

Venture Philanthropy Waqf Model: A Conceptual Study (Model Wakaf Usaha Kedermawanan: Satu Kajian Konseptual)

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ABSTRACT

The concept of venture philanthropy has been greatly discussed by various parties especially among the policy makers. The increasing social problems call for corporations to respond positively and take responsibilities in the social sector. It encourages venture philanthropy activities among profit and non-profit organizations in enhancing business values and creating positive social impacts. There have been past studies that looked at how venture philanthropy concept can be linked with Islamic philanthropy. Islamic philanthropy includes but not limited to zakat, waqf and sadaqah. The instruments within Islamic philanthropy aim to serve the purpose of narrowing social distance and reducing inequalities. This conceptual paper aims to understand further the concept of venture philanthropy and how it links to Islamic philanthropy. This paper also aims to explore how venture philanthropy approach is applicable in enhancing waqf practices.

Keywords: Waqf; venture philanthropy; Islamic philanthropy; social entrepreneurship; social impact on society

ABSTRAK

Konsep usaha kedermawanan telah banyak dibincangkan oleh pelbagai pihak terutamanya dalam kalangan pembuat dasar. Masalah-masalah sosial yang semakin meningkat memanggil syarikat-syarikat untuk bertindak balas secara positif dan mengambil tanggungjawab dalam sector sosial. Ia menggalakkan aktiviti usaha kedermawanan antara organisasi yang berasaskan keuntungan ataupun yang bukan berasaskan keuntungan dalam meningkatkan nilai perniagaan dan mewujudkan impak sosial yang positif. Terdapat kajian lalu yang melihat bagaimana konsep usaha kedermawanan boleh dikaitkan dengan kedermawanan Islam. Kedermawanan Islam tidak sahaja terhadap kepada zakat, wakaf dan sedekah. Instrumen-instrumen dalam kedermawanan Islam bertujuan untuk merapatkan jarak sosial dan mengurangkan ketidaksamaan. Kertas konsep ini cuba memahami lagi konsep usaha kedermawanan dan bagaimana ia dihubungkan kepada kedermawanan Islam. Kertas kerja ini juga bertujuan untuk meneroka bagaimana pendekatan usaha kedermawanan berkenaan dapat membangunkan lagi amalan berwakaf.

Kata kunci: Wakaf; kedermawanan usaha; kedermawanan Islam; keusahawanan sosial; impak sosial ke atas masyarakat

INTRODUCTION

Muslims are brothers. Brotherhood can be created through aid and assistance in various forms. Islamic societies have a rich heritage of philanthropic institution. These institutions played an immeasurably important role. Development of strong civil society in the Islamic world requires parallel development in indigenous philanthropic. For civil society to become sustainable, fully accountable to its parent society, and capable of supporting social justice, it cannot rely solely or even primarily on international donors and government funding. It needs the capacity to mobilize independent local resources (Jennifer 2004). According to Alam (2010), charity is one of the five pillars of faith and obligatory for Muslims and it is intended to serve the purpose of narrowing the social distance and reduce inequality. Islamic approach to poverty alleviation is multi-dimensional and comprehensive (Sadeq 2002).

ISLAMIC PHILANTHROPY

As mentioned earlier in the introduction, charity forms one of the pillars of Islamic faith. Unlike the western approaches to philanthropy, Islam has made philanthropy mandatory by way of providing *zakah* or religious tithe. However, *zakah* is only compulsory for those who have fulfilled several conditions and one of most important is that the Muslim has "resources remaining after meeting the basic requirements of his family" (Alam 2010; Almarri et al. 2012). Furthermore, the remaining resources must be below the year's stipulated *nisab* or threshold for the *zakah* to be subjected to.

Islamic philanthropy also covers beyond compulsory charity. It is important to note that Islam has a different perspective on wealth. All Muslims are encouraged to maximize their wealth according to the Shariah principles. However, Muslims cannot claim for the ownership of wealth. Ownership of wealth lies with

Allah (the God), the Almighty. Muslims are deemed to be the guardian or steward of the wealth. Charity or philanthropy, whether compulsory or voluntary, is seen to be a re-distributive approach not only to the poor but also to the society at large. By way of such act of giving, the wealth gap within and among the societies can be minimized or even eliminated.

