



Application of Waqf as Social Safety Net & Public Infrastructure Financing

Salman Ahmed Shaikh
Dr. Abdul Ghafar Ismail
Dr. Bayu Taufiq



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Introduction

- More than 1 billion people live in poverty.
- Even though, world agriculture produces 17% more calories per person today than it did 30 years ago, despite a 70% increase in the population.
- Reason lies in inequitable distribution of resources, even in the necessities.
- In developed and developing countries alike, the poorest half of the population often controls less than 10% of its wealth.

Introduction

- While the developed world needs to find answers for egalitarian distribution of income, the developing world has to achieve both:
 - Decline in poverty.
 - Egalitarian distribution of income.
- Most of the Muslim majority countries are generally poorer than the other countries on average.
- Most of the poverty resides in Africa and Asia and bulk of the Muslim majority countries are located in these continents.

Introduction

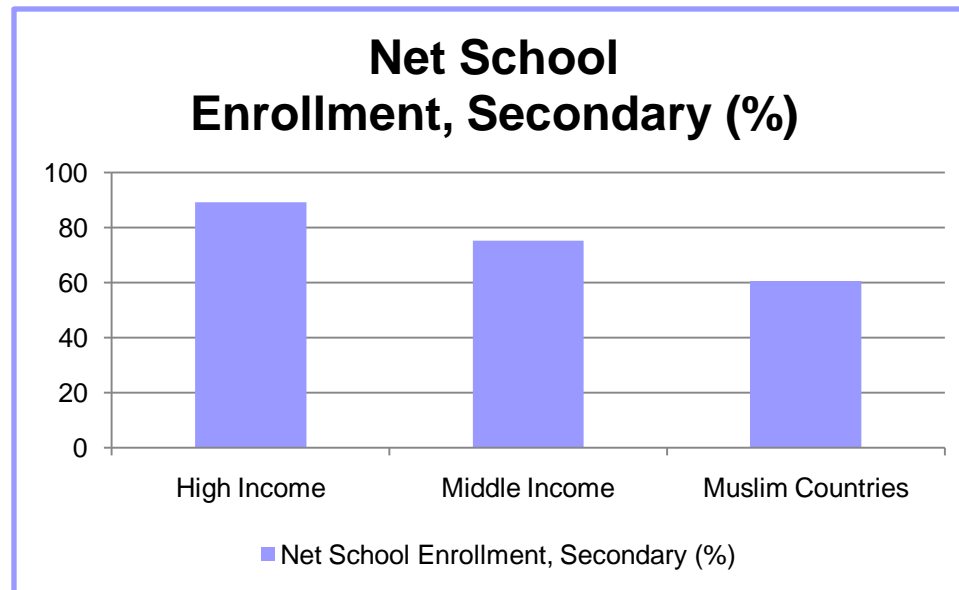
- It is estimated that 1.37 billion of the world total population of 7.1 billion live on US\$1 per day.
- In the 57 OIC member countries, which constitute around 1.6 billion people, 31% of the total population lives below the poverty line of US\$ 1.25 per day (Alpay & Haneef, 2015).
- In Pakistan, Naveed & Ali (2012) conclude that as many as 58.7 million people in Pakistan are living in multidimensional poverty with 46% of the rural population and 18% of the urban households falling below the poverty line.
- Other Muslim majority countries like Bangladesh and Nigeria also have poverty headcount ratio of 43% and 62% respectively.

Introduction

- 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.

