countries (Durrani & Boocock, 2006:5), owing to the fact that a thriving SME sector includes various factors, such as the reinforcement of industrial links, opportunities for generating employment, the creation of export revenues, and the endorsement of flexibility and innovation (Mehta, 1996; Harvie & Lee, 2001; Lerner, 2002). Furthermore, one possible goal of an SME—and a crucial one—is the maximisation of social benefits as opposed to profit maximisation (Ahmad, 1993). This proposition receives support from Nixson & Cook (2005:334) who define the development of SMEs as the achievement of greater economic and socioeconomic goals, which includes poverty alleviation.

Ultimately, however, there is no universally accepted definition of an SME, with proposed definitions differing from one country to another, and also according to purpose. In America, for examples, SMEs are defined as firms that employ less than 500 people (Prananingtyas, 2001). 'The latest Department of Trade and Industry (UK) and EU definitions classify an SME as having fewer than 250 employees, with sub-categories of "micro" firms (0-9 staff), "small" firms (10-49 staff) and medium-sized firms (50-249 staff) (Durrani & Boocock, 2006:6).

In Singapore, the most commonly accepted definition of SME is 'an entity with at least 30% local equity, and either fixed productive assets (defined as net book value of factory building, machinery and equipment) not exceeding SGD$15m for manufacturing companies or employment size not exceeding 200 employees for services'.[3] Scholars also adopt different definitions of SMEs. Coviello & Martin (1999), for example, define SMEs as providing financial services to both low-income and lower middle-class income households without access to formal institutions. This is further supported by Beck *et al*. (2005) who define SMEs as a type of financing to alleviate poverty and enhance growth for SMEs without access to official institutions. However, developed economies usually adopt a different definition for SMEs, i.e. enterprises which are at the upper-end of the SME size scale (Nixson & Cook, 2005:340). Being a developed city-state economy, this should not be reflected in the case study of Singapore; rather, the research proposes for Singapore to adopt the definition of SMEs which provide financial services to the lower income in the community.

This research will also not consider the term 'microfinance', which is of principal relevance to the extremely poor. This has no application in a developed country such as that of Singapore. The precise term used in this research is 'growth-enterprise', which is considered ideal for the lower-end SMEs, as it usually engages the average poor or the graduated poor who are seeking to progress on the social ladder (Obaidullah, 2008:29). Growth-enterprise will be further discussed in Chapter Four.

There is no palpable difference between the financing objectives of Islamic financing and conventional financing towards SMEs. However, the main points of departure are the concepts

[3] http://www.singapore-sme.com/aboutus.htm

of joint liability and avoiding interest and ambiguity, which are relevant only to Islamic (and not conventional) financing. Joint liability will ultimately lead to enhancements in terms of social, ethical and moral aspects, in wealth distribution, and will further act as a source of guidance in relation to social and economic justice. This results in different portfolio activities for Islamic financial institutions. Products which are deemed as *haram* (see discussion 2.2.3 below) are absolutely prohibited, as they violate express *Qur'anic* teachings.

(2. 2) Islamic Financial System—A Background

Islam is not only a religion but is also a comprehensive way of life; notably, business plays an integral part in an Islamic economic system (Yusoff, 2002:3). As one of the major components of the Islamic economic system, business contributes directly towards the improvement of living standards and endows worldly comforts to mankind (Yusoff, 2002:3). In actual fact, business is considered to be an act of piety towards God, and has to be fully conducted in accordance with the tenets of the religion. The entrenched position of business in Islam is further supported by the fact that, the Prophet Muhammad (pbuh) was a trader, and his wife *Sayyidatina* Khadijah Binti Khuwailid, was a very wealthy merchant—a tradeswoman of high honour and great wealth. Therefore, the Holy *Qur'an*, which sets out the way of life for a Muslim, was revealed to the Prophet Muhammad (pbuh) and, by association, a community which was actively involved in trade.

Shari'ah—otherwise known as the body of Islamic Law—demands complete honesty, sincerity, truthfulness and trustworthiness in business (Ahmad & Ahmad, 2006:60). The recent revival of the religion amongst Muslims has subsequently triggered a movement towards the implementation of Islamic principles in finance. This has, in turn, led to the emergence of a new discipline—Islamic finance. Islamic finance refers to a system in which financial transactions are undertaken in accordance with the principles of *Shari'ah* (Trade Information Services, 2009:49). This discipline is derived from the knowledge and application of the injunctions and norms of *Shari'ah* whereby injustice is not permitted in the acquisition, management and disposal of material sources (Ahmad & Ahmad, 2006:61). This subsequently leads to the purification of assets where, through this just approach, there is a balance between a Muslim's religious beliefs and the life he is leading in the modern technological world.

In order for a business transaction to be conducted in accordance with the teachings of *Shari'ah*, two basic principles of *Shari'ah* have to be observed: (1) the prohibition of *riba*'; and (2) the prohibition of *gharar*. These basic principles of *Shari'ah* differentiate Islamic finance from its non-Islamic counterpart.

(2.2.1) Prohibition of *Riba'* (Interest/Usury) and *Gharar* (Ambiguity)

It is widely acknowledged that Islam forbids activities which produce more harm than benefits, and therefore, the prohibition of *riba'* is a necessary corollary of principles of Islamic finance. *Riba'* literally means 'increase' or 'growth', and has been categorically denounced in the *Qur'an* and *Sunnah*. Muslim scholars are unanimous in their assertion that *riba'* is forbidden in Islam; the only source of divergence between them being the exact scope of *riba'* (Mannan, 1986:118). However, all Muslim scholars are unanimous in that the prohibition of *riba'* extends to all kinds of interest, and that there is no distinction between interest-bearing funds for the purpose of consumption or investment, as it is a fundamental aspect of *Shari'ah* is that money is not treated as a commodity for exchange (Ahmad & Ahmad, 2006:61). Money in Islam is regarded as a medium of exchange and a store of value.

Gharar in Arabic means 'risk', 'uncertainty' and 'hazard'. Unlike *riba'*, *gharar* is not precisely defined in the *Qur'an*. Furthermore, whilst the prohibition of *riba'* is absolute, some degree of *gharar* is acceptable in the Islamic financial framework. However, it is pertinent to note that it has been argued that, as a result of the presence of *riba'* and *gharar*, the world's economic systems have experienced various periods of crises (Bakar, 2008:20). With this in consideration, the 1997 Asian financial crisis and the recent US sub-prime mortgage crisis are examples of the harmful effects of *riba'* and *gharar* (Goldstein, 2008:1).

(2.2.2) Evolution of Islamic Finance

In the 20th century, interest-based banks in Islamic countries faced significant criticism from Islamic economists and jurists. This subsequently led to the establishment of Islamic financial institutions in the 1940s, and the first 'modern era' of Islamic finance was established in the 1960s with the establishment of the pioneering 'social bank' in the Egyptian village of *Mit Ghamr* (Ahmad & Ahmad, 2006:62). However, the first ICB was only established in 1975 with the creation of DIB. Since this time, various Islamic banks have been established all over the world. The Inter-Governmental IDB in Jeddah, for example, was first established in 1975, and IBA was set up in Singapore in 2007. As of the year 2008, 'there were more than 300 IFIs across 50 countries' (Trade Information Service, 2009:5).

The two main markets in which Islamic banks have flourished are the Middle East and Asia. In the Middle East, major Islamic finance players include the UAE, Kuwait, Qatar, Bahrain and Saudi Arabia, whereas in Asia, on the other hand, Malaysia has taken the lead, whilst other players include Indonesia and Brunei Darussalam. At present, Singapore is quickly turning out to be an interesting proposition for Islamic finance in Asia. Although a relatively new player with a small domestic market, Singapore is nevertheless a regional financial hub and can leverage on its strong banking fundamentals to create a niche for itself in the rapidly growing market (Khan & Bashar, 2008:2). Furthermore, unlike other countries, such as Turkey, Oman and various North-African countries in which negative political images have hindered the development of Islamic finance; Singapore is not hampered by such drawbacks. In actual fact, as a regional financial powerhouse, Singapore is well-placed to service the needs of the significant Muslim community in the region where Islamic finance is not as well-advanced as the markets of the Middle East (Khan & Bashar, 2008:7). Notably, as of 2006, 'there were nearly 227 million Muslims in Southeast Asia, which was about 40% of total population in the region' (Khan & Bashar, 2008:7). Therefore, the city-state's reputation as an established, open financial hub, and overall attractiveness as a business location can play a pivotal role in luring investors towards the industry. Other persuasive factors in support of Singapore's drive towards being the regional powerhouse for Islamic finance include its stable society, secular outlook, and traditional respect for all religions. This is clearly evident when the 'red-dot' country on the world map has just completed an FTA negotiation with GCC, which will fundamentally enhance both trade and investment between the two sides (Khan & Bashar, 2008:8). The aforementioned authors further add that, with stronger trade and investment ties, there will be exciting opportunities for financial integration, which would provide new insights for Islamic finance and the related products.

(2.2.3) Prohibited Industries in Islamic Finance

It is also noteworthy to state that, in accordance with *Shari'ah* principles, there are a number of prohibited industries which are unable to benefit from any form of Islamic finance, namely alcohol and alcohol production, pork-related products and non-compliant food production, conventional banking and insurance, tobacco, gambling, and any forms of adult entertainment and weapons, arms and defence manufacturing (Trade Information Services, 2009:23). Accordingly, Islamic financial institutions should not practice any form of equity investments through conventional financial instruments with highly leveraged companies, as the interest component of the companies are laced with debts (Trade Information Services, 2009:24). Accordingly, SMEs which are involved in such prohibited industries should not take any form of Islamic finance, as they are prohibited within the realm of *Shari'ah* and are therefore subsequently deemed as *haram* (Trade Information Services, 2009:23).

(2.2.4) Islamic Finance Techniques

In this section, the literature will be reviewed relating to the methods adopted in the case of Islamic finance, i.e. *mudharabah*, *musharakah*, *murabahah*, *ijarah*, *istisna'* and *qardhul hasan.* The first two methods are considered to be profit-sharing modes of financing, whilst the remaining methods (with the exception of *qardhul hasan*) are known as the fixed-income modes of financing. An Islamic economy should not utilise only fixed-income instruments as some of these equipment may not be in the proper fortitude of Islam, which symbolises the status quo (Chapra, 1985:171; Siddiqi, 1983:139). Under such circumstances, the best option is to ensure a balanced combination of profit-sharing and fixed-income modes of financing (Ahmed, 2002; Al-Jarhi, 2003).

Profit-Sharing Modes of Financing—*Mudharabah* and *Musharakah*

As identified by Ahmed (2002:13), historically, *mudharabah* and *musharakah* are considered to be a partnership for specific projects, although the financier also has a role in the management of the project in the case of a *musharakah* contract. The financier has no such role in the case of a *mudharabah* contract.