Voluntary charity is a virtuous deed in Islam. In fact, it is considered as a proof of one's *eeman* (faith). The Prophet peace and blessing be upon him (sallallaahu 'alayhiwasallam, SAW) said in the following authentic hadeeth:

Abu Malik al-Ashari (radhiAllahu'anhu) narrated that Allah's Messenger (SAW) said: "Cleanliness is half of faith. Alhamdulillah (Praise be to Allah) fills the scale. SubhanAllah (Glory be to Allah) and Alhamdulillah fill up what is between the heavens and the earth. Prayer is a light. Charity is proof (of one's faith). Endurance is a brightness and the Qur'an is a proof on your behalf or against you. All men go out early in the morning and sell themselves, thereby setting themselves free or destroying themselves."

(Muslim, 432)

The more we give *sadaqah* (voluntary charity) the more we increase our *eeman* (faith) and thus, expect Allah's rewards both in this world and in the life hereafter. Giving charity out of our wealth does not decrease our wealth but instead Allah (SWT) increases it:

Allah will deprive usury of all blessing, but will give increase for deeds of charity: for He loves not creatures ungrateful and sinner.

(Qur'an, 2: 276)

WAQF AND DEFINITION

Waqf is one of the oldest charitable institutions in the world. It is also one of the economic backbones of Islam that existed since the time of Prophet Muhammad (SAW) that catalyzes economic development of Muslims from various aspects of life.

Waqf is a wealth sharing mechanism with the other persons (Asmak 2009). It is a private possession or asset in any form that has been put under injunction from any form of transaction including sale, inheritance, *hibah* (grant) and *wasiyyah* (will) whilst its physical source remains intact and unchanged. A dominant characteristic of *waqf* is perpetuity. Therefore, *waqf* typically applies to non-perishable properties whose benefits and usufruct can be extracted without consuming the property itself. *Waqf* is *sadaqah jariyyah* (running charity). It is distinct from ordinary *sadaqah*, the difference being the repeatability of the benefits that flow out of it. In Shari'ah, unlike *zakah*, a *waqf* is a voluntary, permanent, irrevocable dedication of a portion of one's wealth (in cash or kind) to Allah (SWT). Like ordinary *sadaqah*, *waqf* is flexible in the sense that its beneficiaries need

not be restricted to Muslims and the fruits of the *waqf* must be utilized for Shari'ah compliant purposes.

ORIGINS OF WAQF

Ibn 'Umar reported: 'Umar acquired land in Khaibar. He came to the Prophet Muhammad (SAW) and sought his advice in regard to it. He said; "Allah's Messenger, I have acquired a land in Khaibar. I have never acquired more valuable for me than this, so what do you command I do with it?" Thereupon the Prophet (SAW) said: "If you like, you may keep the corpus intact and give its produce as *Sadaqah* declaring that the property must not be sold or inherited or given away as a gift". And 'Umar devoted it to the poor, to the nearest of kin, to the emancipation of slaves, to wayfarers or guests, and in the way of Allah (Sahih Muslim).

In another Hadith, Muhammad (SAW) said, "When a man dies, only three deeds will survive him: continuing alms, profitable knowledge and his child praying for him." (narrated by Ibn Majah As-Qalani).

During the Ottoman Empire, the *waqf* institution would lend money to households and merchants in order to earn income. The income will then be used to provide public services such as soup kitchens for the poor, inns for travelers, water fountains, places for worship, educational services and other basic infrastructural facilities (Alias 2012).

TYPES OF WAQF IN ISLAM

According to Habibollah et al. (2010), there are three types of *waqf*.

1. Religious *waqf*: referring to *waqf* for mosques and religious schools.
2. Philanthropic *waqf*: in humanitarian *waqf*, benefits are allocated to support the society and promote social activities. For instance the library, educational centers, health care etc.
3. Family *waqf*: *waqf* from parents to children and heirs.

Alias (2012) has further discussed on another type of *waqf* which is called cash *waqf*. Alias has defined cash *waqf* as:

.....an endowment of cash by a founder with the intention that the corpus or principal should be managed by a trustee so as to earn an income that could be spent towards righteous purposes as designated by the founder. (Alias 2012: 2).

Earlier, Cizakca (2004) has suggested a model in which the concept of cash *waqf* can be used in contemporary times to serve the social objectives such as to provide microfinance to the poor. Today, the so-called corporate *waqf* started receiving attention among companies and private property of Islam. This method

has become the instrument to collect contributions from Muslims to help Muslim entrepreneurs who have the ability, expertise, efficiency and entrepreneurship spirit to open-up businesses and turn them to be successful businesses.

