

## **THE EFFECT ON SOCIO-ECONOMIC DEVELOPMENT OF AWQAF PROPERTIES INVESTMENT FUND IN SOMALIA**

**ULYA FATIMATUZZAHRA**

Department of International Relations, Universitas Darussalam  
Gontor, Indonesia.  
Email: [ulyafatimatuzzahra@gmail.com](mailto:ulyafatimatuzzahra@gmail.com)

**AFNI REGITA CAHYANI MUIS**

Department of International Relations, Universitas Darussalam  
Gontor, Indonesia.  
Email: [afniregita@unida.gontor.ac.id](mailto:afniregita@unida.gontor.ac.id)

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### **Abstract**

This study examines the role of the Awqaf Properties Investment Fund (APIF) in shaping socio-economic development in Somalia through the lens of international cooperation and Islamic political economy. Utilizing a qualitative case study approach and secondary data analysis, the research highlights how APIF, facilitated by multilateral institutions like the Islamic Development Bank (IsDB), serves as a strategic instrument of international development. The findings demonstrate that APIF not only supports small-scale organizations in high-risk areas but also strengthens transnational economic ties by integrating Islamic financial mechanisms into global development frameworks. The primary contribution of this study to the existing body of knowledge in this field is its demonstration of the potential for Islamic finance, particularly the waqf-based initiatives it examined, to function as an alternative paradigm within the broader context of the international political economy, offering a sustainable and cooperative approach to fostering economic resilience. The insights derived from this study underscore the increasing relevance of Islamic financial instruments, such as waqf, in achieving Sustainable Development Goals and in advancing international development strategies.

**Keywords:** *Islamic Development Bank, Waqf, Islamic Finance, International Cooperation, Somalia, Sustainable Development*

## **Introduction**

Since the launch of the Sustainable Development Goals (SDGs) by the United Nations (UN) in 2015, waqf has garnered renewed interest for its purported capacity to facilitate the realization of the SDGs<sup>1</sup>, such as poverty alleviation, economic empowerment, and providing quality education, among other areas. As a form of Islamic social finance, waqf has the potential to facilitate long-term economic stability and social welfare. To achieve the objectives of waqf, it is necessary to establish an institution or organization dedicated to this instrument. Waqf institutions, particularly those established as legal entities, can serve as alternative philanthropic entities, working with other civil society organizations to address various issues by implementing waqf<sup>2</sup>. The IsDB, a leading international organization established by the Organization of Islamic Cooperation (OIC), is well-positioned to spearhead the development of a new development strategy<sup>3</sup>. One potential avenue for this strategy could be the focus on waqf.

The IsDB is one of the international actors supporting the concept of waqf as a form of enduring Islamic social finance. The multilateral development bank has been involved in financing waqf institutions through various approaches, including developing programs and initiatives through the Awqaf Properties Investment Fund (APIF). This fund helps institutionalize the IsDB approach to waqf promotion through financing the development of waqf real estate properties, focusing on the social and economic impact of waqf projects<sup>4</sup>. APIF has played a role in Bangladesh and the United Arab Emirates, where it has funded and facilitated numerous projects. It has also expanded its reach to the African continent, where it has collaborated with the Towfiq Welfare Society (Towfiq Trust) to purchase waqf properties in Kenya to benefit the Towfiq Trust. These purchases were made in November 2015 to support education and health activities in Somalia<sup>5</sup>. Nevertheless, Somalia is characterized by a multifaceted interplay of socioeconomic, political, and environmental factors, collectively leading to a profound humanitarian emergency and a fragile developmental outlook. This property waqf project represents a potential avenue for fostering economic growth, social welfare, and infrastructure development, with the ultimate goal of enhancing the quality of life for Somali citizens. To achieve this, the Towfiq Welfare Society (TWS) has elected to leverage the more economically and politically stable condition of Kenya in the implementation of the APIF real estate waqf project, with Towfiq Trust, located in Nairobi, Kenya, serving as the executor.

Despite the growing recognition of waqf's role in economic development, existing research primarily focuses on its theoretical and legal aspects or its implementation in relatively stable environments. There is a limited understanding of how waqf functions in fragile and conflict-affected regions. This study addresses this gap by analyzing the impact of APIF on socio-economic development in Somalia, a country facing complex economic and political challenges. Therefore, the research question guiding this study is as follows: What is the socio-economic impact of APIF projects in Somalia? By examining APIF's role in cross-border waqf projects, this research highlights how international cooperation and Islamic finance can empower local organizations in fragile states. The study makes a significant contribution to the existing literature by shifting the focus from the theoretical framework of waqf to its practical implications in conflict-affected regions. The findings offer new insights into the effectiveness of waqf-based development models, particularly in fostering socio-economic development in Somalia. In doing so, this research underscores the relevance of waqf in the international development landscape and its potential as an alternative financing mechanism in global economic governance.

### **Review of Literature**

Waqf has been widely discussed in the academic literature, particularly regarding its role in economic development and poverty alleviation. Many studies highlight how waqf institutions have been successfully implemented in countries such as Saudi Arabia, Malaysia, Turkey, and Indonesia, where effective waqf management strategies have led to sustained growth and financial stability. The political economy significance of waqf as a dynamic instrument in the early days of Islamic society demonstrates that waqf significantly contributed to economic development and poverty alleviation<sup>6</sup>. Mohammad Abdullah argues that waqf, both in traditional and modern economies, plays a role in community empowerment, particularly when it can collaborate and coordinate with the Sustainable Development Goals (SDGs). At a broader level, waqf-based development programs can be implemented across Muslim countries, especially, and result in strategic partnerships with various waqf bodies in different countries. In short, the conceptual relevance of waqf has remained intact over the past centuries to the present day<sup>7</sup>.

