

Islam & Welfare State: Reality Check & The Way Forward



SALMAN AHMED SHAIKH

**PHD SCHOLAR IN ECONOMICS
UNIVERSITI KEBANGSAAN MALAYSIA
SALMAN@SISWA.UKM.EDU.MY**

Presentation Outline



- Introduction
- State of Welfare in OIC Countries
 - Income Poverty & Microfinance Outreach
 - Educational Indicators
 - Health Indicators
- Role of Redistributive Institutions in Welfare
 - Zakat
 - Waqf
- Policy Recommendations

Introduction



- There are 57 members in the OIC including 27 from Africa, 26 from Asia and 2 each from Europe & South America.
- Some of the oil rich Muslim countries have per capita income comparable to developed countries.
- Yet, some of the member states from Africa have one of the lowest per capita incomes.
- E.g. Qatar has per capita income in excess of \$93,000, while Somalia has a per capita income of \$133 only. At least 7 OIC member states have per capita income below \$650.

State of Welfare in OIC Countries: Poverty

| Country Name | PHCR-National (%) | Total MF Borrowers | Total Population | Total Poor | Outreach Gap (no.) | Outreach Gap (%) |
|------------------------|-------------------|--------------------|------------------|------------|--------------------|------------------|
| Guinea-Bissau | 69.3 | 1,662 | 1,663,558 | 1,152,846 | 1,151,184 | 99.9 |
| Togo | 58.7 | 297,093 | 6,642,928 | 3,899,399 | 3,602,306 | 92.4 |
| Guinea | 55.2 | 117,037 | 11,451,273 | 6,321,103 | 6,204,066 | 98.1 |
| Mozambique | 54.7 | 68,299 | 25,203,395 | 13,786,257 | 13,717,958 | 99.5 |
| Sierra Leone | 52.9 | 110,713 | 5,978,727 | 3,162,747 | 3,052,034 | 96.5 |
| Niger | 48.9 | 218,109 | 17,157,042 | 8,389,794 | 8,171,685 | 97.4 |
| Gambia, The | 48.4 | 4,389 | 1,791,225 | 866,953 | 862,564 | 99.5 |
| Burkina Faso | 46.7 | 201,537 | 16,460,141 | 7,686,886 | 7,485,349 | 97.4 |
| Senegal | 46.7 | 282,745 | 13,726,021 | 6,410,052 | 6,127,307 | 95.6 |
| Chad | 46.7 | 21,430 | 12,448,175 | 5,813,298 | 5,791,868 | 99.6 |
| Sudan | 46.5 | 67,435 | 37,195,349 | 17,295,837 | 17,228,402 | 99.6 |
| Nigeria | 46.0 | 2,600,000 | 168,833,776 | 77,663,537 | 75,063,537 | 96.7 |
| Mali | 43.6 | 271,619 | 14,853,572 | 6,476,157 | 6,204,538 | 95.8 |
| Cameroon | 39.9 | 292,146 | 21,699,631 | 8,658,153 | 8,366,007 | 96.6 |
| Benin | 36.2 | 305,470 | 10,050,702 | 3,638,354 | 3,332,884 | 91.6 |
| Afghanistan | 35.8 | 148,033 | 29,824,536 | 10,677,184 | 10,529,151 | 98.6 |
| Syrian Arab Republic | 35.2 | 32,518 | 22,399,254 | 7,884,537 | 7,852,019 | 99.6 |
| Yemen, Rep. | 34.8 | 112,494 | 23,852,409 | 8,300,638 | 8,188,144 | 98.6 |
| Gabon | 32.7 | 907 | 1,632,572 | 533,851 | 532,944 | 99.8 |
| Tajikistan | 32.0 | 339,039 | 8,008,990 | 2,562,877 | 2,223,838 | 86.8 |
| Bangladesh | 31.5 | 18,600,000 | 154,695,368 | 48,729,041 | 30,129,041 | 61.8 |
| Kyrgyz Republic | 30.6 | 432,980 | 5,607,200 | 1,715,803 | 1,282,823 | 74.8 |
| Lebanon | 28.6 | 79,017 | 4,424,888 | 1,265,518 | 1,186,501 | 93.8 |
| Egypt, Arab Rep. | 25.2 | 905,888 | 80,721,874 | 20,341,912 | 19,436,024 | 95.5 |
| Pakistan | 22.3 | 3,600,000 | 179,160,111 | 39,952,705 | 36,352,705 | 91.0 |
| Uganda | 19.5 | 731,393 | 36,345,860 | 7,087,443 | 6,356,050 | 89.7 |
| Iraq | 18.9 | 56,008 | 32,578,209 | 6,157,282 | 6,101,274 | 99.1 |
| Bosnia and Herzegovina | 17.9 | 257,037 | 3,833,916 | 686,271 | 429,234 | 62.5 |
| Uzbekistan | 16.0 | 176,029 | 29,774,500 | 4,763,920 | 4,587,891 | 96.3 |
| Tunisia | 15.5 | 263,268 | 10,777,500 | 1,670,513 | 1,407,245 | 84.2 |
| Jordan | 14.4 | 333,723 | 6,318,000 | 909,792 | 576,069 | 63.3 |
| Albania | 14.3 | 63,280 | 2,900,489 | 414,770 | 351,490 | 84.7 |
| Indonesia | 11.3 | 1,200,000 | 246,864,191 | 27,895,654 | 26,695,654 | 95.7 |
| Morocco | 8.9 | 883,852 | 32,521,143 | 2,894,382 | 2,010,530 | 69.5 |
| Kazakhstan | 2.9 | 241,976 | 16,791,425 | 486,951 | 244,975 | 50.3 |

