Role of Zakah and Awqaf in Poverty Alleviation

Dr. Habib Ahmed
Presentation Plan

- Introduction
- Causes and Strategies of Poverty Reduction
- *Zakah* as Tool for Poverty Alleviation
- *Waqf* as a tool of Poverty Alleviation
- Policies and Institutional Development
- Conclusion
Introduction (1)

- Different policies and programs tried to mitigate poverty—latest MDGs and PRSPs
- Poverty still persists
  - 1 billion people live under $1 a day
  - 2.6 billion people live under $2 a day
- The poverty situation in Member Countries is increasing
  - 20 MCs has per-capita income of less that $500
  - Average HDI of IDB MCs 0.598, compared to 0.694 for Developing Countries and 0.910 for Developed Countries
Consensus emerging that many conventional development programs have failed to reduce poverty

Need to seek alternative programs and strategies

Socio-economic justice and equitable distribution of income among key goals of Islamic economic system

Islam has instituted various institutions to meet these goals and that take care of the disadvantaged

Among these are *zakah* and *awqaf* (sing. *waqf*)
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Poverty: Macro-determinants

- Growth and redistribution of GDP
- Growth in per-capita income (Y/N)
  - Growth in aggregate output—Y (labor, capital and knowledge)
  - Growth in population —N (quantity and quality)
- Distribution of income also important
  - Poverty can increase with overall growth in the economy
Poverty Reduction Strategies

- Macro-level:
  - Macroeconomic Policies affecting growth—monetary & fiscal policies, investment policy, private sector development, etc.
  - Policies of Redistribution—policies promoting opportunities, human and financial capital, investment in health, education, water, etc.
Poverty: Micro-determinants

- Sen’s Entitlement Approach—income of a household depends on
  - Trade-based entitlements ($E_t$)—income from trading goods/services
  - Production-based entitlements ($E_p$)—income from production
  - Own-labor entitlement ($E_l$)—income from selling labor
  - Wealth-income transfer entitlement ($E_i$)—income from transfer of wealth/income
  - Non-entitlement transfers ($E_c$)—voluntary transfers through charitable acts
Poverty Reduction Strategies

- **Micro-level:**
  - Increase income entitlements
    - Capacity building and wealth creation—increase entitlements (trade-based, production-based, own-labor) through building human, physical and financial capital
  - Income support—unproductive households without entitlements (elderly, sick, handicap, etc.)
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Zakah—Basic Concepts

- **Zakah** is the third pillar of Islam
- **Zakah** is “a due right on specific items of assets/properties, in specific percentages with consideration of the passage of a year (hawl) and the satisfaction of nisab”
- A religious obligation on all adult men/women who fulfill the conditions
- Qur’an (9:60) specifies 8 categories of heads:
  - Poor, needy, those employed to collect zakah, those who are inclined towards Islam, free the captives, indebted, in the cause of Allah, wayfarer.
**Zakah and Poverty**

- *Zakah* is an instrument of poverty alleviation
- Early history indicates *zakah* was effective in solving the problems of poverty
  - *Zakah* could not be distributed
- Rationale of using *zakah*
  - Unique faith-based institution
  - Still unutilized for poverty alleviation
- Has potentials to mobilize additional untapped resources for poverty alleviation
Poverty Reduction Strategies & the Role of Zakah

- Role of *zakah* in macroeconomic policies limited
- *Zakah* can play an important role in policies of redistribution—specific programs for the poor (education, health, etc.)
- Policies at the micro-level depends
  - Productive poor—increase entitlements
    - Trade-based, Production based, Own labor (improve the necessary human, physical, and financial capital)
  - Non-productive poor—income transfer
Zakah and Poverty During Contemporary Times

- Impact of *zakah* on poverty would depend on the **size** of *zakah* collections and the kind of **disbursements**
- Contemporary *zakah* institutions appear to be weak and ineffective in collection
- *Zakah* collection less than potential
  - Potential estimates—1.8 to 4.3% of GDP
  - Actual estimates—0.01 to 0.30% of GDP
Impact of *Zakah* on Poverty

- **Disbursement of Funds**
  - *Zakah* used for consumption—smaller and temporary impact
  - *Zakah* used for investment (human, physical, and financial capital)—stronger and permanent impact
  - Integrate *zakah* with microfinance

- The potential of *zakah* collection and utilization for effective poverty alleviation remain untapped
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Waqf-Basic Concepts