Asset-Side vs. Liability-Side *Mudharabah*

Mudharabah is different to debt, as the ownership of capital remains in the hands of the financier (Trade Information Services, 2009:79). The asset-side and the liability-side of the *mudharabah* contracts also differ from debt in the sense that the asset-side is more restricted (relatively less liquid) given that the contract may still attach funds to individual projects for a relatively longer duration, whereas the liability-side is often unrestricted as the holders of the deposits can withdraw at relatively short notice (Ahmed, 2002:14).

***Musharakah* (Joint Venture/Partnership)**

Musharakah is viewed by many scholars as being the most authentic form of Islamic contract, and was practiced in the Arabian Peninsula long before the advent of Islam (Ariff, 1989). It is a contract based on profit-sharing where two or more individuals combine either their capital or business activity together, and any losses are borne according to their capital contribution.

Moreover, it has been suggested that the principle of *musharakah mutanaqisah* (declining-balance *musharakah*) is the most suitable contemporary financing technique via profit-sharing modes (Ahmed, 2002:14). Notably, the capital in *musharakah mutanaqisah* is not permanent: as an entrepreneur slowly repays the capital, this will slowly diminish the capital ratio of the financier and thereby increase the ownership of the entrepreneur until he/she becomes the owner of the business.[4]

Fixed-Income Modes of Financing

The fixed-income modes of financing provide indirect finance through leasing (*ijarah*) and sale contracts (*murabahah*, *istisna'* and *qardhul hasan*).

***Murabahah* (Cost – Plus Financing)**

Murabahah is a type of sale whereby the seller's cost and profit are disclosed to the buyer (Trade Information and Services, 2009:55). In a *murabahah* model, the financier will purchase the goods and subsequently resell them on to the entrepreneur at cost plus the addition of some reasonable profit or mark-up (Ahmed, 2006). The sale price and the terms of payment agreed by the financier and the entrepreneur are final. As highlighted by Rahman (2010:55), if the term of payment was, for instance, fixed at three years, and the entrepreneur had a valid excuse to extend the time over a longer period, the agreed-upon sale price would then remain the same without any increment. Alternatively, if the entrepreneur wished to shorten the payment period, there would not be any changes to the agreed-upon price unless the financier willingly reduced the price for the entrepreneur.

***Ijarah*/Leasing**

Ijarah is one of the most flexible Islamic banking financial tools, as the contract can be modified or lengthened as a result of mutual agreement. For example, an entrepreneur who is lacking in funds may approach the financier to fund the purchase of a productive asset, which is subsequently rented out to the entrepreneur. The ownership of the asset remains in the hands of the financier who is responsible for its maintenance. Khan (2008:14) points out that a contract is terminated when the leasing period of the asset comes to an end or when the asset ceases to be of further use. However, *ijarah wa iqtina*—which is an extended concept of *ijarah*—involves a pre-agreement between the lessor and the lessee to end it in ownership. As supported by Hashemi (1997), the asset title will be conveyed to the lessee either by way of a gift, token price, or pre-determined price at the commencement of the contract or through gradual transfer of ownership. Importantly, the contract of *ijarah wa iqtina* must be separated from the contract of *ijarah* as it is not permissible in the context of *Shari'ah* to combine these two contracts into one.

***Istisna'* (Pre-delivery Financing)**

Istisna' is a method allowing advanced payments to be made either in part or in full whilst the goods are still being constructed or manufactured. It is permitted to cancel a pre-manufactured contract of *istisna'* but not vice-versa. The contract has a greater degree of flexibility in terms of delivery time; however, it is ultimately more rigid when it comes to the quality and quantity of goods or the property stated in the contract (Trade Information and Services, 2009:72).

Parallel *Istisna'*

The financier will enter into a parallel *istisna'* contract with a purchaser under which the financier contracts to receive goods from the manufacturer, and will accordingly sell to the purchaser at a higher price. A portion of the down payment and periodic payments by the purchaser to the financier will be extended to the manufacturer. As stated by Range (2004:5051), such parallel contracts open the way to a variety of new possibilities, including the trading of processed commodities.

***Qardhul Hasan* (Benevolent Loan)**

[4] for a discussion on diminishing *musharakah* see Bendjilali and Khan 1995

The principal of *qardhul hasan* is that lenders should offer loans to borrowers without incurring any interest charges or profit, and a debtor is required to repay the loan back as soon as possible or at a mutually agreed upon date. The main points of departure between *qardhul hasan* and conventional loans are that interest is not charged, but that strict fines or charges will be imposed for defaulted payments (Mirakhor & Iqbal, 2007). Moreover, Islamic law permits a lender to recover from the borrower the operation costs over and above the principal amount lent; however, this is not practiced in the case of *qardhul hasan*. An important condition attached to such charges in order to prevent them becoming equivalent to interest is that the commission charged cannot be made proportional to the amount or term of the loan, and fees should not exceed 2-4% of the overall loan amount (Khan *et al*., 2007).

Whilst expressing the rules regarding *qardhul hasan*, Hossain (2004) outlines the following requirements:

1. A proper contract between the lender and the borrower in which all terms and conditions are written;
2. The payment date must be specified;
3. A loan contract should be written;
4. Two witnesses should be present; and
5. Membership or administrative fees will be incurred.

A *qard* is repaid with goods of identical description and should be free from any kind of compensation. This is deemed a praiseworthy act as the Prophet (pbuh) reportedly declared it to be more meritorious than outright charity, owing to the fact that it creates constructive opportunities for productive members of the society. This is further affirmed by Ahmed (2002:64), who asserts that the poverty cycle of a productive group will perpetuate if the productive group is treated as an unproductive one by being given constant hand-outs.

Chapter Three:
Singapore & Small Medium Enterprises (SMEs)

Officially known as the Republic of Singapore, Singapore, which is situated off the southern tip of the Malay Peninsula, has a diverse population of 5 million people and comprises Chinese, Malays, Indians, Caucasians and Asians of various descents.[5] In a recent study carried out by Kearney, according to the Globalisation Index[6] presented in that research, the city-state, which is also the world's fourth leading financial centre, was found to be the most globalised economy in the world. Singapore is also ranked as the fourth richest country in the world in terms of its GDP per capita. In 2009, the World Bank reported Singapore's per capita GDP (PPP) as Intl \$50.701[7] and the per capita GDP (nominal) as US\$36,534[8], which therefore means that Singapore is also the twentieth wealthiest country in terms of GDP (nominal) per capita.[9] Singapore also has a large and vibrant SME community, and the ASME was established in order to facilitate the growth of such SMEs. This will be discussed further in that which follows. Unfortunately, however, it is noteworthy to state that the immense wealth of the city state is not shared amongst the Singapore Malays, i.e. the indigenous population of the island. Essentially, they still fall

[5] http://en.wikipedia.org/wiki/Singapore
[6] http://en.wikipedia.org/wiki/Singapore
[7] http://www.worldbank.org/
[8] http://www.worldbank.org/
[9] http://en.wikipedia.org/wiki/Singapore

behind other ethnic groups in many areas, such as education, employment and material possessions. It has been suggested that this is probably owing to the accepted laid-back perspective towards life, which will be further discussed in Section 3.3.

(3.1) Association of Small Medium Enterprises (ASME) Singapore

The Singapore government appreciates the role that SMEs play in the diversification of economic activities and in the generation of improved employment prospects.[10] Therefore, over the years, it has developed various policies and initiatives for the development of SMEs, which include the establishment of the ASME. ASME was established in 1986 with the objective to ensure that SMEs in Singapore could function in a conducive and fair environment.[11] With 24 years' experience in wide-ranging services and programmes, ASME is able to ensure the growth and development of a large number of SMEs in Singapore by developing a conducive business environment which has ensured the success of many local enterprises.[12]

As principal enterprise leaders in Singapore, members of ASME frequently participate in dialogue and discussions with various agencies within the Singapore government in order to ensure that there will be continuous updates and feedback received concerning the overall performance of ASME members.[13]

The Singapore government currently has in place various schemes for SMEs in Singapore. These include LEFS, MLP, RPS and LIS II[14], with commercial banks serving as channels for these governmental financing schemes. These schemes, together with the fees and charges, are set out in Table 1 below. It should be noted that all such schemes are in accordance with conventional financial requirements, but ultimately do not comply with *Shari'ah* rulings. As a result, Muslims, in adherence to their faith, generally do not partake in the below-mentioned schemes, and are therefore excluded from enjoying the benefits they offer.

Table 1: Small Medium Enterprises (SMEs) Schemes by the Government of Singapore

Government Incentive Financing for SMEs	Fees and Charges
(1) Local Enterprise Finance Scheme (LEFS)	• Fixed interest rate on a monthly rest-in-arrears basis.
(2) Micro Loan Programme (MLP)	• Interest fixed at 6.25% p.a.
(3) Resource Productivity Scheme (RPS)	• Interest fixed at 6% p.a.
(4) Loan Insurance Scheme II (LIS II)	• Fixed or floating interest. • Collateral required. • The insurance premium of 1% p.a. is borne by the borrower based on approved loan.

As illustrated in the Table 1 above, all the incentives involve either a high interest rate or the requirement for collateral. However, as Mohsin (1995:24) points out, the twin requirements of collateral and interest-rate lending are major stumbling blocks for the development of SMEs.

[10] http://www.asme.org.sg
[11] http://www.asme.org.sg
[12] http://www.asme.org.sg
[13] http://www.asme.org.sg
[14] Enterprise One – SME Financing 101

This research now considers the ready-made groups which offer SME Islamic financing. At present, the only bank in Singapore offering Islamic financing for SMEs is *Maybank* Singapore, following the recent launch of the financing facilities on June 22, 2010. However, as will be elaborated below, it is the position of the research that the financing facilities provided by *Maybank* Singapore may not be a feasible option for the lower-end SMEs.

(3.2) Corporate Credit Facilities—Islamic Finance SMEs

(3.2.1) *Maybank* Singapore

Maybank Singapore was established as a fully-licensed bank in December, 1960. Following rigorous expansion into Singapore, *Maybank* Singapore now has 27 service locations to meet the banking and financial needs of both corporations and individuals alike. Of note is its recent launch of an Islamic financing package for SMEs known as Islamic Term Financing, which is based on the concept of Commodity *Murabahah* or *Tawarruq.*[15] A key requirement in the *murabahah* contract is that the selling price must be agreed upon by both parties up-front in order to avoid the issue of *gharar*; importantly, this is only feasible if the financier uses fixed profit rates so as to achieve its desired profit margin. By offering fixed rate packages, the bank is able to calculate the mark-up amount and the customer will then be subsequently informed of the sale price in advance. The fixed rate packages offered are from tenures starting from 3, 5, 7 and 10 years.[16] However, this is not a possible option for the lower-end SMEs owing to the fact that it is only available for the financing of completed commercial properties, which is generally beyond the financial capacity of the lower-end SMEs. The social aspect is therefore missing from the bank's operations, which shows that contemporary Islamic finance has been largely disengaged from manifesting the core values of the Islamic system that mandates justice, equity and social peace. As Mohsin (1995:21) comments, banks will naturally favour large firms owing to various credit controls and interest rate ceilings.

