

DEVELOPING SUSTAINABLE SOCIAL BENEFIT SCHEME FOR THE HARD CORE POOR USING ZAKAH, WAQF & QARD HASSAN

BY

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ABSTRACT

The hard core poor are neither bankable nor covered against risks. Whilst micro-finance seems to solve financial inclusion for this group to some extent, albeit at very high costs, very little have been done to provide sufficient cover against risks of all sorts for this group. Some attempts at developing micro-takaful are actually in the pipeline, however, very little concrete and practical solutions have emerged so far. It is of course well-known that Islamic Social Financial Institutions (ISFI), namely zakah, waqf, and qard-hassan are meant to directly benefit the less fortunate in society, but little has been done to ensure that they directly benefit from these institutions. This paper attempts to integrate the ISFI into a viable Islamic Microfinance & Poverty Eradication Model that will not only eradicate the poverty of the poor and needy but will empower them to become active members in their societies. The expected findings of this research is to provide a just microfinance model which can be adopted worldwide.

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Key word-zakah, poverty, waqf, qard-hassan, zero interest

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Introduction

The failure of almost all microfinance programs in eradicating poverty is due to the charging of interest/*riba*, which is prohibited in religion, and which created a wider gap between the rich and the poor. Muslim countries are not exceptional since most of their current microfinance programs also are charging interest. As a result, the majority of poor and needy people are found in Muslim countries where they are lacking adequate shelter, suffering from hunger, have no access to health services, and the majority of them are illiterate and are jobless. A closer glimpse to assist and finance this hard core poor has twofold problems. First, they are not bankable because they have nothing to collateralise to obtain financing. Second, they are exposed to risks as much as any other individual, and yet they are not covered by any insurance. These raises the following questions; which financial institution is willing to finance these hard core poor and without interest/*riba*? And which financial institution is willing to take such risk in financing them? The answers to these questions will be clearly explained through integrating the ISFI; *zakah*, *waqf* and *qard-hassan* into a viable Islamic Microfinance & Poverty Eradication Model as presented below

INTEGRATION OF ISFI IN AN ISLAMIC MICROFINANCE & POVERTY ERADICATION MODEL

Islam advocates a developmental approach which enables the poor to use their skills with whatever they have in order to earn their living, and be independent of society as long as they are fit to work. Islam defines poverty as a state whereby an individual fails to fulfil any of the five basic needs such as religion, food, shelter, education and health.² In addition, Islam classified poverty according to the differences among people and according to the levels of human abilities. Even though individuals are provided with equal opportunities, the economic status of individuals may not be equal based on his/her situation as classified below:

First Group : Incapable to work, due to health, age or gender e.g. disable, old people, orphanages and widows.

Second Group : Healthy individuals but lack both the skills and the capital.

Third Group : Healthy individuals and have the skills to work but lack the capital

Based on the above classification of poverty, Islam provides different Islamic Social Financial Institutions, each having a different approach in assisting these three groups.

² M. Kabir Hassan, "An integrate poverty alleviation combining zakat, awqaf and micro-finance", paper presented at the seventh international conference, the Tawhidi Epistemology, zakah and waqf economy, Bangi 2010, 263.

- For example, for the 1st group who are incapable to work due to health, age or gender, these are people who are included as the first recipient of zakah. Hence, zakah funds has to be given to this group on a regular basis to provide them with their basic needs. To upgrade the situation of this group, the institution of waqf can play its role is providing the shelter, the education and the health care in order to empower them earn their living and to be active members in their societies.
- For the other two groups who are healthy individuals but lacking both the skills and the capital, and for those who are healthy individuals, having skills but lacking in capital, again the institution of waqf can provides them with the education and the training needed to gain the skills, each according to his/her capability, to start their own small business.

Once these three groups have been assisted through zakah and waqf they can be eligible people to join the Islamic microfinance scheme in order to borrow *qard-hassan with zero interest* to start their own small business. Hence, integrating waqf, zakah and *qard-hassan* into an Islamic Microfinance and Poverty Eradication scheme will help to provide an Islamic anti-poverty scheme that helps not only to eradicate poverty but to empower the hard core poor to be active members in their societies.