As one of the most long-standing and widely utilized Islamic financial instruments, waqf has significant potential to facilitate sustainable development. However, the challenges faced in waqf management are limited funding and the involvement of other sectors in reaching the expected socio-economic impact. To optimize the financing potential of waqf, it is therefore important to consider the

concept of blended financing. Blended financing entails a combination of *Hibah* (donation) and *Qard Hasan* (interest-free loan), which is underscored as a means of alleviating the debt burden on income-generating waqf projects. Moreover, the concepts of profit-sharing contracts, such as *Mudārabah* and *Ijārah*, can be incorporated into blended financing facilities that are specifically tailored for real estate financing<sup>8</sup>. In this context, Islamic blended finance has an impact on the development of waqf projects through the combination of various Islamic commercial contracts to reduce the financial burden, particularly in achieving the Sustainable Development Goals (SDGs). Furthermore, it seeks to increase the attractiveness of waqf financing and enhance the social impact of the project.

These studies primarily examine waqf's legal frameworks, governance models, and its integration with modern financial instruments such as blended finance and profit-sharing contracts. However, there remains a lack of research on the role of waqf in fragile and conflict-affected regions, where socio-economic instability presents unique challenges. While previous studies have explored waqf's historical contributions to social welfare (e.g., funding education, healthcare, and public infrastructure), few have analyzed how waqf can function in unstable environments with weak institutional frameworks. The intersection between waqf, international cooperation, and development financing in fragile states remains underexplored.

One emerging strategy for overcoming financial and governance barriers in waqf development is the use of cross-border waqf investment models, where funds are managed in economically stable regions while benefiting communities in less developed areas. APIF's involvement in Somalia represents a case study of this model, demonstrating how international Islamic finance institutions can facilitate socio-economic development through waqf. This research builds upon previous studies by providing empirical insights into the effectiveness of such initiatives and their implications for global development policies.

### **Methodology**

This research adopts a qualitative approach with a case study method to examine and analyze the effect of the Awqaf Properties Investment Fund program in the context of cross-border projects between IsDB and Towfiq Welfare Society to advance socio-economic development in Somalia. The use of data collection techniques in this research is through literature review by referring to secondary data sources such as books, journals, online media,

magazines, annual reports of related institutions or agencies, documents, and some sources from internet sites in the form of official web pages of various national and international institutions. In this research, the authors rely exclusively on secondary data obtained from reliable sources, including academic journals, official reports from reputable agencies such as IsDB and APIF, and publicly accessible datasets.

The collection of primary data was not possible due to several limitations, such as limited information and access to primary sources in Somalia. Additionally, given the nature of international cooperation in waqf projects, the most relevant data has been documented in official reports and scientific publications. Therefore, this study exclusively uses secondary data to ensure a comprehensive analysis through the comparison of multiple sources. However, this approach has some limitations. Relying on secondary data without primary data collection may introduce bias, as the available information may not fully capture the perspectives of local beneficiaries and stakeholders. Furthermore, variations in reporting standards and data availability across different agencies may affect the consistency of findings. The analytical technique utilized in this research is descriptive-analytic. This approach is employed to describe the various issues and phenomena obtained from the data and then to analyze them to obtain answers to the research questions. The aforementioned approach yielded the following conceptual framework:

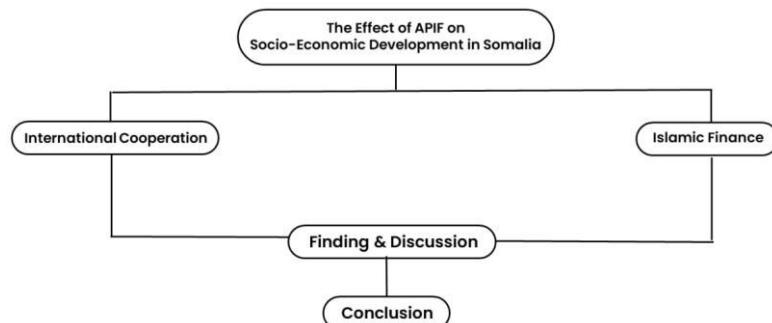


Figure 1. Conceptual Framework of the Research  
(Source: Processed by Author)

The conceptual framework of this research is structured around two key themes: International Cooperation and Islamic Finance, both of which play a crucial role in implementing APIF projects. The IsDB is inherently involved in international cooperation, whereas the NGO, in this case study, is the Towfiq Welfare Society. The NGO acts as a key partner in international cooperation initiatives, implementing projects on the ground and

engaging with local communities. In the context of sustainable development, collaboration between the IsDB and associated entities is a crucial element in achieving development objectives within the organization's country base or specified targets. This concept will examine the role of each actor and the interactions that occur from the implementation of the APIF program in Somalia's socioeconomic development.