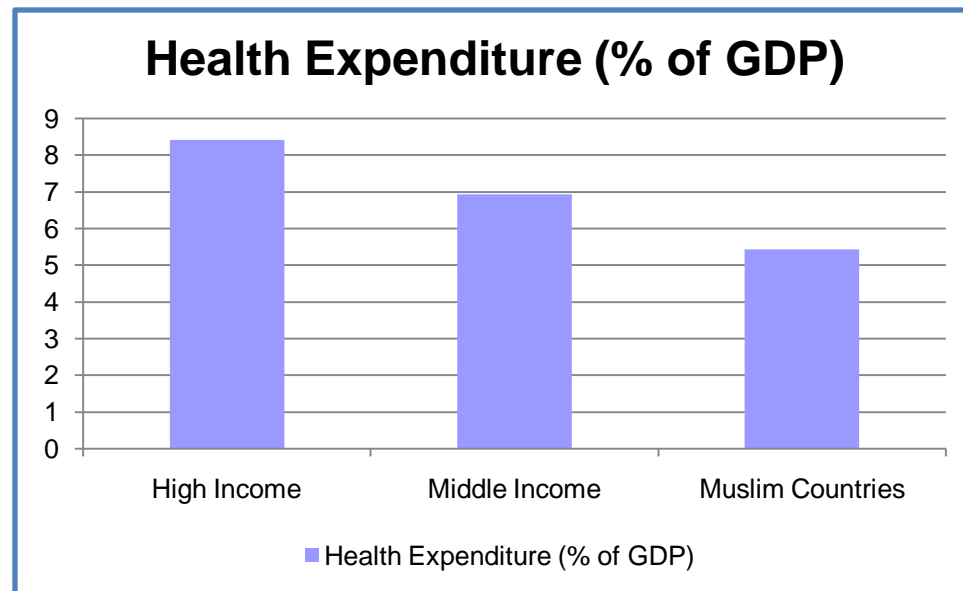
Introduction

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



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.



Motives for Charity: Secular vs. Islamic Worldview

- Charitable spending is not an exceptional or rare phenomenon.
- In a typical year, total charitable gifts of money now exceed 2% of GDP in USA (List, 2011).
- Alam (2010) informs that the magnitude of philanthropic giving in Muslim communities is estimated to total between USD 250 billion and USD 1 trillion annually.
- A recent study by the Aga Khan Foundation on Pakistan finds that giving by Pakistanis is four times the amount of foreign aid that Pakistan receives (Alam, 2010).

Motives for Charity: Secular vs. Islamic Worldview

Motives identified in a Secular Framework

- Impure altruism to get fame, satisfy ego etc. (**Andreoni, 1989**)
- To improve one's own social experience and relations. (**Andreoni, 1989**)
- Moral satisfaction generated by contributing. (**Crumpler & Grossman, 2008**)
- Reluctant altruism due to peer pressure. (**DellaVigna, et al 2009**)
- To redeem their image in public and to avoid the guilt of saying no. (**Andreoni & Bernheim, 2009**)

Motives for Charity: Secular vs. Islamic Worldview

Motives identified in a Secular Framework: Continued

- Altruistic behavior is also learnt like other behaviors. (*Mayr et al, 2009*)
- Charitable donations buy two things for the givers: private warm glow and public prestige. (*Harbaugh, 1998*)

Motives for Charity: Secular vs. Islamic Worldview

Motives in an Islamic Framework

- Islamic worldview extends the responsibility of humans to society, future generations, and other living species on planet with accountability for every intentional act.
- Islamic worldview regards humans as trustees for whatever material resources and mental faculties they come to possess in this world.
- Islamic worldview based on Tawhid (oneness of God) and belief in afterlife accountability deeply influences preferences, behavior and choices.
- It not only asks for change in some choices and giving religion a place in time and resource allocation, rather it equips the believers with spiritual rationality to act in ethical ways for the eternal bliss.

Motives for Charity: Secular vs. Islamic Worldview

Motives in an Islamic Framework: Continued

- In Surah Al Imran, verse 92, Allah (s.w.t.) says:

“By no means shall ye attain righteousness unless ye give (freely) of that which ye love; and whatever ye give, of a truth God knows it well”.

- Abu Huraira reported that the Holy Prophet (peace be upon him) said:

“When a man dies, all his acts come to an end, but three; recurring charity (sadaqah jarriyah), or knowledge (by which people benefit), or a pious offspring who prays for him”.

Importance of Waqf in Islamic Redistribution Framework

- Under the Islamic legal endowment (Waqf), an owner permanently settles property, its usufruct or income, to the use of beneficiaries for specific purposes.
- Waqf is usually perpetual—but can be temporary and partial.
- In the contemporary application of Waqf, it can be established either by dedicating real estate, fixtures, movable assets, cash and shares.
- Cash Waqf can pool more resources and wide participation of individual donors.

Importance of Waqf in Islamic Redistribution Framework

- In Muslim history, Awqaf provided public utilities (roads, water and sewage), educational institutions and hospitals.
- Kuran (2001) admits that Waqf as an institution long served as a major instrument for delivering public goods in a decentralized manner.
- 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.

Importance of Waqf in Islamic Redistribution Framework

- Waqf can transform the social capital into social and public infrastructure.
- It uses the values of sympathy and empathy as software to build welfare institutions on the ground as hardware.
- It provides permanent social safety net in the case of perpetual Waqf.
- Waqf provides flexibility in fund utilization as compared to Zakat.
- For instance, animal protection and environmental preservation programs can be provided through Waqf more flexibly.