- **Waqf**—”Stand still, hold still, not to let go” (Maliki- *habs*)
- Voluntary act of charity—*sadaqah jariyah*
- Hadith:
  - “Whence a child of Adam dies, his/her deed comes to an end except for three things: a running *sadaqah*, knowledge that benefits (others) and a righteous child who prays for him/her.”
Waqf—Important features (1)

- Good objective or birr – good intention
- “...as if ownership belongs to God”
- Can be created for various objectives
  - Philanthropic or public (khayri or aam)
  - Family or private (ahli or khass)
  - Mixed (mushtarak)
  - Religious and charitable/social
- Waqf is usually perpetual—but can be temporary and partial
**Waqf**—Important features (2)

- Founder (*waqif*) through the *waqf* deed determines:
  - Objectives for which *waqf* is created (cannot violate principles of *Shari’ah*)
  - Way(s) its revenues/fruits/services can be used
  - Management process and procedures of succession of managers (*mutawallī*)
Potential of *Waqf* in Enhancing Social Welfare

- Type A—Not too common (tombs)
- Type B—*Waqf* for family members
- Type C—Mosques, graveyards, etc.
- Type D—*Waqf* for enhancing general welfare

<table>
<thead>
<tr>
<th>Type Beneficiaries</th>
<th>Religious</th>
<th>Philanthropic</th>
</tr>
</thead>
<tbody>
<tr>
<td>Family</td>
<td>A</td>
<td>B</td>
</tr>
<tr>
<td>General Public</td>
<td>C</td>
<td>D</td>
</tr>
</tbody>
</table>
Waqf—Historical Experience (1)

- The first *waqf* created by the Prophet (PBUH) was *Masjid* in Medinah
- Other than these, the first known *awqaf* were established for social purposes
  - Umar bin Khattab—land of Khaybar
  - Uthman bin Affan—well in Medinah
- Thereafter many different kinds of *waqf* were created
  - Public utilities, education and research, health care, etc.
  - Property, cash, grains for seeds, etc.
Waqf—Historical Experience (2)

- In some Muslim countries *awqaf* reached 1/3rd or more of cultivable land
- At the end of 20th century
  - al Quds had 64 operating schools supported by *awqaf* (more than the no. of mosques)
  - In Palestine, 233 *waqf* deeds recorded (owning 890 properties) compared to 92 private ownership deeds (with 108 properties)
Waqf and Poverty Alleviation

- Type D waqf can directly affect poverty levels - redistribution of wealth and income

- Macro
  - *Awqaf* provided public utilities (roads, water and sewage), educational institutions and hospitals

- Micro
  - *Awqaf* can also directly affect entitlements by providing education (scholarships) and health (service and medicines) for the poor
Awqaf during Contemporary Times (1)

- Third sector is increasingly playing an important role (1999-$1.1$ trill., $4.6\%$ GDP in $22$ countries)
- Awqaf not being a part of this third sector revival
- Due to different reasons, awqaf have degenerated now—both as a concept and in real terms
Awqaf during Contemporary Times (2)

- The **concept** of *Waqf* is corrupted:
  - General belief that *waqf* is for religious purposes only—few are aware that *waqf* can be used for philanthropic purposes
  - *Waqf* can be created only in real-estate
  - *Waqf* established as a lifeless asset not as a living legal entity producing social goods and services
Types of *Waqf* in Karnataka state

<table>
<thead>
<tr>
<th>Type</th>
<th>Number</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mosques</td>
<td>7315</td>
<td>32.9</td>
</tr>
<tr>
<td>Graveyards</td>
<td>5419</td>
<td>24.3</td>
</tr>
<tr>
<td>Tombs (mazaar)</td>
<td>6626</td>
<td>29.8</td>
</tr>
<tr>
<td>Ashoor Khanas</td>
<td>2907</td>
<td>13.0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>22267</strong></td>
<td></td>
</tr>
</tbody>
</table>

- Most of the *awqaf* are of types A and C
- No *waqf* of type D
- Concept of *waqf* as a tool for social development is not known
Awqaf during Contemporary Times (3)

- In **real terms**—lack of organizational development
  - Most *awqaf* assets inefficiently run and many *waqf* assets lost
- One problem is that of governance—only one bad *mutawalli* needed to loose assets
- To tackle this problem—governments got involved (Ottomans in 1826)
- Not a solution—in most cases, has made the problems worse
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Policies and Institutional Development

- Integration in the Overall Development Strategy
- Laws and *Shari’ah*
- Effective Organizational Structures
- Institutional Development
Integration in the Overall Development Strategy - Zakah