In the context of this research, Islamic finance plays an important role in the interaction between actors as an instrument of the international political economy and international relations in the implementation of APIF for Somalia's socioeconomic development. The financing method in Islamic finance is of great consequence, particularly when this instrument is utilized by IsDB, the world's Islamic multilateral development bank that upholds Islamic values and is an effort to promote Islamic finance on a global scale. This conceptual framework highlights the interaction between financial instruments and international partnerships in waqf development, setting the foundation for the analysis in subsequent sections.

## **Results & Discussion**

### **The Dynamics of Awqaf Properties Investment Fund in Sustainable Development**

The Awqaf Properties Investment Fund or APIF was established under Articles No. 2 and No. 23 of the Articles of Agreement of the IsDB and following the Memorandum of Understanding between the IsDB and the ministries and waqf institutions of Islamic countries in 1412 AH (coinciding with 2001), with the certificate holders being the IsDB, participating institutions and religious authorities in Muslim countries<sup>9</sup>. APIF is a subsidiary of the multilateral development bank with headquarters in Jeddah, Saudi Arabia, that provides financing to various waqf asset development projects to make them more productive through the development of commercial property projects<sup>10</sup>. APIF provides low-cost yet high-impact financing for the establishment of waqf for organizations that ultimately serve the SDGs<sup>11</sup>. At its highest level, APIF is also relevant to the international development landscape in two main ways: through the relevance of its mandate and its innovative operational mechanisms.

APIF has been a key player in the global expansion of the waqf sector by offering project financing and technical support. APIF's portfolio, recorded as of 2022, includes 47 completed or active projects, with a total value of USD 838 million, with the sum of IsDB's contributions including USD 162 million from APIF, USD

204 million from IsDB financing lines, USD 63 million from other IsDB windows, and the rest coming from beneficiaries<sup>12</sup>. It is most significant because it provides proof of concept on the feasibility of an impact investment strategy aimed at waqf. Moreover, it also allows momentum to the sector, encouraging the creation of an enabling environment for waqf and even triggering macro-level reforms such as the enactment of waqf laws in IsDB member countries. APIF's flexibility and discretion in funding projects for member countries and non-member countries have made this funding project expand to various countries. The spread of APIF's impact has expanded to five continents, which include IsDB member countries, namely 57 OIC member countries and non-member countries, except for countries in the South American region where APIF has not intervened<sup>13</sup>. APIF, through the IsDB, has proven that the Islamic finance sector not only impacts economic development but also impacts the political dynamics in some countries, enabling the use of Islamic finance instruments as a financing method and waqf as an important instrument in sustainable development.

As a dynamic and exploratory fund, APIF is always adapting and looking for the best way to fund its projects. The *Ijārah* financing method is the predominant method in the Asia, Middle East, and North Africa (MENA), and Sub-Saharan Africa (SSA) regions. In contrast, the *Istisnā'* method is the predominant method in the European region and is utilized exclusively in the North American and Oceania regions. It can be concluded that the ijarah method is more widely utilized in the member country regions of MENA, Asia, and SSA, whereas the *Istisnā'* method tends to be dominant in the non-member country regions. In other regions, alternative methods are applied. For instance, the *Murābahah* method is utilized in the SSA region, profit sharing in MENA, and other methods in the European region. Project financing plays a prominent role in the SSA region in comparison to other regions. Consequently, it can be concluded that the IsDB has made a substantial contribution to the advancement of development projections in the region. The case study presented in this research is based on a country in sub-Saharan Africa, Somalia, which employs the *Murābahah* financing method.

Somalia is a country located in Sub-Saharan Africa and is still one of the barren regions of Africa, where many countries experience drought, poverty, and famine. The Towfiq Welfare Society (TWS) was established in Somalia in the mid-1990s as a response to the need to provide essential public services amidst the political instability and resulting food and humanitarian crises that were prevalent at the time. The TWS represents a distinctive humanitarian initiative in a region characterized by ethnic polarization and persistent poverty. TWS is a registered non-profit organization and a non-sectarian humanitarian

charity headquartered in Kismayo, the coastal capital of Lower Juba Province, Somalia<sup>14</sup>. TWS was established in Southern Somalia in September 1995 to provide advocacy, support, and development services to the Somali people and to prepare a generation capable of achieving the desired development in various important areas such as religious, moral, cultural, intellectual, and economic<sup>15</sup>, with its main areas of activity being the health, education, and social sectors.

Since its inception, the organization has been committed to addressing the welfare needs of Somalia's Southern and Central Provinces in a range of areas, including education, care and health, child support, agriculture, emergency relief, and environmental protection<sup>16</sup>. It should be noted that TWS manages several educational facilities and institutions at different levels, both primary and secondary, spread across most districts of Lower and Central Juba Province. In addition, TWS also runs the only licensed university in Kismayo, Kismayo University (KU), as well as non-formal institutes such as the Institute of Research and Community Development. As an organization, TWS has sub-offices in Mogadishu, Afmadow, Bu'ale, and Jilib and a liaison office in Nairobi, Kenya<sup>17</sup>.

The establishment of this organization is an initiative of local intellectuals affected by natural disasters and conflicts to rebuild the nation by designing development programs that align with the needs of local communities and government development strategies, focusing on poverty alleviation and environmental restoration<sup>18</sup>. This aligns with both the vision and mission of the IsDB and the objectives of APIF, where the IsDB is committed to empowering communities to drive their economic and social progress and providing the infrastructure enabling communities to realize their potential<sup>19</sup>. While APIF's mission is to contribute to the sustainable socio-economic development of the Ummah, APIF has additional objectives to revive the Sunnah of Waqf, to invest and develop viable Waqf properties according to *Shari'ah* principles, and to ensure that Islamic philanthropic organizations achieve sustainability, financial independence, and social development for the benefit of Muslims<sup>20</sup>. The three institutions aim to promote socio-economic development consistent with their respective backgrounds. This is the context within which the cooperation in the case study of this research is situated.