In Hassan and Abdus Shahid (2010), Cizakca (2004) proposes a model in which the concept of cash *waqf* can be applicable to serve the social objectives. Elgari (2004) also suggests on establishing the Qard Hassan (non-profit) bank that gives interest free loan to finance consumer lending for the poor. The capital provider of cash *waqf* would come from wealthy Muslims. According to Hassan and Abdus Shahid (2010), the permanent nature of *waqf* has resulted in the accumulation of *waqf* properties all over the Muslim lands and the variety of its objectives provides support for widespread religious and philanthropic activities. *Waqf* assets are employed for repeatedly extracting its usufruct for the benefit of an objective representing righteousness or philanthropy.

ISSUES CONCERNING THE MANAGEMENT AND DISTRIBUTION OF MUSLIMS' WEALTH

Waqf has high potentials in redressing socio-economic inequities and enhancing the quality of life. *Waqf* is one of the social security systems that will not only help individuals but collectively can ease the financial burden of a country. It plays a very important role in poverty alleviation, health services, education, orphanage center, mosques, shelter and residences for the needy, and others as long as it complies with Shariah.

In recent years, Muslims' wealth has grown rapidly and some portion of the wealth has been redirected for philanthropy purposes. According to Alam (2010), the magnitude of Islamic philanthropy in Muslim communities is estimated around USD1 trillion annually. Alam (2010) has expressed concerns on the sustainability of the funds and in spite of having such a huge contribution and a wealth base; the application and execution of those funds are either mismanaged or misappropriated (Alam 2010). As such, the discussion in this paper will center in the ways of ensuring sustainability and continuous growth of the assets which are subjected to *waqf*. The potential of venture philanthropy will be discussed as an approach to enhance *waqf*.

VENTURE PHILANTHROPY

Venture Philanthropy (VP) or philanthropy venture capital has spread rapidly in the United States and Europe. The reasons are due to the growing needs of social entrepreneurs for large sum of investments and to overcome the shortcomings of the short-term funded investments (Scarlata & Alemany 2010). To date, there is still no clear definition of venture philanthropy (VP). However, past authors had described several characteristics of VP

that distinguishes it from venture capitalists, commercial ventures and anything else alike.

AIM

The most common characteristic of VP which are agreed by many authors are its establishment is to achieve social returns by way of creating community benefits (Scaife 2008). According to Pepin (2005), VP seems to be similar to that of venture capitalists, from the perspective of the initiative that both have. The establishment of a VP or a venture capital is to create a win-win situation between the capital provider and the beneficiary. However, a venture capitalist may be primarily expecting financial returns on the investment whilst a VP will be expecting social returns instead.

Scarlata and Alemany (2010) have used the term philanthropic venture capital to describe the investment that is focusing on the ethical dimension rather than just focusing on maximizing the shareholders' wealth. The authors have described philanthropic venture capitalist as someone who adds value to the social entrepreneurs. The purpose of the investments is for the betterment of the society and to fulfill their basic and long standing social needs.

STRUCTURE

Pepin (2005) has described VP within the context of social entrepreneurship, whereby VP is considered as one of the non-traditional charitable sources of revenue. He has divided non-traditional sources of revenue into three categories: venture philanthropy, commercial ventures and social venture capital. The three share a common characteristic which is to provide funding in the hope to gain returns that can be contributed for social purposes. The returns are generated through commercial activities - the funders may be involved directly in the whole process as entrepreneurs or partners, or "*may only invest without establishing an equity position*" (Pepin 2005). Charities can benefit from such structure as the profits which are generated in a commercial manner, will contribute to its sustainability.

A VP can take many forms. It can involve "*individual or consortium of individuals; established as independent trusts; or part of existing trusts or corporate foundations or part of a charity held by the charity in 'partnership' with external 'investors' playing role of a venture philanthropy*" (Pepin 2005: 3). A VP may also be seen as a form of corporate social investment (CSI) (Cooke 2010). A corporation will still operate like a normal business that strives to generate maximum profits and maximize shareholders' wealth. What makes a corporation a philanthropist is its engagement with a community either directly or via a not-for-profit intermediary. Question might arise on how different is CSI from corporate social responsibility (CSR)? However, the two may be distinguished by analyzing the initial intention for having a social engagement with the society. CSI must

not be an appeasement mechanism (Cooke 2010) to fulfill commercial greed.