In light of the above discussion, a socially responsible finance model with a strong Islamic foundation of brotherhood is needed in order to fill the void in this area.

(3.3) Malay—Muslim Economic Background

The economic under-development of the Singapore Malay-Muslim community, which comprises the indigenous population of the country, can be traced back to the community's early roots. Between 1800 and 1900, the Malays, who were accustomed to a style of living common in the coastal villages, and earned meagre survival income through the utilisation of agriculture and fishing, became increasingly marginalised following the influx of Chinese and Indian labourers, who were brought in by their British colonial masters. To date, this prevailing laid-back attitude and slow progress has consequently led the Malays to perform very disappointingly in terms of education and socio-economic development in comparison to the rest of the nation. Although Singapore is one of the few economies to have fully recovered from the recent financial crisis, the Malays nevertheless continue to be plagued by the after-effects of the crisis. Nonetheless, it should be mentioned that, over the years, the Malays have made positive strides—although such progress may be considered sluggish relative to the rest of the society.

Moreover, the recent economic transformation of Asia has subsequently led to both opportunities and adjustments within Singapore. The country has therefore restructured its economy in order to

[15] http://www.maybank2u.com.sg

[16] http://www.maybank2u.com.sg

match a new wave of competitive economies, i.e. Malaysia, China, Indonesia, India and Vietnam, amongst others.[17] Accordingly, Singapore is predicted to grow further through the upgrading of industries and move towards newer and more advanced-skills-based economic activities. However, the city-state economy may also follow in the footsteps of Europe and the US by focusing on high-skilled jobs; this is because 'many semi-skilled jobs will be sucked out by lower-cost competitors'.[18] This means that only those with superior education and fine skills will do well, and those lacking in this arena may consequently face the possible outlook of unemployment. As a significant majority of the Malays are poorly educated and are employed in the lower-end electronics industry, they will subsequently be at greater risk when companies employing unskilled and semi-skilled production workers relocate to other countries with cheaper labour.[19]

However, the Malay culture certainly has some positive traits, which is evidenced in the writings of *Ibn Khaldun* (1995), who asserts that *Asabiyah*—or social unity—is stronger in nomadic tribes owing to the fact that they lead a very plain type of living without luxury. As the descendants of such a tribe, social unity is very much prevalent in the Malay culture, and would be positively exploited in the development of the proposed model.

Thus, one of the best ways of ensuring that there will be positive growth in the Malay-Muslim community is by establishing development strategies which actively combine economic growth with improved job prospects. It is the view of the research that this objective can be achieved by promoting small and medium group businesses, which will subsequently encourage effective mobilisation of savings and will thereby provide opportunities to the productive group facing financial constraints when establishing their small and medium businesses. The effective mobilisation of savings through the utilisation of the Islamic financing instrument is an effective investment which will lead to capital formation and growth (Mohsin, 1995:1).

(3.4) Malay—Muslim Organisations in Singapore

Various Muslim organisations have been established in Singapore in order to ensure the continuous growth and development of the Muslim community; they recognise the importance of education as a passport to progress. The establishment of the two principal Muslim organisations in Singapore—*Yayasan Mendaki* and MUIS—will be further discussed in later sections of this research. Moreover, MUIS will be further analysed with the objective to examine its importance and the various roles which it plays in the further development of the Malay-Muslim community.

(3.4.1) *Yayasan Mendaki* Singapore

Yayasan Mendaki was established in 1986 in partnership with the government in order to help empower underprivileged Malay-Muslims through achieving excellence in education. The organisation's mission is to find a way of empowering and positioning the Malay-Muslim community at the forefront of excellence. Co-operatives with religiously-permissible instruments—*Amanah Saham Mendaki* and *Ufuk Mendaki*—were set up in order to help the poorer members of the community. However, as opposed to addressing the humanitarian and development objectives of the community, these co-operatives were liquidated for various reasons, as will be further discussed in the section below.

[17] http://stars.nhb.gov.sg/stars/tmp/gct19950926.pdf
[18] http://stars.nhb.gov.sg/stars/tmp/gct19950926.pdf
[19] http://stars.nhb.gov.sg/stars/tmp/gct19950926.pdf

Co-operative Failures—*Amanah Saham Mendaki* (*Mendaki* Growth Fund) & *Ufuk Mendaki*

Many would consider that the involvement of successful Malays in an attempt to help the poorer members of the Malay community is an admirable quality, and one which was put into operation through the establishment of *Amanah Saham Mendaki* in November, 1991. In this proposed scheme, a fund of SGD3 million was set up, the primary objective of which was to utilise this fund so as to develop educational programmes directed towards raising the performance of Malay students—especially those at tertiary level. In the case of *Ufuk Mendaki*, it was established under the name of *UFUK* Singapore Co-operatives Ltd. Its main objective was to provide basic loans to the Malay community by extending financial assistance to the poorer Malay workers and to those who wanted to set up micro financing.[20] For example, one of the desired projects of *Ufuk Mendaki* was *Enterprise@UFUK* in which the co-operative established an operation which hired chronically unemployed Malays to provide cleaning services.[21] Unfortunately, however, both *Amanah Saham Mendaki* and *Ufuk Mendaki* have since been liquidated for various reasons, including poor internal control, mismanagement of funds, and inadequate knowledge and inexperience of staff in operating such Islamic finance instruments. One of the main causes of failure is the co-operatives' inability to mitigate operational risks; these issues have been highlighted and brought to the forefront of this research as it is hoped that any proposed model should be informed regarding previous errors so that history is not repeated.

(3.4.2) MUIS (Islamic Religious Council of Singapore)

MUIS was established as a statutory body in 1968 by virtue of AMLA.[22] In accordance with AMLA, MUIS advises the President of Singapore on all Islamic matters in the country.[23] One of the main visions in the establishment of MUIS is to create a Muslim community of excellence where the community will be religiously profound and socially progressive, and thereby able to thrive successfully in a multi-religious society, a secular state, and a globalised world.[24]

As part of its role as the main Islamic body in Singapore, MUIS also manages various Islamic-related assets; the largest body of assets it manages is the *waqf*. *Waqf*, which is also termed *'sadaqah jariyah'* or 'continuous *sadaqah'*, which has an imperative characteristic relating to its objective; that is, the idea of doing charity out of goodness (Ahmed, 2004:4). At the time of writing, there are 99 *Awqaf* (plural of *waqf*) registered in Singapore, with over 200 properties and a total value of S$300 million.[25] As explained by Karim (2010:143), *waqf* harmonises many other kinds of charitable acts for the Muslim community in Singapore.

Properties of *Waqf* in Singapore

The contribution of *awqaf* in Muslim societies of the past has been significant, as is evident from the size of such institutions. For example, the first land survey conducted in Egypt during Muhammad Ali's ruling 1805-48, reports that 600,000 were *awqaf* out of a total of 2.5 million feddan (acres of cultivable) land (Ahmed, 2004:4). 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 evident

[20] http://www.mendaki.org.sg
[21] http://www.nvpc.org.sg/Library/Documents/SALT/May-Jun04_Online.pdf
[22] Administrations of Muslim Act (AMLA) cap 3. of the Singapore statute which can be access through http://www.agc.gov.sg
[23] http://www.muis.gov.sg
[24] http://www.muis.gov.sg
[25] *Waqf* assets value as at financial year Dec 2008, extracted from MUIS *Waqf* Funds report and financial statement as at 31 Dec 2008

by the speech of Mr Lee Kuan Yew, Singapore's Mentor Minister, at the International *Waqf* Conference 2007 held in Singapore.[26] AMLA defines *waqf* as the permanent dedication of both movable and immovable properties by a Muslim for the aims of pious, religious and charitable activities recognised by Islamic law.[27] AMLA further divides *waqf* into two categories, namely the general *waqf* and the specific *waqf*. General *waqf* means that proceeds from property will be allocated for pious, religious or charitable purposes recognised by *Shari'ah*. 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 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 in Table 2 below.

Table 2: Religious vs. Philanthropic *Awqaf*

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 3: Types of *Awqaf* Institutions Administered By MUIS

Types	**%**	**Amount of Proceeds (S$ million)**
Mosques	65%	S$195
Madrasah (Religious School)	11%	S$33

[26] *Republika* Indonesia

[27] http://www.muis.gov.sg

Poor and Needy (Category D)	11%	S$33
Charitable (Category D)	6%	S$18
Others (Category D)	6%	S$18
Total	100%	S$300

(Source: *MUIS – Zakat* and *Waqf* Strategic Units)

As can be seen from Table 3 above, 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 SGD18 million to SGD69 million).

Table 4: Beneficial Countries for the Singapore Philanthropic *Awqaf*

Country of origin of the *Waqf*	**% Benefit**
Singapore (Local)	92%
Middle East	4%
India	2%
Indonesia	2%
Total	100%

(Source: *MUIS – Zakat* and *Waqf* Strategic Units)

It is also notable to state that, disregarding the benefit to the local community, some of the philanthropic *awqaf* institutions have also sought to assist in the welfare of the communities of their country of origin (Karim, 2010:163). However, Table 4 above proves that the majority of the *waqf* proceeds are directed towards the Muslim community in Singapore.

In light of the above discussion, a model utilising religiously permissible instruments through the proceeds from the *awqaf* funds can play a prominent role in alleviating poverty and creating opportunities to the poorer Muslim SMEs in Singapore. Chapter Four will provide a further comprehensive discussion of the proposed *waqf*-based model.

Chapter 4:
Using Islamic Modes of SME Financing: A Proposed Model

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.