### **The Strategy of Awqaf Properties Investment Fund Implementation in the Framework of Inter-Actor Collaboration**

Somalia's political and economic instability makes large projects such as the APIF risky. The lack of a strong and stable government exacerbated the situation. Despite efforts to establish a

legitimate government, many areas are still controlled by militant groups that actively oppose the government and often target development projects and foreign investment. In addition, a weak legal system and rampant corruption mean limited legal protection for investors. Amid this adverse situation in Somalia, Kenya offers a much more conducive environment for implementing APIF projects. Towfiq Welfare Society has, therefore, established a trust in Kenya<sup>21</sup> to implement this project following the IsDB requirements.

In political terms, Kenya has maintained remarkable stability since independence despite changes in the political system and crises in neighboring countries<sup>22</sup>. Furthermore, Kenya is the headquarters of numerous international and regional organizations, including the United Nations Office at Nairobi (UNON), one of four principal locations and headquarters of the United Nations in Africa. Additionally, it is the site of the United Nations Environment Programme (UNEP) and the United Nations Centre for Human Settlements, which is known as UN-HABITAT<sup>23</sup>. To date, there are 3 United Nations headquarters, 8 United Nations country offices, 10 United Nations regional offices, and 13 offices of other United Nations entities, including the World Bank<sup>24</sup>. Establishing these offices indicates the international community's confidence in Kenya's political stability and commitment to supporting global initiatives, including development projects and international cooperation. Regarding economic output, Kenya is the second largest economy in Sub-Saharan Africa, after Nigeria and South Africa, and the most developed in East and Central Africa. The country's economic growth prospects are supported by the emergence of a middle class and a growing demand for high-value goods and services. This growth prospect is occurring concurrently with an improvement in the ease of doing business index<sup>25</sup>. This is a significant factor for TWS in capitalizing on its neighbors' political and economic stability to advance the interests of NGOs operating in fragile contexts.

Additionally, Kenya's liberal capital controls were a significant factor for APIF during the proposal assessment period. This was due to the cross-border nature of the project. In 1993, Kenya repealed all exchange rate control laws and transitioned to a fully market-determined exchange rate system<sup>26</sup>, devoid of any foreign exchange control. This policy has attracted significant short-term capital inflows. The inflow of foreign investment into Kenya via the Towfiq Trust project has resulted in the influx of hard currency, such as US dollars, to Kenya, which can be used to settle property payments.

Towfiq Trust was registered as a non-governmental organization (NGO) in Kenya in 2013 and subsequently registered as a trust in February 2015. Its primary objective is to implement income-generating projects to advance educational and health-related

activities within the Jubaland region of Somalia and North Eastern Kenya<sup>27</sup>. Given the necessity of financial sustainability and dependence on donations, the Towfiq Trust submitted a funding proposal to the APIF. In November 2015, IsDB approved Towfiq Trust's proposal to undertake a *Murābahah* operation, which is the purchase of waqf properties for the benefit of Towfiq Trust in support of Towfiq Welfare Society's development activities<sup>28</sup>. The signing of the agreement was delayed, however, and only took place in July 2017. This was due to the time the beneficiaries took to close the financing gap, the change of scope to a different property, and the reassessment<sup>29</sup>. The signing of the financing agreement between IsDB and Towfiq Trust represents a tangible manifestation of the international cooperation between the two institutions. Notwithstanding the postponement, in a gesture of solidarity, the IsDB persisted in offering its unreserved backing and aid to the beneficiaries throughout both phases.

In this project, each actor plays a specific role in ensuring effective and coordinated cooperation following Sustainable Development Goal (SDG) 17, underscoring the significance of partnerships in achieving global development goals. The APIF serves as the primary financier in this initiative, while the IsDB represents the principal contributor to the APIF's capital fund. Furthermore, IsDB serves as a *Mudārib*, assuming the roles of manager and trustee/maintainer of APIF. This enables APIF to benefit from high-quality support functions, including procurement, legal, Know Your Customer (KYC), and financial controls. Additionally, APIF gains access to a common development ecosystem based on Islamic finance provided by IsDB. The fund's financial statements are prepared under the Financial Accounting Standard (FAS) issued by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI). Regarding matters not addressed in the AAOIFI standards, APIF adheres to the generally accepted accounting principles mandated by the AAOIFI conceptual framework, provided that they do not contradict the rules and principles of Islamic law as determined by the IsDB Group *Shari'ah* Board.

Moreover, in addition to its role as a financier, the APIF also functions as a catalyst and facilitator, guiding and supporting the project's direction and progress by utilizing the influence derived from the IsDB as a *Mudārib*. In contrast, Towfiq Trust Kenya assumes the roles of sponsor and executor, who is responsible for implementing the project at the ground level. Meanwhile, the Towfiq Welfare Society Somalia is the beneficiary, receiving the necessary support to carry out development activities in Somalia by utilizing the project's benefits in Kenya. This collaboration demonstrates how the convergence of diverse actors can facilitate attaining shared

objectives. This initiative not only reinforces global partnerships following SDG 17 but also encourages sustainable development through the utilization of project outcomes, thereby ensuring that development activities are conducted in a manner that provides tangible benefits to all segments of society.