Importance of Waqf in Islamic Redistribution Framework

- 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 and also provides a source of contentment for the faithful donor in following the Islamic directives on charitable spending.
- The institution of Waqf is also an excellent source of building religious infrastructure for Muslims in non-Muslim majority countries.
- In such countries, the Muslims can share other infrastructure like schools and hospitals built by the government for all citizens. But, they cannot share the religious infrastructure and the government may not pay attention to the religious needs of minority Muslims.

Importance of Waqf in Islamic Redistribution Framework

- The institution of Waqf gives flexibility to a Muslim to allocate a part of his wealth in social causes so as to benefit in life hereafter and to ensure effective utilization of the leftover wealth in the society.
- As compared to individual charity, the institution of Waqf is more effective in matching right targets with objective screening and providing sustainable sources of funds to the beneficiaries.
- In individual charity, it is often difficult to find right targets for rich people whose extended families and social circle also include people like themselves.

Application of Waqf in Policy Framework

- In the contemporary application of Waqf, it can be established either by dedicating real estate, fixtures, movable assets, cash and shares.
- Cash Waqf can enable the people to contribute in establishing Waqf even if they do not personally own any real estate.
- Transparency and accountability between funding and implementing agencies is necessary.
- Corporate Waqf can bring in professional business management technique for quality improvement and internal delegation of responsibility.

Application of Waqf in Policy Framework

- Diversity in income sources for Waqf institutions is important.
- Qualified investment specialists can be employed to competently manage investment risks.
- Waqf with large funds can also become a superstructure under which commercial and welfare institutions can be established.
- Waqf can be used to establish standalone financial and non-financial institutions as well as to help the existing ones.

Application of Waqf in Policy Framework

- Islamic banks can create Waqf by using income derived from late-payment penalties and other proceeds which they cannot include in income.
- 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.
- This will provide opportunity to contribute by the people with lower wealth as well.

Application of Waqf in Policy Framework

- The NGO or Waqf model can be used to fund the establishment of training and business support centers for providing skill based training, like:
 - ☐ Carpentry
 - ☐ Welding
 - ☐ Stitching
 - ☐ Dying
 - ☐ Cooking
 - ☐ Office Automation
 - ☐ Electrician
 - ☐ Mechanic
 - ☐ Electronics Repairing
 - ☐ Beautician & Personal Grooming Services
 - ☐ Driving
 - ☐ Flower Making

Application of Waqf in Policy Framework

- The running costs of these centers can be managed by taking a fee in terms of requiring the trained person to further train fixed number of participants.
- Hence, no monetary fee will be charged for training facilities, but, the person provided with training shall further train a fixed number of other people so that the model becomes financially sustainable and maximum leverage can be obtained from the funds that are used to establish these centers.
- These training centers will compliment the financing functions of Microfinance institutions as the people with required human capital are expected to be more productive and hence earn income levels that can cover the cost of financing.

Application of Waqf in Policy Framework

- It is an empirical reality that people want to donate both time and money.
- Hence, professionals, engineers, technicians and academicians can donate time to be part of such training centers.
- Such donation will enable them to contribute in social causes without having to become permanent part of the institution and leave their primary bread-earning occupation.

Application of Waqf in Policy Framework

- It will also enable them to be part of social projects without having to worry about administration, finding right targets and necessary infrastructure.
- This will also reduce their cost of donation by reducing transaction costs and it will help them to donate more time in actual service delivery than in matching targets or administration.
- Finally, Waqf can also be used to finance public infrastructure and public goods like mosques, roads, schools and hospitals etc. Such complimentary public investments are one prime sources of continuous economic growth (Romer, 1986).

Conclusion & Recommendations

- It is vital to improve the matching technology because charitable spending can be seasonal and impulsive.
- Hence, there is a need for accessible avenues to match targets and mobilize resources efficiently.
- In soliciting Waqf contributions or investments in Waqf certificates, it is necessary to highlight the positive externalities.
- 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.

Conclusion & Recommendations

- It is important to provide tax incentives to engage more people and corporations towards establishing Waqf.
- Tax deductibility for corporations can be one such incentive that can be allowed by countries where it is not allowed already.
- Furthermore, tax rebates on income deducted at source of Waqf investments shall be allowed to reduce the tax burden on Waqf.
- Finally, 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.



Thank You

Questions & Feedback

Salman Ahmed Shaikh

islamiceconomicsproject@gmail.com

www.islamiceconomicsproject.wordpress.com