ISLAMIC SOCIAL FINANCE
Nature, Scope & Global Landscape

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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)
Alignment of SDGs with Maqasid al-Shariah

Anomalies with Islamic For-Profit Finance

Potential of Islamic Social Finance: Rooted in Philanthropy and Benevolence
FINANCING THE POOR: FOR-PROFIT IF

High Cost of Finance

Often Excludes Ultra Poor

Perpetuation of debt

Less emphasis on skill enhancement; support services

Less emphasis on project viability
<table>
<thead>
<tr>
<th>Financial Instrument</th>
</tr>
</thead>
<tbody>
<tr>
<td>Zakat/ waqf-funded credit pool</td>
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<tr>
<td>Qard-funded credit pool</td>
</tr>
<tr>
<td>Zakat-funded equity</td>
</tr>
<tr>
<td>Zakat/ waqf-funded safety net + for-profit MF</td>
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<tr>
<td>Zakat/ waqf-funded skill-enhancement + for-profit MF</td>
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<tr>
<td>Zakat-funded guarantee + for-profit MF</td>
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<td>Waqf-funded micro-takaful + MF</td>
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Estimates for zakat potential in OIC MCs indicate that the resource gap for lifting the poor out of 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.
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?
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.
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
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.
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)
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
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
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
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.
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
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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Islamic Social Finance Report 2015, IRTI, Islamic Development Bank
Islamic Social Finance Report 2017, IRTI, Islamic Development Bank
Islamic Social Finance Report 2019, IRTI, Islamic Development Bank (forthcoming)

Thank You