### The Funding Mechanism of Awqaf Properties Investment Fund in Project Implementation

The Awqaf Properties Investment Fund (APIF) employs a structured and efficient operational model to maximize the potential and benefits of waqf assets. The management of this type of waqf asset requires an appropriate approach that ensures not only the maintenance of the asset but also its development and the provision of sustainable benefits to society. The APIF operational model serves as the regulatory framework that governs the management and operation of the fund to achieve its strategic goals. The model is designed to ensure transparency and accountability at each process stage. Therefore, the invested funds can provide optimal and sustainable benefits. The APIF operational model is illustrated in the following flowchart.

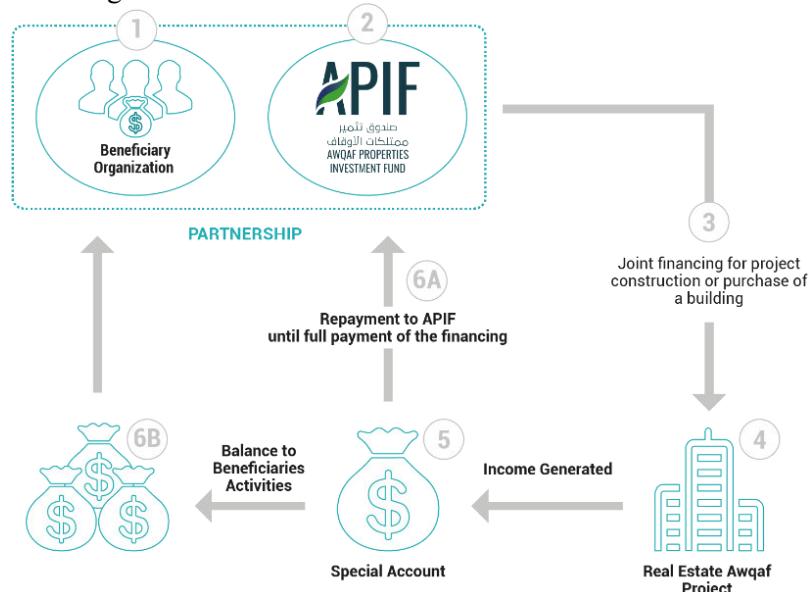


Figure 2. Operational Model of Awqaf Properties Investment Fund  
(Source: APIF Website)

The flowchart above illustrates the operational framework of APIF in collaboration with beneficiary organizations for managing and developing waqf properties through co-financing. This partnership is not merely a source of funding; it also assists in managing and implementing projects to ensure that each project yields optimal results and complies with *Shari'ah* principles. In

essence, IsDB, through APIF, provides assistance and support to organizations engaged in development activities to achieve financial sustainability. This is achieved through the development of waqf land or the facilitation of the establishment of new endowments. APIF provides financial support for constructing, renovating, and/or purchasing income-generating projects, including residential, commercial, retail, and mixed-use facilities. The minimum financial contribution required from the beneficiary is 25% of the total project cost or a suitable plot of land (in the case of greenfield projects)<sup>30</sup>. The project is designed so that repayment to APIF will be sourced entirely from the project's income. A residual amount is anticipated to be generated to support beneficiary activities for the repayment period. Upon financing repayment, all income generated can be permanently allocated to support beneficiary activities.

Considering the preceding explanation, the funding mechanism for this project is markedly complex, rooted in *Shari'ah* principles, and encompassing a multitude of Islamic financial instruments. In this case, the funding flow can be depicted in the following flowchart, which illustrates the mechanism of fund flow from its source to its eventual use by beneficiaries to support development activities and ensure that the funds can be optimally utilized for the community's welfare.

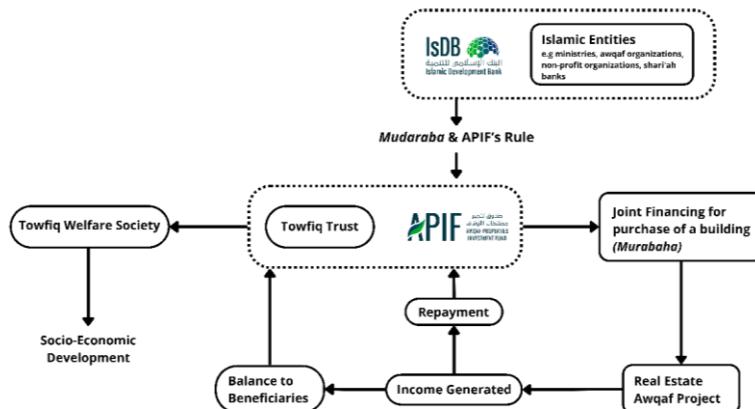


Figure 3. APIF Operational Model with TWS  
(Data processed by the author, source: APIF Impact Report, 2019)

The flowchart above illustrates the funding flow in APIF's implementation with Towfiq Trust, to realize socio-economic development in Somalia. APIF, which was established by APIF regulations and the concept of *Mudarabah* by IsDB and other Islamic entities, serves as the primary financier in this case study in collaboration with Towfiq Trust. Towfiq Trust is a project implementation trust established in Kenya by TWS under the terms mandated by the IsDB. The collaboration between APIF and Towfiq

Trust is evidenced by a financing agreement that enables the joint financing of a project to purchase a building, which is subsequently registered as a waqf. This co-financing employs the instrument of a *Murābahah* contract. The revenue generated from the real estate property will be utilized for repayment to APIF, with the residual funds allocated for the benefit of the beneficiaries, specifically for the socio-economic advancement of the Somali community through Towfiq Welfare Society. Upon completion of the repayment, the property will be registered as a waqf or a comparable legal entity, such as a trust, and all income derived therefrom will be allocated for the benefit of the beneficiaries.

