

ISLAMIC SOCIAL FINANCE

Nature, Scope & Global Landscape

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A FEW DISTURBING NUMBERS

Over a billion people still live on less than one dollar a day, and almost 3 billion on less than two; in abject income poverty (WB)

About 805 million people or one in nine, routinely go hungry (FAO); about 750 million people around the world lack access to safe water and almost 2.5 billion do not have access to adequate sanitation (WHO & UNICEF)

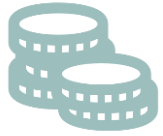
Approximately 100 million people without any kind of shelter, whatsoever (UN)

SHARIAH RESPONSE TO GLOBAL CONCERNS

Alignment of SDGs with
Maqasid al-Shariah

Anomalies with Islamic For-
Profit Finance

Potential of Islamic Social
Finance: Rooted in
Philanthropy and Benevolence



High Cost of Finance



Often Excludes Ultra Poor



Perpetuation of debt



Less emphasis on skill enhancement; support services



Less emphasis on project viability

FINANCING THE POOR: FOR-PROFIT IF

Zakat/ waqf-funded credit pool

Qard-funded credit pool

Zakat-funded equity

Zakat/ waqf-funded safety net + for-profit MF

Zakat/ waqf-funded skill-enhancement + for-profit MF

Zakat-funded guarantee + for-profit MF

Waqf-funded micro-takaful + MF

COMPOSITE FINANCING OF THE POOR

Estimates for zakat potential in OIC MCs indicate that the resource gap for lifting the poor out poverty can be met entirely by zakat in most countries.

Actual zakat collected may be just 2-3 percent of the potential.

Growth in zakat collected has been fairly impressive in countries that have proactively sought to reform the zakat sector

TRENDS IN ZAKAT

TRENDS IN AWQAF

A near-freeze in the creation of new social waqf, though religious awqaf continue to be created.

There has been some rejuvenation of social waqf in the form of cash waqf

There have also been cases of redevelopment of waqf assets and their prudent investment for generating returns.

A few countries are also known for their successful family awqaf.

What factors have contributed most to success in mobilization, distribution and utilization of zakat and waqf?

What factors constitute major obstacles, hindrances and challenges?

What should be the strategic response of policy makers?

POINTS TO PONDER

A sustainable, dependable and a growing source of funds for institutions that emphasize professional fund-raising, social credibility through integrity, transparency and good governance

Supporting evidence for compulsory as well as voluntary zakat

Presence of institutional network at multiple levels seems to lead to greater public participation in the process

MOBILIZING ZAKAT RESOURCES

Zakat payment (tax benefits; penalties) should be incentivized with strong enforcement

With fully state managed compulsory zakat system, zakat substitutes the direct taxes

Diversity in Shariah-legal opinions w.r.t zakatable assets and methods of estimation is a reality and should be respected

MOBILIZING ZAKAT RESOURCES

Competition among multitude of zakat institutions – public and private - brings efficiency and gives more choice to the muzakki. However, competition also presupposes a level-playing field for the players

Corporatization that implies use of a large network of private institutional collectors for zakat mobilization is seen to be far more efficient as compared to a large number of unconnected private individual collectors.

MOBILIZING ZAKAT RESOURCES

No undue restriction on creation of new waqf, e.g. approval of the head of the state

Level playing field with common trusts and foundations; No additional financial and non-financial costs

No restriction on the definition of the endowed asset (e.g. immovable tangible assets)

No restriction on the definition of the waqif (individual, Muslim)

MOBILIZING WAQF RESOURCES

Explicit recognition and framework for Temporary waqf

Explicit recognition and framework for Cash waqf

Explicit recognition and framework for Corporate waqf

Revival of the institution of Family waqf

MOBILIZING WAQF RESOURCES

Prioritization among different types of beneficiaries with highest priority being given to the needs of the ultra-poor

Balanced emphasis to consumption needs and empowerment dimension to avoid perpetuation of dependency syndrome

Integration of zakat with pro-poor expenditure of the government

UTILIZING ZAKAT RESOURCES

Leveraging possibility with zakat-funded revolving credit pool with the poor as owners of the Fund.

Compliance with Shariah as well as “revealed preference” of zakat payer

Separation between zakat and other types funds; Minimal use of zakat funds to cover operational costs

UTILIZING ZAKAT RESOURCES

Preservation of waqf: legal reforms for recovery of lost waqf assets.

Development of waqf: sustaining and enhancing the benefits flowing out of the waqf as a mandatory obligation

Waqf meant to be in the voluntary sector; positive evidence that state can play the role of an efficient manager of awqaf.

UTILIZING WAQF RESOURCES

Elaborate eligibility criteria for trustee-manager covering aspects of integrity, trust-worthiness and professional competence

Incentivizing efficient waqf management through transparent remuneration and penalty structures

Remove disconnect with public expenditure programs of governments

UTILIZING WAQF RESOURCES

Prudent investment of waqf assets

Clear adherence to waqif's conditions regarding investment and utilization of resources for ultimate beneficiaries

Focus on provision of public goods – elimination of pricing and other market-related anomalies

UTILIZING WAQF RESOURCES



Key References:

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Thank You