- There is a need to integrate zakah in national development strategies (PRSPs)
- Currently zakah is paid at personal levels—dispersed with no impact on poverty
- *Zakah* collection by government bodies is very small
- Need to strengthen *zakah* institutions
Integration in the Overall Development Strategy - Awqaf

- Integrate *awqaf* into the third sector
- *Awqaf* still thought to be for religious purposes only (e.g., Pakistan & Malaysia)
- Potential to develop existing *awqaf* assets and create new ones
- Expected rates of return on many existing *waqf* assets are high (Kuwait—16.4%, India 19.2%)
- New *waqf* not being established due to various reasons
Waqf and the Third Sector

- Islamic *waqf* type institutions registered as NPOs (trusts, foundations, etc.) due to various organizational problems:
  - Legal
    - *Waqf* laws are not efficient and flexible as other NPO laws
  - Governance
    - Single *mutawalli* (Governing Boards in NPOs)
  - Output and Income Generation Process
    - Output of *waqf* is usufruct or rent (cash). NPO output can be in form of research, publications, education, health care, etc.
    - *Waqf* is primarily an generating income asset. NPOs are operational entities producing goods and services.
Laws and *Shari’ah* - *Zakah*

- Tax laws should accommodate *zakah* (tax credit for individuals in Malaysia)

- *Zakah* laws to deduct *zakah* on observable items, but laws themselves not enough
  - Credibility and building trust of Govt. *zakah* bodies important (results, reputation, transparency, etc.)

- Expand the *zakah* base – to increase *zakah* proceeds
  - Sources of income and wealth different from the period of the Prophet (pbuh)
  - New consensus needed on *zakatable* items
Laws and Regulations - *Awqaf*

- *Waqf* laws are outdated in many countries—does not meet needs of today
- An efficient and flexible *waqf* law a must for the growth of the sector
- *Waqf* should have status of legal entity (organization)
- Zarqa—other than the concept of *birr*, everything in *waqf* is under the realm of *ijtihad*
  - The founder deed in binding
- The scope of creating *waqf* is vast—eg. *Awqaf* on new assets like copyrights, cash, shares, etc.
Effective Organizational Structures - Zakah

<table>
<thead>
<tr>
<th>State/Countries</th>
<th>Collection</th>
<th>Disbursements</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pakistan</td>
<td>Government</td>
<td>Government</td>
</tr>
<tr>
<td>Malaysia (FTKL, N.Sem)</td>
<td>Corporation</td>
<td>Government</td>
</tr>
<tr>
<td>Malaysia (Selangor)</td>
<td>Corporation</td>
<td>Corporation</td>
</tr>
<tr>
<td>South Africa</td>
<td>NPO</td>
<td>NPO</td>
</tr>
</tbody>
</table>

- Effective Model
  - Collection—corporation
  - Disbursement—Governmental and non-governmental social welfare bodies
Effective Organizational Structures - Awqaf

<table>
<thead>
<tr>
<th>Countries</th>
<th>Dominant Types</th>
<th>Managed by</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pakistan</td>
<td>Religious</td>
<td>Government/Private</td>
</tr>
<tr>
<td>Malaysia</td>
<td>Religious</td>
<td>Government</td>
</tr>
<tr>
<td>South Africa</td>
<td>Religious/Philanthropic</td>
<td>NPO</td>
</tr>
</tbody>
</table>

- **Effective Model**
  - Nonprofit Organization with
    - Good governance structures (board of trustees and professional manager)
    - Effectiveness and Transparency
Institutional Development

- **Zakah**
  - *Zakah* Collection Corporations
  - Specialized Poverty Alleviation Disbursement Schemes—Governmental and non-government social welfare bodies

- **Waqf**
  - Extensive use of *Waqf* for Nonprofit sector
  - *Waqf* development institutions (APIF of IDB)
  - Integrate the Islamic financial and *awqaf* sectors
    - Development of *waqf* through Securitization
    - *Waqf* based Microfinance institutions
  - Institutions to manage *waqf* institutions (by non-government bodies)
Conclusion

- *Zakah* and *awqaf* not optimally used as instruments of poverty alleviation

- Effective institutional development requires improvement in several levels
  - **Conceptual**: educate people of the right conception & importance of these institutions
  - **Shari’ah**: Come up with resolutions that fit contemporary times
  - **Laws**: Enact balanced, efficient and flexible laws
  - **Organizational**: Use of new organizational models for effective management of these institutions
Thank you!