The funding mechanisms illustrated in this flowchart reflect the inherent complexity and uniqueness often observed in Islamic finance transactions. Islamic finance is pivotal in this context, integrating *Shari'ah* principles that guarantee transactions are conducted equitably, transparently, and without *Ribā* or interest. The intricate nature of the funding mechanism is underscored by many stakeholders, including IsDB, APIF, Towfiq Trust, and TWS. Moreover, the transactions within this framework employ a range of Islamic financial principles, including *Mudārabah* and *Murābahah*. All transactions within this mechanism are conducted under *Shari'ah* principles, which prohibit *Ribā* and ensure that all economic activities are conducted fairly and beneficial to all parties involved. The emphasis on the utilization of funds for the benefit of the wider community reflects the fundamental tenets of Islamic finance, which place significant emphasis on the social and economic well-being of the community.

In this case study, the IsDB approved a project for the benefit of Towfiq Trust, which was designed to assist Towfiq Welfare Society in its development activities. APIF and Towfiq Trust collaborated on a joint financing initiative structured as a *Murābahah* contract. In Islamic finance, joint financing frequently entails the application of *Shari'ah* principles and instruments, including *Murābahah*, *Mudārabah*, *Mushārakah*, and other related concepts. In this case, it can be concluded that Islamic finance, such as *Murābahah*, plays an important role as an instrument in international economic activities, which in this case are cross-border in scope.

The property was ultimately purchased as a waqf for the benefit of the Towfiq Trust, an office building known as "SOMAK House"<sup>31</sup>. The property is in an ideal location in Nairobi, Kenya, along the Mombasa Dual Carriageway, approximately 6 km from the city center. The prevalence of high-rise office buildings and hotels characterizes this location. The project scope of APIF includes purchasing a commercial property in Nairobi. This property consists

of a seven-story office building and three small mixed-use blocks. The total land area is 2,078 square meters, the total construction area is 4,140 square meters, and the total rental area is 2,611 square meters. Furthermore, the project scope encompasses the costs associated with the transfer of ownership, the provision of consultancy services, and the payment of legal fees<sup>32</sup>.

A preliminary assessment of the proposal by IsDB management indicated that SOMAK House had promising and realistic project cash flow and financial statement projections, particularly given that the property was already leased with nearly 97% occupancy<sup>33</sup>. Approximately nine tenants, except the present proprietor, are willing to take up residence in the property on a leasehold basis following the transfer of the deed to Towfiq Trust, subject to the execution of a sale agreement, together with its annexed documents, between the relevant parties<sup>34</sup>. It can be concluded that this property represents an attractive investment opportunity with promising financial prospects and aligns with the principles of Islamic finance, offering stability, certainty, and social benefits. This is important in Islamic financial management, where avoiding speculation and prioritizing tangible benefits are paramount. In the context of waqf, this property has significant potential to provide long-term benefits to the beneficiaries.

The revenue generated from the waqf project will be allocated to Towfiq Welfare Society in Somalia to support socio-economic development activities, with the transfer of funds to be conducted via international transfer due to the cross-border structural design of this project. In the event of constraints preventing the transfer of funds to Somalia, the funds will be redirected to assist Somali refugees in the North Eastern Province of Kenya<sup>35</sup>. This ensures that the funds are still utilized for the benefit of the Somali people despite the constraints that prevent direct transfers to Somalia. The installment payments for this project were dispatched from Kenya to the IsDB via an escrow bank account following the regulatory framework that governs financial transactions in Kenya<sup>36</sup>. Escrow is a financial arrangement whereby a third party holds funds until a contract can be fully executed<sup>37</sup>. Using escrow accounts in the installment payment process demonstrates a commitment to security and transparency in the fund transfer. It ensures that installment payments are made on time and by regulations.

Compared to most other projects, this project is relatively small, with a total cost of US\$3.50 million. The cost includes financing of US\$2.75 million, comprising US\$1.0 million from the APIF and US\$1.75 million from the APIF Line of Financing. Additionally, beneficiary contributions of US\$0.75 million, or 25%

of the total cost, are following APIF requirements<sup>38</sup>. The purchased assets are projected to be registered as waqf where possible or equivalent legal status, such as a trust, at the end of the financing to ensure perpetuity until the APIF mandate is achieved<sup>39</sup>, so that the property income can support the development activities undertaken by the beneficiary organizations. This is a condition of funding that applies to all projects. Therefore, IsDB placed an important condition on implementing the Towfiq Welfare Society waqf project, establishing trust in Kenya, as a strategic step to ensure that waqf management has a solid and well-structured foundation.