State of Welfare in OIC Countries



- In OIC countries such as Guinea-Bissau, Gabon, Chad, Sudan, Syria, Mozambique, Gambia and Iraq, microfinance outreach is not even catering to 1% of the poor people in these countries.
- In 26 out of 36 countries where sufficient data is available, we find that not even 10% of the poor people are under the microfinance radar.
- In 5 OIC countries, the poverty headcount ratio at national poverty line exceeds half of the population. In these OIC countries, not even 10% of the poor people are reached by microfinance.

State of Welfare in OIC Countries



- Most poor people are in Nigeria, followed by Bangladesh, Pakistan, Indonesia and Egypt. In all these 5 OIC member states, the poor population exceeds 20 million in numbers.
- Bangladesh has the highest outreach in microfinance. Along with Bangladesh, Pakistan, Nigeria and Indonesia are the other OIC countries where microfinance client base exceeds 1 million.
- Nevertheless, apart from Bangladesh, the outreach gap is more than 90% in Pakistan, Nigeria and Indonesia.

State of Welfare in OIC Countries: Health



- On average, OIC countries have less than 2 beds per 1,000 people. In 18 out of 46 countries, there is even less than 1 bed per 1,000 people.
- On average, OIC countries have less than 3 nurses/midwives per 1,000 people. In 20 out of 46 countries, there is even less than 1 nurse/midwife per 1,000 people.
- On average, OIC countries have less than 1.5 physicians per 1,000 people. In 24 out of 46 countries, there is even less than 1 physician per 1,000 people.