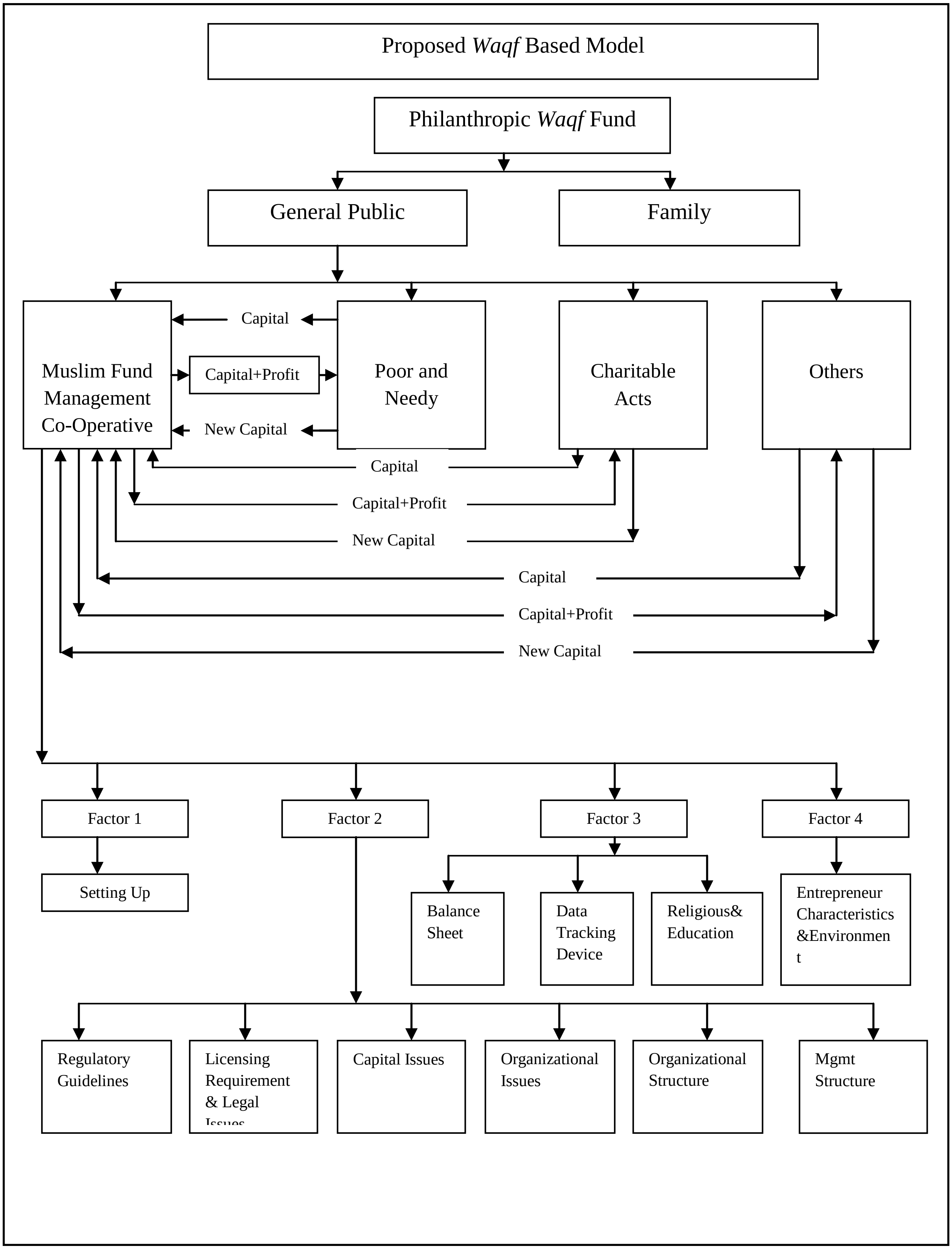
(4.1) Brief Overview of the *Waqf* Funds in MUIS and Factors Involved in the Functioning of the Model

The model proposed in this research rests on the following twin objectives: (1) a social commitment to providing opportunities for lower-end SMEs; and (2) a profit-orientated activity based on Islamic principles. With this model, it is hoped that the finance sector can play a socially beneficial role in society, and that profitability will ensure a sustained acceptance of the model. This idea is further supported by Metwally (1984), who points out that an Islamic producer's objectives should include both profit and charity. It is the belief of the author that it is, in fact, more beneficial to provide viable economic SMEs (as is the case with the proposed model) than outright charity. Essentially, the proposed model seeks to utilise *waqf* funds for the purpose of providing technical assistance and start-up capital to lower-end SMEs entrepreneurs. This idea is essentially supported by Elgari (2004), who had previously proposed the establishment of a non-profit financial intermediary using monetary (cash) *waqf* donated by wealthy Muslims as the capital of the intermediary.

It is important to highlight at this juncture that the proposed development programme critically differs from microfinance development programmes in that they focus on livelihood activities where the sole objective is short-term impacts on poverty reduction. In contrast, although one of the objectives of the proposed model is the eradication of poverty, notable emphasis is also placed on offering opportunities to lower-end SMEs in order for them to progress to a higher level of financial security (also known as 'growth enterprise'). In the context of Singapore, however—which is recognised as a developed country—growth enterprises are more prevalent; therefore, the utilisation of the existing growth enterprise, as well as its further development, is an important tool in alleviating poverty in Singapore.

This research will now progress on to provide an overview of the role of MUIS as the *mutawalli* of the *waqf* fund, and the various factors which need to be considered so as to ensure the proper functioning of the proposed model. The proposed name of the MUIS subsidiary which will operate the model is the Muslim Fund Management Co-operative Ltd. The proposed waqf-based is further illustrated in figure 1 below.

Figure 1: Proposed *Waqf*-Based Model



(4.2) Feasibility and SWOT Analysis

Before considering the various factors that must be taken into account to ensure the proper functioning of the proposed model, this research will first investigate the feasibility of the proposed model by utilising a SWOT analysis of the proposed model. To that end, this section will discuss, in turn, the strengths and weaknesses of the proposed co-operative along with the opportunities and threats that it may face.

Strengths

It is expected that the establishment of the co-operative will subsequently lead to income growth, poverty alleviation, self-employment, asset ownership and a more active participation of Malay-Muslims in the labour force (Ahmed, 2000). The proposed co-operative activities will also lead to substantial economic development for lower-end Malay-Muslim SME entrepreneurs. The activities undertaken by the proposed co-operative are also considered to be in accordance with the tenets of the Islamic religion. It is argued that, by having a co-operative which is in harmony with their faith and culture, this will also help to ensure that the Muslim community is interlinked with high morale attitudes and values. Furthermore, the embedding of *Asabiyah* within the demand and supply sectors of the co-operative will eventually lead to the establishment of firm justice, which is a defining characteristic of Islamic life and which will ultimately act as an indispensable part of the legal, social and economic benefits on offer (Ahmad, 2003).

However, as with most other MFIs, there is a significant possibility that high administrative costs may lead the proposed co-operative to fail to be economically viable. This is supported by the evidence produced by the study of five MFIs, whereupon it was found that the average return on assets for three of the MFIs was below 2 per cent, one was at 3.5 per cent, and the other at 14.6 per cent (Bennet, 1998). However, it is possible that this may not be the case for the *waqf*-based co-operative since, as many scholars have previously highlighted, one of the main advantages of using *awqaf* is that the returns can be used in order to finance productive growth enterprises at subsidised rates (Reed & Befus, 1994:190). Moreover, since most Islamic finance instruments involve a real transaction of assets, the opportunities to divert funds for non-productive uses, other than that for which they were originally requested for, are reduced (Ahmad, 2004:12). This can effectively resolve the ‘moral hazard’ issue which arises due to wastage, as it decreases the default rate, and thus increases the profitability of the proposed co-operative.

Weaknesses

One of the possible future weaknesses which the proposed co-operative may encounter is in the effective utilisation 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). The author further adds that the examples of mismanagement-related pitfalls include an excessive build-up of inventories, over-ambitious investment in terms of fixed assets, and the expansion of manufacturing and sales activities beyond the perimeters of available financial resources (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 (see above discussion, Section 3.1) 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.

Lastly, the excessive utilisation of intensive capital methods can easily lead to an acceleration of the output rate which may ultimately overtake the employment rate. This may provide economic advantages in one sense; however, a relatively weak employment rate will fail to achieve the main objectives of the establishment of the *waqf*-based co-operative in the first place—that is, the creation of jobs.

Opportunities

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.

Threats

The future members of the Muslim Fund Management Ltd.—namely those who cannot be reached by the existing financial market and who can be characterised as the poorer segment of the society—may themselves pose a threat to the co-operative. This is owing to the fact that it is difficult to assess the creditworthiness of such members, which is further compounded by their general inability to provide collateral to offset any potential risk. Such potential members are often perceived as being high-risk borrowers in the eyes of conventional mainstream banks. If conventional banks with robust financial health can deem this type of group as high-risk borrowers, then it is clear that, if a newly-set up co-operative targets this type of borrower, it should then be considered as a potential source of harmful effect if not monitored carefully. Importantly, this is further evidenced in the case study of the Malawi Mudzi Fund (an MFI in Malawi), conducted in 1993, where 46% of the fund borrowers were in arrears ('in arrears' being defined as those borrowers who had defaulted on instalments on between 1 and 4 occasions), as they had diverted the funds for consumption purposes, and 33% had defaulted entirely (Buckley, 1996:390).

The greatest threats to the proposed co-operative are the various risks involved. Owing to the limitations of this research, only two of the most common risks that the proposed model will possibly encounter will be discussed; these are specifically liquidity and operational risks. Liquidity risks will arise when the proposed co-operative cannot borrow enough funds to meet liquidity requirements, as interest-based loans are against the basic teachings of *Shari'ah* law (Khan & Ahmed, 2001:52). Moreover, it is important to further note that *Shari'ah* does not permit the sale of debt, except for its face value. Therefore, selling a debt-based asset will not be a viable fund-raising option for the proposed co-operative. The novelty of the proposed co-operative also carries with it the risk that there may not be enough qualified professionals who are experienced, let alone have enough expertise, in Islamic financial operations. This gives rise to significant potential operational risks.

In order to avoid such risks, it is vital to impart managerial and technical training to both members and non-members. A sufficient pool of Islamic finance experts is also required in order to ensure the successful management of the proposed co-operative. However, this may naturally lead to excessive costs.

Following the feasibility study detailed above, this research will now focus on a discussion of the structuring of the proposed model.

(4.3) Structuring of Proposed Model

In order to ensure the proper functioning of the proposed model, the first area that must be considered is the structure of the proposed model. This research will now discuss the various areas which need to be covered as explained below.

(4.3.1) The Establishment of a Wholly Owned Subsidiary by MUIS

It is expected that the proposed subsidiary will be wholly-owned by MUIS, i.e. MUIS are to be 100% owners of the subsidiary's common stock. For several reasons, it is suggested that the subsidiary should also be set-up as a co-operative and not a company. The reasons for this include the fact that a co-operative is more Islamic in nature and features (Siddiqi, 1998). In addition, a company is more rigid and, in accordance with Section 360 of the Singapore Companies Act, no company in Singapore is permitted to become directly involved with financing activities. Furthermore, as pointed out by Iqbal (1992), a company is unable to make charitable donations from its profits. A co-operative is not hampered by such limitations.

In Singapore, the main legislation governing co-operative societies are the Co-operative Societies Act (CSA) and the Co-operative Societies Rules (CSR); the main body regulating their operation is the Registry of Co-operative Societies, which falls under the supervision of the Ministry of Community Development, Youth & Sports.[28] In order to ensure the viability and

[28] http://www.sncf.org.sg

success of the proposed model under the chosen co-operative framework, various areas must be considered, not least the aforementioned legislative factors. These are elaborated below.