IsDB's involvement in the waqf project in Kenya underscores the significance of strong governance and comprehensive supervisory frameworks, with a particular focus on the philanthropic ecosystem within the NMC. In this instance, IsDB demonstrated flexibility in allowing registration in the NMC under the relevant trust legislation in alignment with the desired governance structure. Financial management is optimized for the benefit of the ultimate beneficiaries, thereby reducing the possibility of corruption that plagues many waqfs. This is supported by TWS's governance structure, which includes a Board of Trustees, the highest position within the organizational structure, and an Executive Board. The Supervisory Board comprises the founding members and other members who have subsequently joined the association<sup>40</sup>. Furthermore, the board is authorized to supervise and address all policy-related matters. This signifies that the ongoing project will be effectively managed, and its implementation will be subject to competent and rigorous supervision by the relevant authorities.

### **The Impact of Implementation on Socio-Economic Development in Somalia**

The impact of APIF implementation can be seen in several aspects. In terms of impact on the beneficiary organizations, the organization's financial sustainability is the main goal of the sponsors after experiencing several situations of dependence on decreasing donations in recent years<sup>41</sup>. In the view of TWS management, the presence of waqf assets on the organization's balance sheet represents a significant and positive achievement<sup>42</sup>. This reduces reliance on external funding sources, such as donations and official development assistance, by fostering the generation of self-sustaining social wealth. Moreover, the collaboration with the IsDB lends credibility to TWS and its associated institutions. This illustrates the pivotal role of APIF in empowering small-scale local civil society organizations that may not be eligible for commercial financing, enabling them to achieve asset ownership and financial sustainability, and facilitating institutional maturation.

Furthermore, TWS has made a significant contribution to the socio-economic development of Somali communities by implementing numerous programs and initiatives and the management and support of various development sectors to enhance their quality of life. The table below presents some examples of these contributions.

| No | Sectors                         | Description  |
|----|---------------------------------|--|
| 1  | Education                       | Operates several educational facilities and institutions, including seven schools and one licensed local university (Kismayo University) with its hospital   |
| 2  | Healthcare                      | Established an educational hospital in Kismayo in response to the need for medical services and the absence of government health services in spreading deadly diseases and epidemics, and has been receiving 250-300 patients per day.<br><br>Dispatch mobile teams to various districts and locations in Juba to conduct protection and improvement campaigns, especially for cholera, malaria, and malnutrition. |
| 3  | Water Resources and Development | Execution of water development programs in the region to meet drinking water needs through arterial boreholes and dug wells, such as in Janey Abdalla Small Village, Afmadow, Camp Jaroon, Jamame District, and Canjeel.   |
| 4  | Children's Support              | TWS offers a range of services through the Al-Ansar Center, which is dedicated to orphans and cares for more than 700. The Child Support sector was the first operational sector initiated in 1995.  |
| 5  | Agriculture                     | TWS has implemented several agricultural projects in coordination with other organizations, such as rehabilitating arable land, livelihood programs, and providing agricultural tools and equipment to farmers in the Jubba Valley area. It has also supported the reclamation and planting of 260 hectares of agricultural land over five years.  |
| 6  | Food and Emergency Supplies     | <ul style="list-style-type: none"> <li>• TWS has maintained the Al-Ansar Food Center since 1998. It houses children and prepares and delivers food baskets to low-income families to reduce the threat of food insecurity.</li> </ul>  |

|  |   |
|--|---|
|  | <ul style="list-style-type: none"> <li>• TWS has worked with humanitarian aid organizations to implement emergency relief efforts in humanitarian crises, unexpected droughts, natural disasters, or famine, including food and medicine distribution and water trucking.</li> <li>• TWS has executed a food distribution project serving 150,000 drought-affected households in Central and Lower Juba.</li> <li>• TWS has implemented General Food Distributions (GFD) efforts for Internally Displaced Persons (IDPs) in Mogadishu.</li> </ul> |
|--|---|

Table 1. List of Towfiq Welfare Society Contributions to Socio-Economic Development in Somalia

*Data processed by author, source: APIF Impact Report, 2019*

Based on the table, it is clear that TWS's contributions cover a wide range of important aspects supporting Somalia's socio-economic development. As listed in the table above, the income generated from waqf assets is used to benefit the ultimate beneficiaries, which are the development programs and activities supported by TWS. This shows that this APIF project helps and promotes socio-economic development in Somalia in various development sectors as well as assisting in achieving sustainable development targets, such as SDGs No. 1: Poverty Alleviation, No. 3: Good Health and Wellbeing, No. 4: Quality Education, No. 8: Decent Work and Economic Growth, and No. 11: Sustainable Cities and Communities.

The cross-border investment model applied by APIF in this case study is regarded as a potentially significant contributor to economic growth at the local level. However, the impact of this model on the local economy is not yet substantial, even in the context of a single operation<sup>43</sup>. Hence, the impact becomes more significant when neighboring countries with stable economic and political systems expand and adopt this model. In the short term, this operation could result in an inflow of hard currency to settle property purchases, such as the US dollar, strengthening the local Kenyan economy as properties are purchased within the country. Furthermore, in the long term, a portion of the revenue will be retained within the local community<sup>44</sup>, as Towfiq Trust has plans to serve the Somali community in Eastern Kenya.