State of Welfare in OIC Countries: Health

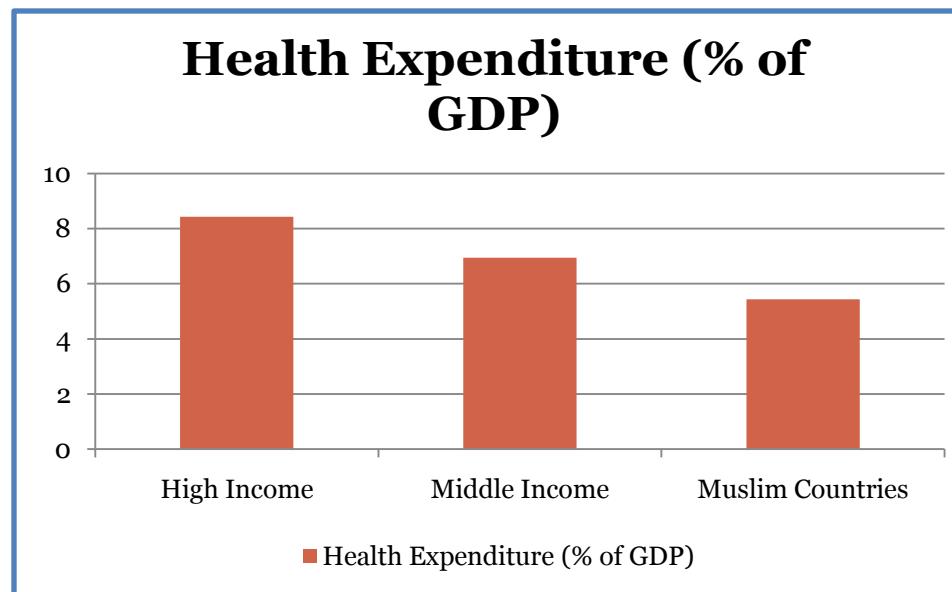


- On average, 49 out of 1,000 infants die under the age of 5 in OIC countries.
- In 36 out of 54 countries (2/3rd), mortality under age 5 exceeds 20 out of 1,000 infants.
- In 25 out of 54 countries, mortality under age 5 exceeds 40 out of 1,000 infants.

Introduction



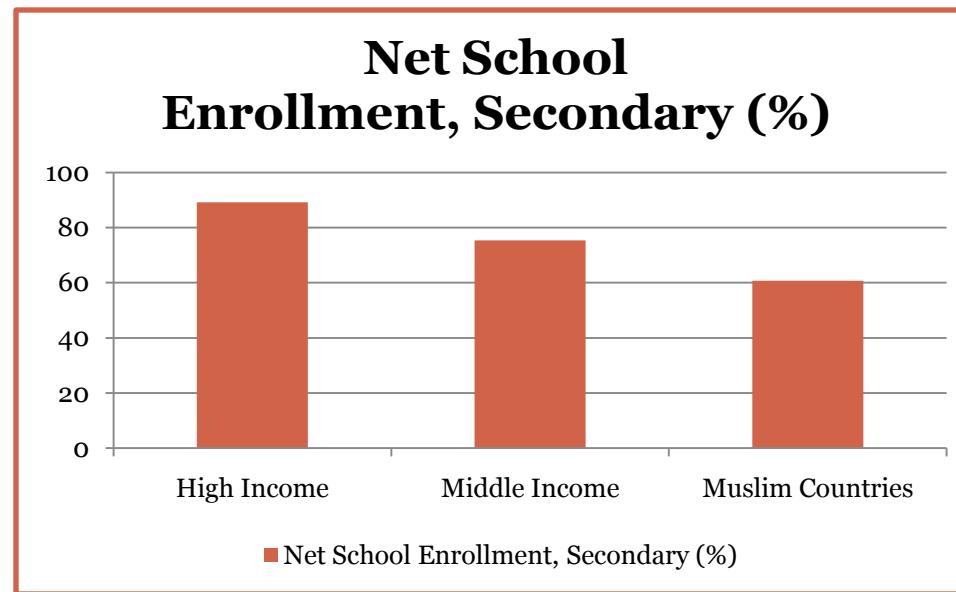
- Adjusting for income, the Muslim majority countries spend less percent of GDP on health as compared to the high income and the middle income countries.



Introduction



- Muslim majority countries on average have lower secondary school enrollment rate as compared to the high income and the middle income countries.



State of Welfare in OIC Countries: Education



- On average, net enrolment rate in primary schools is 85% in OIC countries, which is higher than low income (80%) countries, but less than middle income (90%) and high income countries (96%).
- On average, net enrolment rate in secondary schools is 57% in OIC countries, which is higher than low income (32%) countries, but less than middle income (67%) and high income countries (90%).
- On average, OIC countries spend 4% of GDP on health.

Role of Redistributive Institutions in Welfare



- Due to widespread poverty and weak governments, most of the Muslim majority countries are behind in spending on schooling and health services.
- Hence, the level of human capital, productivity and national income remain at lower levels.
- The weak fiscal position requires a strong social sector response to provide decentralized public goods from the affluent class in the society.

Islamic Redistributive Institutions: Zakat



- *Zakat* is an important institution in an Islamic economic framework for poverty alleviation and economic welfare.
- In Islam, *Zakat* is a religious obligation to pay a part of wealth and production to the government (Chapter Tauba: Verse 103).
- As per Islamic injunctions, the government has to spend the *Zakat* funds on specified heads for public welfare (Chapter Tauba: Verse 60).
- In its economic character, *Zakat* is a combination of a net worth levy and a production levy.