RELATIONSHIP

Another characteristic of VP that distinguishes it from capital ventures is it requires a high level of engagement and interactions between the VP and the fund recipient (Pepin 2005; Scaife 2008). Such engagement will definitely require a long-term relationship to be established (Pepin 2005; Slyke & Newman 2006). The term of relationship observed is usually 3-5 years. VPs will work closely with their social entrepreneur partners and may not only provide a substantial amount of financial investments (Pepin 2005; Slyke & Newman 2006) but also business advices (Scaife 2008), idea generations, time and human capital. It is not merely a relationship between the funder and the grantee, as what is seen in that of venture capitalist. The relationship is more intensive, frequent and engaging.

At the 'exit' of the relationship between the funder and the grantee, venture capitalists expect a short to medium term exit with capital gain, whilst venture philanthropists have a special focus on building income to achieve sustainability.

ENHANCEMENT OF *WAQF* USING VENTURE PHILANTHROPY APPROACH

Traditionally, giving out *waqf* usually takes in the form of tangible assets such as land and properties. Recently, the *waqf* practice has evolved to include the giving by way of cash. This cash is mobilised to an administrator to purchase assets that are tangible and perpetuity in nature.

Alias (2012) argues that certain strategies learnt from venture capital can be used in the investing and spending decisions. Non-profit organizations (NPOs) may also benefit from the venture capitalist strategies to ensure the institutions' sustainability. Most of the donations, supports and grants received by the NPOs are spent on yearly activities but less are channeled for institution sustainability purposes (Alias 2012). In her paper, Alias (2012) has proposed a model called the Enterprise *Waqf* Fund (EWF) to enhance the role and the management of cash *waqf* fund by employing the venture capital thinking and strategies.

Hassan and Abdus Shahid (2010) also viewed *waqf* from its economic context. *Waqf* can be explained as a diversion of resources from consumption and investing them in productive assets that provide either usufruct or revenues for future consumption by an individual or a group of individuals. They propose that the surplus income of *waqf* can be put into operation that combines the act of saving with the act of investment. The increase on the accumulated capital could be used to support the future output of services and incomes.

Venture philanthropists contribute to finance venture projects (which in nature is very risky, thus the lack of

willingness of bank to finance the projects using the profit sharing and partnership modes). In addition to the types of *waqf* mentioned, a business entity could be a subject matter of *waqf*. Successful business people who have the capital and business expertise could be a venture philanthropist by using the *waqf* instrument.

PROPOSED *WAQF* MODEL: ESTABLISHING *WAQFED* BUSINESS USING VENTURE PHILANTHROPY APPROACH

This section will discuss a model on which VP strategies will be applied to establish sustainable *waqfed* business or businesses (refer Figure 1). Having sustainable business will ensure that philanthropic activities will continuously generate streams of income. Besides that, the *waqfed* business will need to find ways to grow the capital and assets by way of Shariah-compliant investments or other means. In fact, this model also suggests that when a business is established as a *waqf*, the ownership does not lie on the sole-proprietor, partners or shareholders. This is because in *waqf* principle, the ownership of *waqf* will be transferred to Allah (the God) Al-mighty. However, a *waqfed* business will have many stakeholders as the ultimate receiver is the society at large, regardless of whether they are Muslims or non-Muslims. This will encourage good governance of the business.

According to the proposed model, the initial start-up capital for the *waqfed* business will be contributed by an individual or a group of venture philanthropists (VPS). In addition to that, the VPS are also expected to contribute in terms of capable human resources to run the business, innovative ideas, business strategies, and an appropriate performance measurement system. The VPS and the management of business will have a long-term relationship in the range of 3 to 5 years or more depending on the conditions of the business. The VPS will then execute the 'exit strategy' once the *waqfed* business is mature enough, independent and is able to search for its own sources of funding. It is also hoped that when a VP *waqfed* one of its business entities to be operated under a *waqf* institution, other business entities operated by the same VP will spin off.

The model also suggests that the *waqfed* business does not stop by just running its own business activities. Since the intention of this model is to create a sustainable stream of contributions to the society, the first *waqfed* business (WB_1) is expected to establish another *waqfed* business (WB_2). WB_2 may be operating the same type of business, be part of the value chain of WB_1 or operating a totally new type of business. One thing unique about this model is that in the initial start-up of WB_2 , WB_1 may act as either the parent company or the VP itself. The difference between the two is that the former will have control of WB_2 , while the latter will have temporary control and will execute the 'exit strategy' when the time is 'right' (or in accordance to the collateral).