Furthermore, APIF has employed Islamic finance at two distinct levels. APIF has supported waqf, operationalizing it as a non-debt-based, long-term solution to development challenges. This has

been achieved by implementing a debt-based, short-term Islamic project financing model. In this case study, the Islamic financial instrument in question is *Murābahah*. In implementing this project, APIF has established a model that addresses the challenges faced in unstable and conflict-affected regions<sup>45</sup>. The potential of this model is significant in terms of its capacity to bolster economic resilience and facilitate sustainable development initiatives in areas with similar conditions. In general, the implementation of APIF on socio-economic development in Somalia has been favorable and has had a positive impact. However, the effect is not significant when only one operation is considered. Nevertheless, another beneficial outcome of this type of operation is that it can facilitate the promotion of waqf and utilize Islamic finance as a tool in international political economy activities.

### **A Comparative Analysis of Project Impact with Other Similar Initiatives**

The implementation of APIF in Somalia provides a highly impactful model for supporting NGOs operating in fragile and/or conflict areas. This is achieved by establishing waqf in a politically and economically stable neighboring country, in this case, Kenya, which has a liberal capital control regime. Moreover, the IsDB affects the legitimacy and capacity of beneficiaries to secure funding through this APIF. It should be noted that this form of operation does not have a significant impact when considered in the context of a single operation. Furthermore, the APIF project is also being implemented in several other countries. The cases highlighted by the IsDB demonstrate some far-reaching impacts. To illustrate, the IsDB-BISEW in Bangladesh exemplifies a robust decentralized waqf model that is capable of tailoring its social interventions with meticulous precision<sup>46</sup>. This outcome is attributable to the robust governance structure and the capable waqf management team. In contrast, the Senegal Daras Waqf represents a distinctive instance of the phenomenon of pre-project impact resulting from regulatory change, manifested in the form of the adoption of a dedicated legal framework for waqf in Senegal. This was driven by the prospect of receiving APIF financing, which resulted in this micro-level operation reaching a macro-level impact in the form of new waqf laws<sup>47</sup>. This comparison demonstrates that, despite the APIF's shared foundation, local factors are of critical importance in determining the success of the program, resulting in differing impacts and interventions according to prevailing conditions.

In comparison to other analogous initiatives, such as the International Waqf Fund, which are oriented towards immediate

social projects (such as education, health, sustainable livelihoods, etc.) through low-risk Shariah investment returns on donations<sup>48</sup>, the impact of APIF is long-term and the benefits are not immediately apparent to the wider community. APIF has the advantage of providing financial and technical resources that are managed with high standards of supervision and reporting through productive investment projects for waqf. It also supports the financial independence of its partners. However, this advantage is vulnerable to local challenges such as political or economic instability in beneficiary countries, such as Somalia. In general, APIF has the advantage of providing sustainable financial returns and empowerment to its partners using a productive waqf-based investment model, rather than relying on donations or aid. With augmented support, such as elevated stakeholder involvement and locally tailored adaptation strategies, the APIF project in Somalia has the potential to achieve a more substantial and sustainable impact beyond that which has previously been attained.

### **Conclusion**

The implementation of the APIF in the promotion of waqf, as illustrated by the project conducted in collaboration with TWS, has yielded positive outcomes and a beneficial impact. In this particular case study, the effect is not pronounced, particularly given the limited scope of the single operation. However, in the long term, it has the potential to significantly reduce reliance on official development assistance (ODA) and replace it with domestically generated social wealth. This research is significant in demonstrating the potential of waqf instruments, particularly the IsDB's APIF initiative, as a means of fostering international relations and advancing sustainable economic development in developing countries with financial systems rooted in Islamic principles. Furthermore, this study demonstrates the significant potential of Islamic financial instruments, particularly waqf, in fostering economic growth in diverse countries, particularly developing nations with constrained access to conventional financing. To enhance the viability and impact of this model, it is suggested that Towfiq Welfare Society expand the scope of beneficiary regions, thereby extending the reach and benefits of the initiative. Moreover, the APIF is anticipated to promote this integrative waqf model among relevant stakeholders, thereby facilitating the long-term implementation of analogous models in diverse international contexts. To guarantee the effective and efficient distribution of funds, it would be prudent for the governments of both countries to implement policies that ensure the security of cross-border fund transfers through the enactment of clear and supportive regulations or laws.

This project illustrates the significance of a sustainable governance model for guaranteeing effective and enduring management of waqf assets. It employs the strategy of utilizing more economically and politically stable states to govern waqf assets, to support socio-economic development in fragile states. Cooperation between more stable states and fragile states must be reinforced through the implementation of policies that facilitate more effective cross-border resource management. It is suggested to enhance the capabilities of local institutions to achieve self-sufficiency and reduce reliance on external assistance, particularly in terms of fund and asset management. Furthermore, the author recognizes that this paper is subject to several shortcomings and limitations. Primarily, the geographical coverage is constrained to a select few areas, and the data set is limited, which may result in an incomplete representation of the conditions throughout Somalia. Several significant suggestions and recommendations can be employed as a basis for comparison in future research efforts, including the assertion that this particular model is a distinctive one based on Islamic finance as a development strategy and an effort to overcome constraints in unstable and conflict-affected areas, such as Somalia. Further research is recommended to adopt a long-term approach to ascertain the sustainable effects of this implementation. It is anticipated that the advancement of research in the context of APIF as a whole, as well as in analogous or other case studies, will facilitate the introduction of APIF and the contribution of Islamic finance, particularly waqf, as an instrument in international political economy activities that can effectively assist in global development.

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