Regulatory Issues

The main body which regulates banking activities in Singapore is the 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. The latest series of major legislation changes, which were introduced in 2005, have better placed MAS in facilitating the growth and development of Islamic finance in Singapore. Notable changes include the removal of additional stamp duties for certain Islamic transactions involving real estate. Accordingly, in order to highlight the level of commitment towards Islamic finance activities, MAS also issued a series of guidelines on the application of banking regulations to Islamic banking so as to provide a greater transparency to banks involved in the application of Islamic financial activities. MAS also introduced new regulations for *murabahah* interbank placements, *ijarah*, diminishing *musharakah* financing, and spot *murabahah.*[29] It is further suggested that these changes in the banking regulations have resulted in a landscape which is ultimately much more conducive for the growth of Islamic finance. In light of these changes, many conventional banks, such as SCB, HSBC and Citibank, have 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. This is evident in the statement of Mr Lim Hng Kiang, Singapore's Minister of Trade and Industry, who states that the retail banking sector in Singapore is constrained by its limited size, and also that the country's natural strengths lie in the corporate treasury, wholesale and offshore sectors.[30] Furthermore, as previously pointed out, 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 (see discussion, Section 3.2.1).

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 members of the Malay-Muslim society who cannot otherwise be reached by the existing banks or financial institutions in Singapore. The proposed model does have the welfare of the multi-racial Singapore society in mind, but levels specific attention towards the Malay-Muslim community. It is arguable that the best form of society is therefore the establishment of a co-operative society. The latest amendment to the Co-operative 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.[31] The Act also states that the Registrar may refuse to register a society where the primary objective is to provide a financial service.

[29] http://www.mas.gov.sg
[30] http://www.mas.gov.sg
[31] see appendix for comprehensive Section 39

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 of Malay-Muslims in Singapore. 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 identified above

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 co-operative society, a referral authority is needed. In the case of Muslim Fund Management Co-operative Ltd., the referral authorities would be MUIS and MAS, as the proposed name contains both the phrases 'Muslim' and 'Fund Management'.[32] However, ACRA further states that, if the proposed name contains the word 'Fund Management', it need not be referred to MAS unless it intends to engage in any of the activities which normally require licensing, registering, or approval by MAS.[33] 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.

After having clarified all the legislative and structural issues, submitted a viable business plan, and registered with ACRA, the proposed model will then be ready to be transformed into a Co-operative Ltd., and will be issued with a license, thereby enabling it to begin its operations. Moreover, a set of legal advisers will be consulted for advice on the legal problems that may be encountered in the establishment of the co-operative, as the management of the new institution involves day-to-day practices which are mostly foreign to the usual application of the law.

Capital Issues

As previously highlighted, the proceeds from income generating *waqf* are estimated to be between approximately at S$18m and S$69m. This will not impose a problem for the pooling of funds needed for the start-up capital of the proposed co-operative.

Organisational Issues

The organisational issues of the co-operative are closely linked with the strengths and weaknesses already identified. Looking more closely at these will further help to identify the problems that the co-operative aims to tackle given the limitations faced. It will also establish the goals which need to be set in order to address these limitations, the prioritisation of such goals, and the development of the strategies required.

Firstly, Muslim Fund Management Ltd will seek to establish itself as a co-operative with the intention of creating opportunities for lower-end SME entrepreneurs which do not have access to the existing banks. Being a profit-driven industry, the established banks have specific goals and objectives which differ to the social agenda pursued by the co-operative. As such, they need not be regarded as competitors; this will ultimately ensure the co-operative is a suitable channel for lower-end SME entrepreneurs owing to a strong focus on helping the economically

[32] http://www.acra.gov.sg
[33] see appendix for further details from ACRA

disadvantaged. The ten persons required for membership under Section 39 of the Co-operative Societies Act (Chapter 62)[34] will come from MUIS, owing to the esteemed reputation which the organisation carries.

This research proposes two different levels of membership: the first level comprises the ten members from MUIS, which will fulfil the requirement set by the Co-operative Societies Act (Chapter 62) under Section 39, and will further reassure the community that the co-operative is in good hands; the second level of membership will consist of the future providers of funds, who will be drawn from the public. These two levels of membership will extend the financing activities to non-members to comprise the Malay-Muslims who occupy the lower social strata in Singapore. Such non-members can be recognised as a third level in the proposed co-operative. Moreover, it is important to note that the proposed co-operative second level of membership does not play such an important role, as was the case with the previous two co-operatives which failed; however, the second level of membership, comprising those who are known as the external shareholders, only known as the depositors from the public. This will be further discussed in the later section.

Once this idea has been established, the co-operative will provide funding to the lower-end Malay-Muslim SME entrepreneurs (non-members) and, through the establishment of a data tracking device (see discussion, Section 4.4.2), the co-operative will be able to monitor the performance of the entrepreneurs. Such entrepreneurs will be continuously inspected for three consecutive months. Moreover, the performance level over the following three months will determine whether or not future funding should be provided. However, it is not desirable for the proposed co-operative to have a heavy reliance on *waqf*. It should be regarded more as a springboard to start an entrepreneurial operation and, once it has begun to operate successfully, the co-operative will explore other motivated streams of funding.

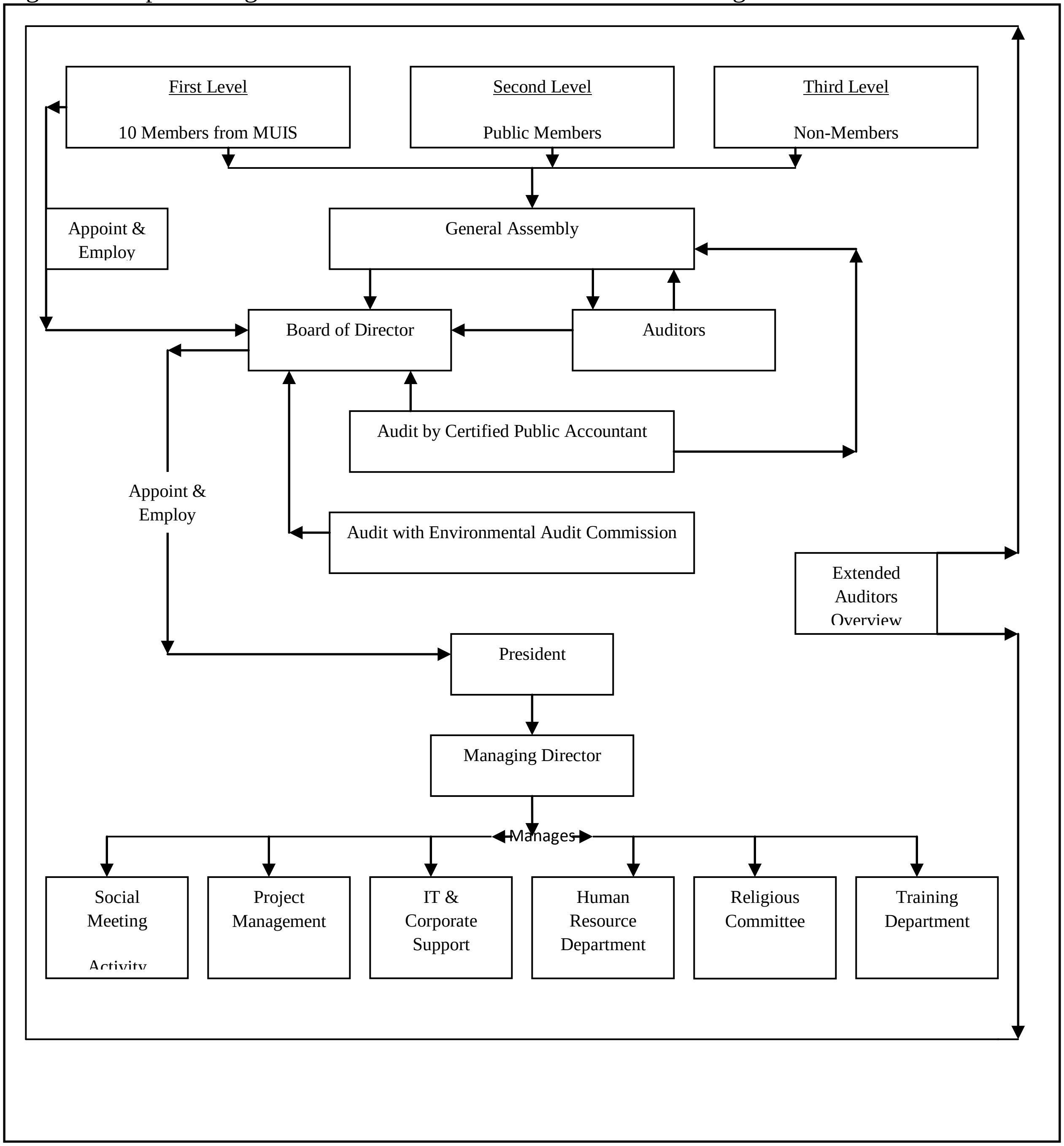
The factors mentioned above provide some of the organisational issues that must be addressed to ensure the success of the co-operative.

Organisational and Management Structure

Several factors will determine the success of the co-operative; one of the most important factors is an effective organisational structure. The proposed organisational structure of Muslim Fund Management Ltd. is illustrated below.

[34] See appendix for comprehensive Section 39

Figure 2: Proposed Organizational Structure of Muslim Fund Management Ltd



One of the vital requirements for ensuring the success of the co-operative is the selection of the first level of membership drawn from the MUIS, which should be carried out by those at the top (the board of directors). However, the range of other powers can be delegated by the board of directors to the President, who may accordingly choose to further delegate them to others in the management team. The activities of the co-operative will be further externally overseen by a set of established advisors so as to ensure the accountability of the co-operative. Integrity, credibility, substance, viability and trustworthiness should all play a crucial role in the selection of the advisers. The Board of Directors should also form sub-committees to be known as 'the regular board of directors' with specific responsibilities for overseeing the various aspects of the co-operative's operations.

The regular board of directors formed by the board will further establish an appropriately-resourced management team. This team will ensure that the fund is managed according to the best standards of practice. The management's roles would include the following:

- The provision of policy advice to the Board, in conjunction with external advisers;
- making recommendations to the Board on the appointment of the fund managers'
- monitoring and reporting the performance of the various portfolios;
- managing the financial reporting of the fund; and
- managing communication with members and non-members.

(4.4) The Operation of Proposed Model

In order to proceed to the next level of the proposed model, the area further discussed below involves the operations of the proposed model.

(4.4.1) Proposed Balance-Sheet

The proposed balance sheet is as provided in Table 5 below. The income generating *waqf*, denoted as (W), which will be used as the start-up capital of the proposed co-operative, is listed on the liability side of the balance sheet. Along with this, additional *waqf* funds can be generated by issuing *Waqf* Certificates (WC). The growth enterprise can also draw deposits from the public by creating future prospects of *Shari'ah*-compatible saving facilities (S); this will come from the second-level members. There should be extra reserves kept in the proposed co-operative for the purpose of mitigating any potential negative shocks which, if not handled properly, may create adverse effects for the proposed co-operative. This is because, without the financial capacity and strength of a bank, reserve funds will need to be created in order to ensure that, in times of low performance, the co-operative will remain stable. This is denoted as (R). The *waqf*-based Islamic co-operative should have a *takaful* reserve, denoted as (T), for the purpose of supporting members who are not able to supply payments on time due to unexpected problems, such as the death of family members. On the asset side, the balance sheet shows cash (C) and growth-enterprise investments (G): for instance, benevolent loans (Q) and other forms of Islamic finance permissible instruments (I).