Islamic Redistributive Institutions: Zakat



- Economic Effects of Zakat
 - Poverty alleviation.
 - Asset ownership for poor class.
 - Income and wealth redistribution.
 - Circulation of capital.
 - Enabling socio-economic mobility.

Islamic Redistributive Institutions: Waqf



- Under the Islamic legal endowment (Waqf), an owner permanently settles property, its usufruct or income, to the use of beneficiaries for specific purposes.
- In the contemporary application of Waqf, it can be established either by dedicating real estate, fixtures, movable assets, cash and shares.
- In Muslim history, Awqaf provided public utilities (roads, water and sewage), educational institutions and hospitals.

Islamic Redistributive Institutions: Waqf



- Even in contemporary times, Awqaf can also directly affect entitlements by providing education (scholarships) and health (service and medicines) for the poor.
- Waqf can help in capacity building and wealth creation through building human, physical and financial capital.
- Waqf complements Zakat since government cannot take more than a prescribed portion of wealth as Zakat.
- Hence, private establishment of Waqf shares the burden of fiscal policy.

Islamic Redistributive Institutions: Waqf



- As compared to individual charity, the institution of Waqf is more effective in:
 - Matching right targets.
 - Ensuring effective screening.
 - Providing sustainable sources of funds to the beneficiaries.
 - Reducing search costs for both the donor and beneficiaries.
 - Pooling and allocating funds/projects to diverse causes in widespread locations.

Policy Recommendations



- It is important to provide tax incentives to engage more people and corporations towards establishing Waqf.
- Furthermore, tax rebates on income deducted at source of Waqf investments shall be allowed to reduce the tax burden on Waqf.
- It is important to create social awareness for creating right kinds of Waqf at the right place. For instance, in many Muslim countries, only mosques are built as Waqf while the majority of Muslims also face shortage of basic medical and educational services.

Policy Recommendations



- To engage more people on a wide scale, Waqf certificates can be issued so that greater amount of participation and resources can be pooled together.
- It is vital to improve the matching technology because charitable spending can be seasonal and impulsive.
- It is necessary to highlight the positive externalities in campaigns.
- For instance, highlighting how much difference will a contribution of RM 1,000 will make in funding one year schooling of certain number of children.

Policy Recommendations



- It is necessary that the poor people are provided with *Zakat* as transfer payment for a necessary number of periods so that they can survive as well as permanently move to the status of non-poor.
- The institution of *Waqf* (charitable trust) can also be very effective in helping the government to increase its scale of welfare programs and outreach.

Policy Recommendations



- The close interaction between the *Zakat* disbursement agency and the Islamic microfinance institutions is also vital.
- Microfinance institutions can help in identifying targets that require immediate help in meeting consumption expenditure requirements.
- For effective organization and with the objective of maximizing the benefits of *Zakat*, it is appropriate to disburse *Zakat* at the federal level. This way the regional disparities can be reduced more effectively.

Policy Recommendations



- To gain the trust and confidence of people, it is vital to improve the governance and transparency. Collection and disbursement details shall be reported in a standardized way periodically.
- It is important to modify the accounting standards to achieve transparent computation, assessment and collection.
- It is also vital to improve the capacity of the public sector officials to scrutinize accounts for transparent and efficient *Zakat* assessment.

Policy Recommendations



- Pooling resources by transferring surplus *Zakat* funds from the rich countries to the poor countries with lower wealth bases will help in alleviating poverty quickly (Shirazi & Amin, 2009).
- Timing for wealth *Zakat* is especially important. It is better to have equal number of people paying *Zakat* every quarter rather than all people paying at a single time of the year.
- This will help in reducing any possible arbitrage and enable the government to have *Zakat* funds available at all times of the year.

Policy Recommendations



- *Zakat* funds can be utilized for funding institutions that will provide welfare services to the poor. Since organizations can have economies of scope and cost and administrative synergies, it will make the institution of *Zakat* more effective.
- Using same legal and administrative infrastructure established for the collection and disbursement of *Zakat*, the government can invite more voluntary charitable giving besides *Zakat* from domestic and overseas residents so that the scale and effectiveness of redistribution and welfare programs can be enhanced.



For Feedback & Comments

Salman Ahmed Shaikh

salman@siswa.ukm.edu.my

www.islamicconomicsproject.wordpress.com