In this proposed model, the Islamic Microfinance scheme can be established through Corporate Waqf together with the integration of zakah institution. The main founders for this Islamic Microfinance scheme can be the Central Banks, Corporation, Financial Institution or Foundation where they encourage their subsidiaries to contribute to this IMF by way of CSR through profits, dividends and through internal and external donations on a monthly or annual basis. Doing so, huge amount of capital in the form of cash waqf or donation can be collected from individuals, financial institutions, Islamic banks, companies and even grant from the government. The main objective for this Islamic microfinance program is to finance the poor and needy through *qard-hassan* i.e. with zero interest. For the perpetuity of this fund zakah share of the debtor has to be integrated in this scheme in order to mitigate the risk in borrowing *qard-hassan*. For the success of the proposed Islamic Microfinance & Poverty Eradication Model, it has to be implemented into two phases: the first phase to cater for poverty eradication through zakah for the first group and the second phase to cater for Islamic Microfinance for the second and third groups. This will be clearly explained from the following modus operandi and the structure below.

PHASE I: POVERTY ALLEVIATION THROUGH ZAKAH

This phase is meant for individuals who belong to the first group, i.e. those who are unhealthy and lacking both the skills and the capital, due to old age, widow or orphanage. For this category Islam makes it mandatory for the institution of zakah to take care of this people and provide them with a regular income that covers their basic needs. However, for the young widows and the orphans, after satisfying their basic needs, they have to be assisted through the institution of waqf in terms of providing education, training, skills and health in order to be fit to get jobs easily or to join the Islamic Microfinance scheme in order to get qard hassan loan to start their own small business

Modus operandi for zakah eradicating poverty

The following is the modus operandi for zakah role in eradicating the poverty of the poor and the needy as seen in the structure below

- i. Zakah Manager in his responsibility of managing zakah funds has to collect zakah money from all zakatable wealth and all eligible Muslims within Muslim society.
- ii. Once zakah manager distributes zakah money to the poor and the needy to satisfy their basic needs, these groups will be eligible join waqf, program in providing them with the services needed to be qualified to enter into the Islamic Microfinance Program scheme and get qard hassan to start their small business as seen in the structure below.

PHASE II: ISLAMIC MICROFINANCE MODEL

As mentioned above this phase will cater for both the second and third groups who are healthy but lacking both the skills and the capital and for those who are healthy having the skills but lacking the capital. Besides, it can also cater for the first group once their basics needs had been satisfied as explained in the above phase.

Modus Operandi for the IMF & PEM

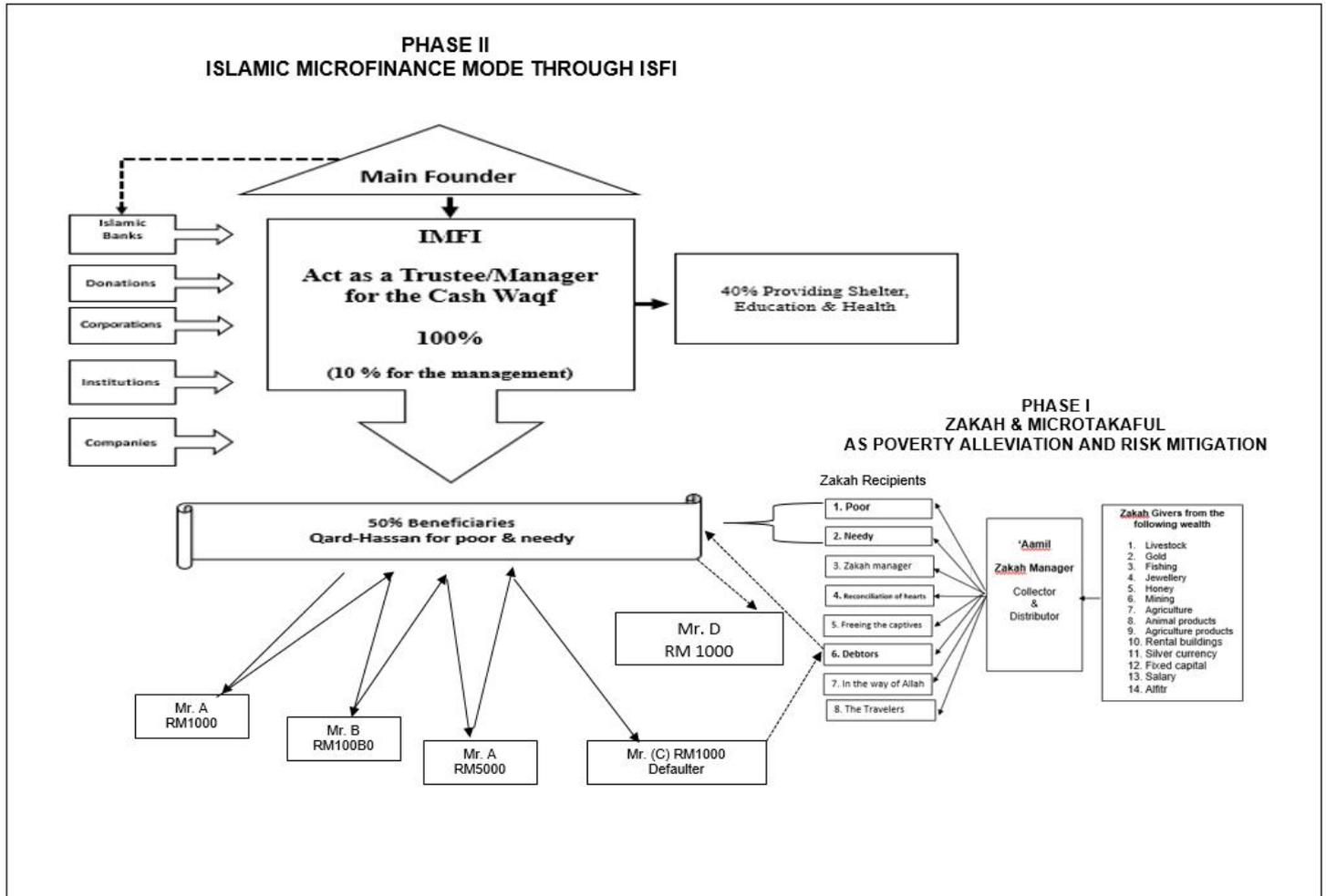
The following is the *modus operandi* for an Islamic Microfinance & Poverty Eradication Model as seen in Figure 4.