Table 5: Balance-Sheet of *Waqf*-based Islamic Co-operative Ltd

Asset	**Liabilities**
Cash (C) Assets (A) Growth-Enterprises (G) • Benevolent Loans (Q) • Investments (I) (*mudharabah, musharakah, murabahah, ijarah, istisna'*)	*Shari'ah* Savings (S) Capital – *waqf* (W) *Waqf* Certificates (WC) *Takaful* Reserves (T) Reserves (R)

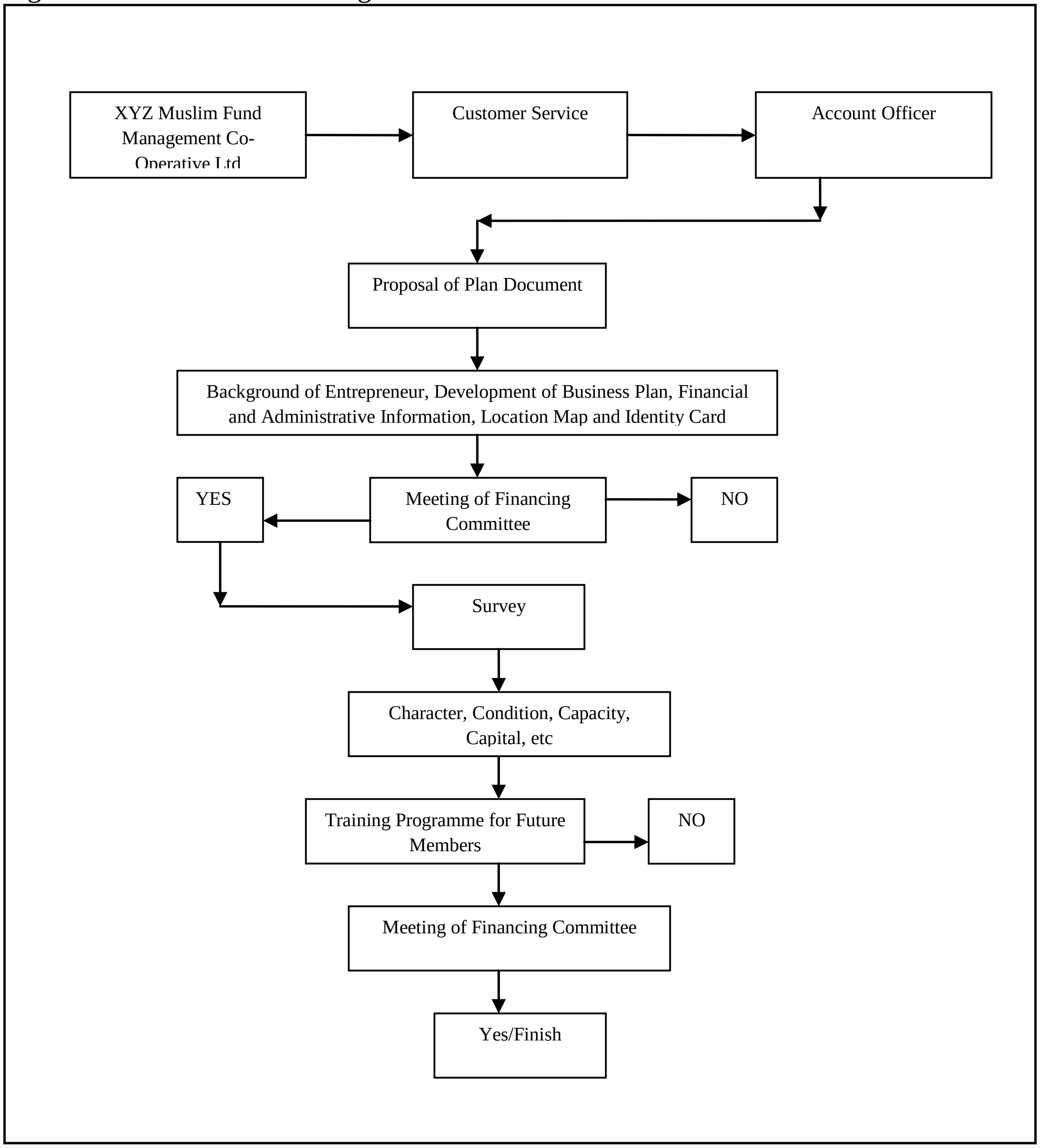
(Source: Ahmed: 2004)

(4.4.2) The Application Process and the Data Tracking Device

Adopting the practices of a successful Small and Medium Industries Development Agency (KOSGEB) in Turkey, the proposed co-operative should also set-up a database which holds the details of all members wishing to benefit from the Muslim Fund Management Co-operative Ltd. Members with similar characteristics or those facing similar problems would be grouped together in the database, whereupon they could be provided with the most appropriate type of permissible *Shari'ah* financing instruments. This would simplify the tasks of the employees of the proposed co-operative, and hence improve efficiency. A simple explanation of the comprehensive application process of Muslim Fund Management Co-operative Ltd. at different phases is provided below.

The first phase involves two different approaches, both of which extend financing activities to the participants. The first approach caters to the existing entrepreneurs. The application process will require the potential applicants to submit a planning document with comprehensive information on the background of the entrepreneur, the business to be developed, financial and administrative information, which includes the estimated investment cost of the project at various stages, a marketing proposal, and an analysis of technical efficiency. The second option caters to those individuals who are not yet entrepreneurs but who, if given the opportunity, would set-up small businesses for themselves. This latter group are likely to be illiterate or perhaps not fluent in speaking English. In this scenario, the staff of the co-operative will visit these people in person in order to assess their entrepreneurial potential. If they are qualified, the co-operative staff will explain to the participant the implications of being a part of the co-operative, and will subsequently full in the application forms on behalf of the participants. If the proposal is accepted in the first phase, the stages of the process are as illustrated below.

Figure 3: First Phase Processing Level



Importantly, the amount of fees that will be charged to the applicants in order for them to benefit from the proposed co-operative will be discussed in the second phase. Simultaneously, the confirmed applicants must also be entered into the co-operative database. The third phase segregates the applicants according to similar characteristics and similar problems, who are then accordingly grouped within the database. The fourth phase ensures that the co-operative organises general training programmes and workshops in accordance with the requirements of the applicants and in conjunction with other similar groups in the database.

During the fifth phase, the co-operative will organise spiritual treatment classes for the categories of both supply and demand of the co-operative. The sixth phase ensures that the applicants will be provided with the various *Shari'ah* permissible instruments according to their database grouping. During the seventh phase, the business operations of the participants have to be re-assessed every three months and, if no positive signs are shown, funding will then be discontinued and payment ought to be returned. During this phase, extensive monitoring and supervision is ensured by the management committee, which will come into full force, including participant visits, continuous participant supervision, and increased emphasis on the importance of paying the loan on time.

During the last phase, the database—which also serves as a tracking system—the developments of the participants will be monitored, and the appropriate financial services will be provided as the participants' progress towards a higher development in their economic prospects. This phase will also determine whether the participants are qualified to proceed to the next level of financing with the co-operative. During this stage, the management committee will establish an intense and close relationship with the participants by regularly visiting them at their place of business. If the participants are found to have a good financing record at this stage, they will then be offered new financing in accordance with the level of progress demonstrated.

The research will now focus on a discussion of the different Islamic finance concepts available to the proposed co-operative and how these can be utilised by the participants.

(4.4.3) Islamic Finance Concepts – A Case Study of the Proposed Model

The proposed database will be divided into six different financing categories: *mudharabah, musharakah, murabahah, ijarah, istisna'* and *qardhul hasan*. However, owing to the limitations of this research, further illustrations concerning only three financing categories can be provided.

Scenario A: *Mudharabah*

The *mudharabah* model—which has been perceived as rather risky—is both complex and difficult to administer and handle. Therefore, this would require a manager who has undergone specific training on these issues to be involved in the practical application (Pervez, 1994). The risk here is related to agency issues associated with external factors, where honesty, integrity and the transparency of participants cannot be guaranteed (Ahmad, 2000). Therefore, in order to minimise the likely occurrence of such negative factors, the co-operative will offer participants with a bonus for achieving their targets; this will further provide motivation for the participants to produce better results. Moreover, a sense of bonding should be developed between members, non-members and management, which will limit the potentiality of mismanagement in the running of the business. In order to further assure that this risk is kept at a minimum, the potential recipients of this category of funding will be participants deemed to offer minimal operational risk to the business. The proposed project should also have low expenses and the project should be ready with financial statements (Adnan, 2003).

The steps taken by the co-operative to implement the operation of the *mudharabah* concept are explained below:

- *Step 1:* The potential applicant is qualified to participate after the application has been approved based on Phase 1 & 2 as stated above.
- *Step 2:* Having assessed the recipient, he/she is entered into the database for Scenario A.

- *Step 3:* The co-operative provides the capital and the participant will allocate their time, skill and effort to running the business.
- *Step 4:* If the business achieves profit, it will be distributed according to the agreed Profit Sharing Ratio (PSR) between the co-operative and the participant.
- *Step 5:* If the business faces losses, the capital provider will lose the capital and the participant will lose the time and effort. In case of negligence from the participant, he/she will then have to pay for the losses in the capital.

Scenario B—*Musharakah Mutanaqisah* and *Ijarah Muntahiya Bi Tamleek*

As proposed by contemporary scholars, this could be successfully employed in financing SMEs for the procurement of assets as well as for financing complete ventures (Sadique, 2007:102). The recipients of this category of funding will be potential applicants who are unable to provide collateral and, as a result, fail to meet the stringent requirements of a traditional bank.

However, before these potential applicants are confirmed as participants, the viability of such entrepreneurs, along with the enterprise, will be inspected. This is owing to the fact that, if the viability of the enterprise could be reasonably ascertained, the absence of collateral on behalf of the entrepreneur would then not prevent the co-operative from financing on the basis of equity participation. This is further supported by the fact that the co-operative will own a share of the business assets and there will be a greater potential for higher returns being realised as an equity partner (Sadique, 2007:102). However, the demand for collateral will still be significant in circumstances whereupon the entrepreneur faces initial losses.

The steps taken by the co-operative in applying the Islamic finance concepts stated above are listed below.