As an added value to the model, the spirit of *waqf* is enhanced by establishing one or more special *waqfed* entities (SWE) that provide free goods or services to the needies. In contrast to WBs which operate under the normal market supply and demand, albeit operating at lower cost since they have no cost of equity (*waqfed* business), SWE could operate as outlets that provide free goods and services. With many WBs established, it is viable economically to establish few SWEs which could provide free goods and services.

CONTRIBUTIONS OF THE PROPOSED MODEL

The proposed model will be able to contribute to the society in many ways as discussed below:

CREATION OF WAQAF ENTITIES THAT OPERATES SUSTAINABLY WITHOUT ADDITIONAL CAPITAL INJECTION

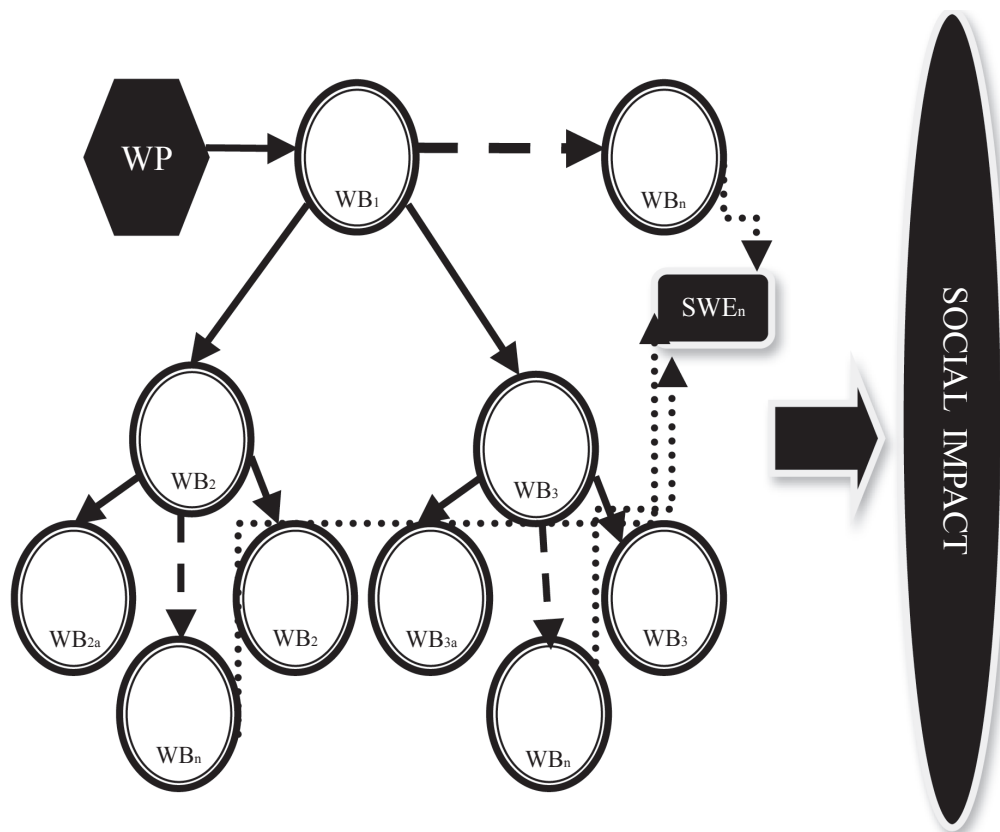
Alam (2010) writes that Venture Philanthropy means funding organisations with not only financial resources, but also management and technical support. With the monitoring from the expert, the business will have a great chance to be successful, thus able to operate sustainably without the need of additional capital injection.

This will also be a value-adding tool to the concept of endowment, trust funds and charity in the Western

world. Endowment model also has influenced Western society so much so that the model becomes the foundation of community development through the establishment of educational institutions, social service and welfare (Gaudiosi 1988). For example in the year 1264, Walter de Merton College was established at the University of Oxford using the concept of endowment. The study made by The Sutton Trust found that 10 of the leading universities in the United States and the United Kingdom respectively raised a total of RM176.32 billion and RM29.25 billion in endowment. Harvard University in the United States alone raised a total of RM68.4 billion in endowments to fund educational activities and research, maintenance and operation of library scholarship fund (Razali 2006).

LOW PRICE OF ESSENTIAL GOODS AND SERVICES

Price of goods essential for the public such as groceries, shelter, clothings, education, and health services, conceptually will be lower than the market price since the goods and services are produced by WB entities. These entities do not have cost of equity (no shareholders) or cost of capital because the capital was provided by the VP. In other words, WB entities operate without financing from financial institutions which requires profit to be paid to the capital provider.