1. The main Founder, who is known as the mother corporation, can be the Central Bank, Corporation, Financial Institution or Foundation. In its role as the mother corporation, the main founder can establish an Islamic Microfinance Institution to be the trustee for fund raising and to administer the collected funds.
2. To raised funds for this model can be made mandatory and voluntary. For example, the main founder can make a mandatory policy for all its subsidiaries to contribute through CSR, profits or dividends to this scheme on annual basis. Besides, allowing voluntary

contributions from individuals, corporations, organizations and companies in terms of direct donations once in a life time basis, or on monthly or annual basis.

3. The Islamic Microfinance Institution in its role as a trustee can then channel the accumulated funds to three areas, in any proportion specified by the founder, for example:
 - i. 40% of this fund to redevelop the old waqf properties in a way to manage to provide the basic needs for this hard core group, such as building for affordable houses, or affordable apartments, hotels, orphanages, schools and hospitals. Not only this, for old waqf properties located in non-residential areas, it can be replaced with different types of factories, such as furniture factory, wood factory, oil factory, food and drinks factory, textile factory, shoes and bags factory, plastic factory in a bid to open jobs for them whereby they can get wages and at the same time generate profit for this Islamic microfinance institution.
 - ii. 50% of the collected funds to be channelled for the Islamic microfinance scheme for lending qard-hassan with zero interest for those poor and the needy who would like to start their own small business. Once the two recipients of zakah, the poor and the needy, are fit to create his/her own business they will be allowed to borrow qard-hassan with a small amount at the beginning say RM1000 to buy sewing machine or grass cutter or food stall or boat to start their own small business. In case borrower Mr. A managed to return the borrowed amount on time, the same amount will be given to Mr. B to start his own small business and so forth. In case Mr. A would like to expand his business and he has a good reputation of settling his loan on time he will be eligible to borrow higher amount say RM5000 to expand his business. However, if Mr. D fails to return the borrowed amount on time due to his capability, additional training should to be given to him through waqf institution and at the same time the zakah share on debtor has to be channelled to the Islamic microfinance institution for the continuation of lending to new poor and needy people in order to improve their living standard.
 - iii. 10% to cover management and administration expenses.

ISLAMIC MICROFINANCE & POVERTY ERADICATION MODEL {THROUGH ZAKAH, WAQF & QARD HASSAN}



CONCLUSION

As a matter of conclusion, the study has chiefly developed an integrative sustainable social benefit model for the hard core poor comprising of Islamic Social Financial Institutions (ISFI) of zakah, waqf and qard hassan all fused into an arrowhead Microfinance arrangement. It is our utmost believe that careful implementation of such practicable model will mean socio-economic emancipation for the target population; the hard core poor worldwide.