- *Step 1:* The potential applicant is qualified to participate after the application has been approved, based on phases 1 and 2, as stated above.
- *Step 2:* Having assessed the recipient, he/she is entered into the database for Scenario B.
- *Step 3:* The co-operative will purchase the required assets and lease them to the participant with an undertaking from the participant that the assets will be purchased by him/her when the lease ends.
- *Step 4:* Upon termination of the lease, the participant will purchase the assets either for their net value, market value or depreciated value.

There will be two different types of transaction in this scenario: the first transaction involves the title remaining with the bank; and the second transaction will see the contract based on the participants' promise to purchase the assets upon termination of the lease.

Scenario C—*Qardhul Hasan*

Potential applicants, such as newly married couples, widowed couples, or divorcees who are unable to purchase household items or make domestic utility bill payments, will fall under the category of *qardhul hasan*. This is the only type of loan which is recognised in Islam (El-Gamal, 2001). Allah refers to this in the *Qur'an*, stating 'Who is it that will give Allah a gratuitous loan (*qard hasan*), which Allah will double into his credit and multiply many times?'[35] Notably, all the potential recipients stated above will be categorised in the database as *qardhul hasan*, and will only be required to repay the principal for a fixed period of time without being required to pay interest or profit.

(4.4.4) Religious and Educational Aspects

[35] *Surah Al Baqarah* (The Heifer) verse 245

A religious supervisory committee should also be established under the Muslim Fund Management Co-operative Ltd. The role of the committee would be to provide religious classes in order to increase the spiritual and ethical sensibilities of the employees, future members and applicants of the co-operative. This could be achieved by continuously instilling the concept of *Asabiyah* in both the supply and demand elements of the co-operative, as it is this which promotes positive values, such as establishing a sense of co-operation and developing a sense of belonging towards the co-operative itself. Such values, which are founded upon an Islamic religious paradigm, are likely to ensure the success of the co-operative; this will further spur on the employees to work hard, as it creates a sense of awareness amongst them that they hold the key to the betterment of the Malay-Muslim society. In turn, this will indirectly reduce the costs of the proposed co-operative, as it creates a working environment characterised by a sense of social responsibility. In terms of demand, such religious instruction will engender a sense of obligation in applicants of the co-operative to repay the capital provided to them. This will itself increase the revenue of the proposed co-operative as the default rates decrease correspondingly. Accordingly, a co-operative instilled with a sense of social solidarity achieves its primary aim to function with integrity and cooperate for communal benefits and common goals (Ibn Khaldun, 1995:105)

Nevertheless, merely supplying an entrepreneur with capital is not sufficient, since most do not have adequate knowledge or skills to enable selecting a suitable business and running it well; therefore, various training programmes must be organised. General training programmes would need to be arranged in conformity with the training requirements of lower-end small-medium entrepreneurs, and an entrepreneurial workshop should be set up for those who plan to either establish their own business or to otherwise improve their current enterprise. The future participants of the proposed co-operative would also undergo several weeks of training aimed at familiarising themselves with various rules and procedures of the proposed co-operative. Moreover, future participants would be required to attend the monthly meetings that will be held at a convenient place in the locality. In such meetings, the finance officers from the proposed co-operative will be present to inform the applicants of the various banking transactions available to them and to make them aware of other businesses conducted in the co-operative.

This proposed spiritual dimension and the provision of technical business assistance are required in order to assist the target entrepreneurs’ survival and to accordingly transform existing potential into active entrepreneurial activity. This, in turn, will lead to an increase in both productivity and revenue, which will ultimately enhance the viability and profitability of the proposed model co-operative.

(4.4.5) Awareness and Marketing

It is imperative that the target community is made aware of the existence of the proposed product; this can be achieved through extensive marketing. The proposed marketing strategies include information fairs held at mosques, Muslim Chambers of Commerce events, as well as mainstream television advertising. Furthermore, in order to ensure that no individuals are omitted from potentially benefitting from this scheme, it is also suggested that all target SMEs are approached directly and provided with consultancy services, as well as a thorough assessment of their entrepreneurial potentials.

(4.4.6) Expansion of the Proposed Model

It is intended that the proposed co-operative be established as a collective religious obligation (*Fard Kifayah*)[36] on the larger community *(Ummah).* Besides playing the role of operating a co-operative in compliance with *Shari'ah*, it would also act to represent the welfare of both its members and non-members of the target community. Therefore, one of the main aims of the co-operative is to ensure that it will be successful, which would enable the future expansion of the model to subsequently lead to an enhancement of the welfare of society as a whole. The incentives that will be offered to existing second-level members will include a set percentage of the extra returns of the co-operative which will be given back to such members in the form of 'incentive packages'. Furthermore, in future years when it has been proven that the co-operative is robust enough to resist the turbulence of economy and social instability, both existing and potential members will be invited to further invest their money in the co-operative as shareholders or investment account holders.

(4.5) The Impact of the Proposed Model

Having considered the structuring and operations of the proposed model, the final focus of this discussion is the potential impact of the scheme.

(4.5.1) Entrepreneurial Characteristics & Environmental Implications

The Malays coastal village style of living may certainly bring some advantages, such as the spirit of solidarity and willingness to help one another.[37] It is in the cultural nature of the Singapore Malays to prefer living together and cooperate with each other.[38] Furthermore, having come from a society possessing an ingrained deep respect for religion and culture, religion continues to play a fundamental role in Malay life; it is therefore the responsibility of the proposed co-operative to positively utilise this potential characteristic of Malay entrepreneurs. The co-operative can also boost the morale of the entrepreneur by presenting them with various accolades and awards. Other incentives could be offered to boost morale further. By learning more about the behaviour of Malay entrepreneurs and by translating this behaviour from something unfairly characterised as weaknesses into strengths, this will help to ensure the success of the proposed co-operative along with the individual members and non-members. On a final note, the wider economic environment also plays a very important role in ensuring the success of the proposed co-operative. Accordingly, management must be prepared with a portfolio of suitable back-up plans for different environmental scenarios. However, owing to limitation of this research, this area will not be extensively discussed.

Chapter 5:
Concluding Remarks and Suggestion

This research has relied upon secondary sources of information, although some informal interviews have been conducted. The main focus has been placed on discussion of the development of the proposed *waqf*-based model.

The reforms and restructuring of Singapore's banking regulations, which have taken place since 2005, have better positioned the country to assist in the growth of Islamic Finance. This is likely to generate many future prospects for the establishment of small-scale businesses which are

36 *Fard Kifayah* refers to a collective religious duty which, if performed by some, would exempt others from performing it. However, if it is not performed by any, the entire community is sinful

37 http://www.ipislam.edu.my

38 http://www.singaporekopitiam.sg

founded upon *Qur'anic* principles, and which themselves are likely to demonstrate the practical application of Islamic techniques. However, the establishment of small-scale businesses cannot be reached by the Islamic financial institutions alone—especially in the current climate of debate regarding the opinion that the Islamic financial institutions do not provide a social purpose of distributive justice and social equity beyond their narrow role. This has consequently led to the proposal in this research of the establishment of a *waqf*-based co-operative. Moreover, this proposed *waqf*-based co-operative would require no alterations to the present regulations as the latest reforms in Singapore already provides an opportunity for the proposed co-operative. This *waqf*-based co-operative would also function effectively within the scope of the country's existing legal structure, yet would simultaneously utilise an established Islamic code of conduct. In this sense, it is unlikely in the extreme that the proposed institution would disturb the present economic structure of Singapore in any way.

Moreover, a country's receptivity to micro, small and medium business, and its enthusiasm to function in accordance with Islamic principles, is greatly determined by the behaviour of the Muslim community in the context of Singapore, as there is increasing awareness of religion amongst the Muslim community. There is an identifiable need to establish businesses in accordance with the tenets of Islam; this was proven by the establishment of the past two co-operatives under the auspices of *Yayasan Mendaki* Singapore. However, owing to the inexperience and inadequate knowledge of the operation of Islamic financial instruments, this has consequently led to the failure of such co-operatives. Hence, in tandem with a clear demand, the failure of these enterprises has left an unfulfilled demand amongst the community for micro, small and medium businesses operating in accordance with the teachings of Islam.

Furthermore, through the design and establishment of the *waqf*-based co-operative proposed in this research, the prominence of the *waqf* institution will itself be enhanced, owing to the fact that the *waqf* activities will be integrated in the overall development plan of the country. However, the success of this will essentially depend upon the willingness and resources of the government, as it has not yet integrated specific policies on small-scale businesses into its national development plan. Hence, the recommendations in this research for developing a proposed social infrastructure founded upon the concept of brotherhood and solidarity may remain a tentative suggestion. Notably, however, if the proposed co-operative is accepted and founded, it is believed that this would help to renew the confidence of the community and further confirm the importance of the *waqf* institution as an important tool for poverty alleviation. Moreover, through a process of enlightenment partly encouraged by the positive example provided by a *waqf* institution in the form of the proposed co-operative, the target community's trust will be restored. Furthermore, the co-operative proposed in this research, founded upon social capital and religious ideals, is expected to be a valuable tool in terms of promoting a greater flow of information between both lenders and borrowers. Ultimately, it is hoped that this new co-operative will combat unfavourable economic discrimination, alleviate the poverty currently endemic in a major section of Singaporean society, whilst simultaneously benefitting the country as a whole by providing a robust and just defence against instability and upheaval in the credit market.

'If you keep good relations with your Kith and kin, help the poor and the destitute, serve your guests generously and assist the deserving calamity-afflicted ones, Verily! The Lord Almighty will never disgrace you.'[39]

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[39] *Saheeh Bukhari*

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Glossary of Terms

Al-Qur’an: Divine Book of Islam

Al-Sunnah: The way of Prophet Muhammad (pbuh)

Amanah Saham Mendaki: *Mendaki* Growth Fund

Asabiyah: Social Cohesion

Fard Kifayah: Actions obligatory on the Muslim community at large

Gharar: Literally, it means deception, danger, risk and uncertainty

Haram: Forbidden

Ijarah: Leasing. Sale of usufruct of an asset

Ijarah Wa Iqtina: Lease purchase arrangements

Istisna’: Refers to a contract whereby a manufacturer (contractor) agrees to produce (build) and deliver a well-described good (or premise) at a given price on a given date in the future

Mudharabah: A contract between two parties

Murabahah: Sale at a specified profit margin

Musharakah: Joint venture; an agreement between two or more partners

Musharakah Mutanaqisah: Diminishing Partnership

Mutawalli: Administrator / Trustee

Qardhul Hasan: Benevolence Loan

Riba’: An excess or increase and it covers interest both on commercial and consumer loans

Sadaqah Jariyah: Charitable deeds

Sayyidatina: Our Lady

Shari’ah: Islamic law; the way of Allah as shown by the Qur’an and the *Sunnah* of the Prophet Muhammad (pbuh)

Sukuk: Bond

Takaful: Mutual support which is the basis of the concept of insurance or solidarity among Muslims.