Notes: WB = waqfed business, VP = venture philanthropist, SWE = special waqfed entities

FIGURE 1. Waqfed business model

CREATION OF EMPLOYMENT OPPORTUNITIES

When a VP relinquishes his business assets using *waqf* mechanisms, WBS will be created. The WB needs employees who are responsible to manage every aspects of the business. This will create job opportunities, which in turn improve economic growth.

BOOST TO THE GROWTH OF SHARIAH-COMPLIANT COMPANIES

The growth of WBS to cover more type of industries will result in a greater numbers of Shariah compliant companies. WBS are created or originated from *waqf* fund (of VPs), thus are required to operate in a Shariah-compliant environment, be it the activities or finance.

STIMULATES THE GROWTH OF ISLAMIC FINANCIAL INSTITUTIONS

The growth of WBS will create demand for Shariah-compliant savings and investment instruments provided by Islamic banks. Surplus funds initiated through *waqf* will be stored in Islamic financial institutions. With this, it could increase the bank's funds to be redirected to activities such as investment banking and credit creation. Profits derived from WB activities will be shared between the banks and *waqf* institutions. In addition, WBS will need *takaful* covers for fire and other mishaps as well as motor *takaful* to cover for financial loss and damage for fleet of vehicles owned by WBS.

ESTABLISHING A WAQF-BASED FINANCING

Elgari (2004) in a study conducted by Ahmed (2007) proposes establishing a non-profit financial intermediary, the Qard Hassan bank that gives interest free loan to finance consumer lending for the poor. The capital of the bank would come from cash *waqf* donated by wealthy Muslims. Furthermore, Kahf (2004) and Ahmed (2003) propose establishing a microfinance institutions based on *zakat*, *waqf*, and *sadaqah*. They suggest that the returns and funds generated from these sources can be used to finance productive microenterprises at subsidized rates.

RECOMMENDATIONS AND CONCLUDING REMARKS

WAQF

is a powerful tool for sustainable community development and for stimulating the economic growth of the nation. Therefore, it is high time to put more emphasis on how to re-energize the governance and the implementations of *waqf*. The proposed model will not only assist *waqf* in achieving its core objectives but it will also open a window of opportunity for social entrepreneurs to

widen their scope of contributions. However, in order for the model to work successfully, several issues need to be addressed and several important reforms need to be done. This is to provide a holistic framework of *waqf* governance and sustainability. The following are several recommendations and future research areas that may be explored:

GOVERNANCE, ETHICS AND LAW OF FIDUCIARIES

A *waqfed* business does not have legal 'shareholders' who will serve as the watchdog to oversee the business operation and management are done accordingly. Therefore, *waqfed* business is exposed to agency and moral hazard issues. Alias (2012) has suggested a few reforms to the current governance, policy and law of *waqf*. Among the recommendations are to:

1. design a *waqf* governance framework,
2. develop the fiqh law on fiduciary responsibilities,
3. extend the financial reporting standards and regulations to *waqf*,
4. appoint internal and external auditors,
5. establish an oversight body, for example (in Malaysia) Bank Negara Malaysia and Securities Commission,
6. reinstate the family *waqf* (as wealth management tool),
7. return the independence and autonomy of the *waqf* to private management, and
8. hire skill and knowledgeable staffs who will foster the movement cycle of *waqf* assets in accordance to Maqasid Shari'ah.

In addition, the laws and regulations relating to the formation of a *waqfed* business must be established. For example, in Malaysia, a sole-proprietor, partners or a corporation intending to open-up a business will need to register with the Registrar of Companies (ROC), whilst a non-profit organization needs to register with the Registrar of Society (ROS). However, for a *waqfed* business, the existence of law and regulation that outlines the procedures seems vague.

INCENTIVES FOR VENTURE PHILANTHROPISTS AND FUND PROVIDERS

To encourage VPs to engage in *waqfed* businesses, the government needs to provide attractive incentives. This is because the VPs will be closely engaged with the business. Large amount of capital will be invested and a lot of resources such as time and expertise contributed will be an opportunity cost to the VPs. As incentives, the government might provide the individuals or entities that provide funding in establishing the *waqfed* businesses with tax reliefs, exemptions or deductions.

It is hoped that with *waqf* being one of the focus in the recently presented Malaysian Budget by the Prime Minister, this issue will be addressed appropriately, at least in Malaysia.

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