Tawarruq: Purchasing a commodity with deferred payment and selling it to the person other than the buyer for a lower price with immediate payment

Waqf, pl. Awqaf: Endowment

Zakah: Islamic wealth tax

Appendices

(1) SINGAPORE CO-OPERATIVE SOCIETIES ACT

Qualifications for membership
Section 39

(1) The qualifications for membership in a primary society shall be —
(a) in the case of an individual person, that he —
(i) shall have attained the age of 16 years and in the case of a school co-operative shall have attained the age of 12 years;
(ii) shall be a citizen of Singapore or resident in Singapore; and
(iii) meets such other requirements with regard to residence, employment, profession, etc., as prescribed by the by-laws,
except that no person shall be admitted to membership who is legally or mentally disabled or who is a bankrupt or against whom a conviction stands for an offence punishable with imprisonment; and
(b) in the case of an institution, that it is registered as a society under this Act or is a trade union.
[23/2008]
(2) Membership in a secondary society shall be restricted to registered co-operative societies and trade unions.

(3) Membership in an apex organisation shall be restricted to primary and secondary societies registered under this Act.

(3A) Notwithstanding subsections (1), (2) and (3), membership of individuals in a credit society shall be restricted to individuals who belong to a field of membership consisting of a pre-existing common bond of association or community of interest among the members thereof.

[23/2008]

(3B) In determining whether the criterion for membership in a credit society prescribed in subsection (3A) is met, regard shall be had to —
(a) whether the members have the same or a similar occupation or profession, are employed by a common employer, or are employed within the same business district or commercial area;
(b) whether the members have common membership in a religious, social, co-operative, labour, educational or other association or organisation;
(c) whether the members reside, work or worship within the same defined community, district or electoral division; and
(d) such other considerations as the Registrar may determine to be relevant.

[23/2008]

(3C) Subsection (3A) shall not apply to any person who, immediately before 20th October 2008, is a member of any society which provides any financial service and which continues to provide such financial service from that date as a credit society, whether by virtue of paragraph 1 of the Schedule to the Co-operative Societies (Amendment) Act 2008 (Act 23 of 2008) or otherwise.

[23/2008]

(4) A member who may at any time be found to be disqualified for any of the reasons mentioned in this section shall cease to be a member of the society.

(2) ACCOUNTING AND CORPORATE REGULATORY AUTHORITY (ACRA) SINGAPORE

Referral Authority	When referral is required
Board of Architects (BOA)	Subject to the provisions of the Architects Act, no person shall use verbally or otherwise the word "architect" or any of its derivatives in connection with his business designation, or any other words, name or designation that will lead to the belief that the person is an architect unless the person is a registered architect. **SSIC Code:** **71111** (Architectural services)
Inland Revenue Authority of Singapore (IRAS)	Proposed activities involving “Real Estate Agent” or "Real Estate Agency", and applications for change of name by entities already carrying on real estate agency activities. **SSIC Codes:** **68201** (Real estate agencies and valuation services) **68209** (Real estate activities on a fee or contract basis nec.)
International Enterprise Singapore (IE	Names and activities involving “Physical Rubber”, “Rubber futures”, ”Commodity futures” e.g. "Rubber trading", "Rubber futures", "Commodity brokers", "Commodity Futures Exchange", "Commodity / Commodities Exchange", "Futures brokers", "Futures Exchange", "Commodity

Singapore)	Futures", "Clearing Exchange/House/House Exchange". **SSIC Codes:** **22111** (Processing rubber, including processing of rubber latex) **22112** (Grading and packing of rubber) **46221** (Wholesale of rubber, including rubber brokers) **66124** (Commodity and futures brokers and dealers)
Ministry of Community Development, Youth and Sports (MCYS)	Proposed activities involving the following SSIC codes: **87021** (Residential care services for the elderly) **87022** (Residential care services for the children e.g. Children's Homes, Orphanages) **Non-Residentially Based Social Activities** **88913** (Social services for children and youths) **88919** (Social services without accommodation for children, youths and families nec.) **88101** (Social services for the elderly) **88102** (Social services for persons with disabilities)
Ministry of Defence (MINDEF) (Defence Technology and Resource Office)	Proposed names containing "Military" or "Defence".
Ministry of Education (MOE) (Private Schools Section)	Establishments functioning as a "school" / "learning centre" / "education centre" / "training centre", excluding those offering instruction of a "non-academic" nature, e.g. beauty care, dressmaking, cooking, sports, games, driving, recreation-related, etc. Names containing "Academy", "College", "Institute", “Institution", "University"; and "National", "Singapore", will normally be disallowed. **SSIC Codes:** **85211** (Secondary schools) **85212** (Junior colleges and centralised pre-university institutes) **85213** (International and foreign system schools - secondary) **85214** (Schools for the handicapped and educationally sub-normal - secondary) **85221** (Technical and vocational education) **85223** (Specialised trade schools) **85301** (Polytechnics) **85302** (Universities) **85303** (Teachers' training institutes) **85304** (Commercial schools offering higher education programmes) **85494** (Academic tutoring services)
Ministry of Foreign Affairs (ASEAN National Secretariat, Singapore)	Proposed names containing "Association of Southeast Asian Nations" or "ASEAN". The conditions governing the use of the name "ASEAN" are available at www.aseansec.org/7095.htm. Please ensure that your application includes information describing how these conditions are satisfied.

<table>
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<td>Monetary Authority of Singapore (MAS)</td>
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Proposed names containing the following words:
A) "Bank" and its derivatives; (Examples of derivatives of word "Bank" would include "banking", "banque", "banco", "Bancaire", "Banca" and "Banche")
B) "Finance Company" and "Finance";
C) "Futures Exchange", "Clearing House" and "Securities Exchange" or titles that resemble these titles or give the impression that the applicant is a securities or futures exchange or clearing house; (Examples of titles, which resemble "Futures Exchange", "Clearing House" and "Securities Exchange", would include "stock exchange", and "clearing corporation" and "clearing organisation")
Applications to register entities whose activities come under the Banking Act (Cap 19), the Finance Companies Act (Cap 108), and the Monetary Authority of Singapore Act (Cap 186). This would include entities which conduct banking business, merchant banking, or finance company business, or carry on the business of <u>issuing</u> credit cards or charge cards in Singapore. SSIC Codes: 6412, 6413, 6414, 6415, 64922, 64992
MAS will consider the applications and will, if necessary, liaise directly with the applicants on any information MAS may need concerning the applicants and their proposed business.
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The following applications need not be referred to MAS. However, if the applicant intends to engage in any activities that require licensing, registration, or approval by MAS, the requisite license, registration or approval shall be obtained from MAS. The approval of the registration of the entity by ACRA shall not be construed as a reflection on the entity's suitability to be licensed, registered or approval by MAS.
(A) If proposed names contain the words :
"Futures", "Futures Broker", "Futures Trading Adviser", "Futures Pool Operator", "Securities", "Stockbroker", "Fund manager", "Fund management", "Asset management", "Venture management", "Insurance" or names which resemble these titles; "Financial", "Financing", "Financial Adviser", "Insurance Broker", "Reinsurance Broker", "Assurance", "Reinsurance", "Reassurance", "Insure", "Insuring", "Insuritz".
Applications to register entities whose operations come under the Securities and Futures Act (Cap 289) and the Financial Advisers Act (Cap 110).This would include entities, which engage in the trading of securities or futures contracts, fund management activities, or the provision of financial advisory services.
Applications to register entities whose activities include money-changing and remittance businesses. SSIC Codes: 64993, 64994
Applications to register entities whose operations come under the Insurance Act (Chap 142). This would include entities which conduct insurance/reinsurance business; insurance broker (life & general); any insurance related businesses including insurance adjusters and surveyors acting as insurance agents. SSIC Codes: 6511, 6512, 6520, 6530, 6622, 6629
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Majlis Ugama Islam of Singapore (MUIS)	Proposed names and activities containing or involving "Islam", "Muslim", "Halal" and their derivatives.
Singapore Police Force (Licensing Division)	Activities relating to arms, explosives, ammunition. **SSIC Codes:** **20299** (Manufacture of other chemical products nec.) **25200** (Manufacture and repair of weapons and ammunition, e.g. ordance and accessories)
Singapore Tourism Board (STB)	Names containing "Merlion", "eMerlion" and activities involving "Tourist", "Travel". Entities wishing to carry out tourism related activities could register for their license with the Singapore Travel Exchange via STB website. **SSIC Codes:** **50011** (Sightseeing cruise services) **52299** (Other transportation support activities nec) **79102** (Travel agencies and tour operators - mainly outbound) **79103** (Ticketing agencies - including airline, tour bus and cruise ship)
The Law Society of Singapore	Names and activities containing or involving “Law”, “Legal” or “Lawyer” will be referred to the Law Society. Where the activity involves the setting up of a Law Corporation under the Legal Profession Act, the applicant should obtain prior approval from the Law Society. Such company is required to have either the initials "LLC" or the words "Law Corporation" at the end of the applied name, instead of "Pte Ltd". Where the activity involves the setting up of a Joint Law Venture under the Legal Profession Act, approval from the Attorney-General's Chambers is required. **SSIC Code:** **69100** (Legal activities)

Applicants to obtain approval from Regulatory Authorities prior to registration with ACRA

Regulatory Authority	When prior approval is required
Institute of Certified Public Accountants of Singapore (ICPAS)	Names and activities containing "Accountancy", "Accounting", "Audit", or derivatives thereof are to obtain approval from ICPAS.
Registry of Co-operative Societies	Names and activities containing "Co-op" or "Co-operative". Applicant to obtain approval of Registrar of Co-operative Society.
Ministry of Health (MOH)	The terms "Clinic", "Medical", "Medical Hall", etc and not to be used by Chinese Physicians. But applicants may use "Chinese Medical Hall" or "Traditional

	Medical Hall". The name of the entity must be clear to indicate that the applicant is dealing in traditional, not modern medicine.

Acronyms and Abbreviations

ACRA: Accounting and Corporate Regulatory Authority

AMLA: Administration of Muslim Law Act

ASME: Association of Small Medium Enterprises

DBS: Development Bank of Singapore

DIB: Dubai Islamic Bank

FTA: Free Trade Agreement

GCC: Gulf Co-operation Council

GDP: Gross Domestic Product

HSBC: Hongkong Shanghai Bank of China

IBA: Islamic Bank of Asia

ICB: Islamic Commercial Bank

IDB: Inter-Governmental Islamic Development Bank

IFSB: Islamic Financial Services Board

KFH: Kuwait Finance House

LEFS: Local Enterprise Finance Scheme

LIS II: Loan Insurance Scheme II

MAS: Monetary Authority of Singapore

MFIs: Microfinance Institutions

MLP: Micro Loan Programme

MUIS: *Majlis Ugama Islam Singapura* / Islamic Religious Council of Singapore

PPP: Purchasing Power Parity

RPS: Resource Productivity Scheme

SCB: Standard Chartered Bank

SMEs: Small Medium Enterprises

UAE: United Arab Emirates