

# Mobilizing Funds for Industrialization and Development through Islamic Value System, Capital Markets and Social Finance

Salman Ahmed Shaikh  
Project Coordinator and Editor,  
Islamic Economics Project

Organized by



كلية الدراسات الإسلامية  
College of Islamic Studies  
جامعة حمد بن خليفة  
HAMAD BIN KHALIFA UNIVERSITY



# PRESENTATION OUTLINE

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- Introduction
- Current State of Development and Development Assistance in the Muslim World
- Role of Islamic Capital Markets in Development Finance
- Role of Islamic Redistributive Institutions in Philanthropy and Humanitarian Aid
- Role of Technology in Tackling Industrial Revolution 4.0
- Conclusion

# INTRODUCTION

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## ■ Humanitarian Crisis

- Food Deprivation, Poverty and Epidemics.
- Climate Change.

## ■ Development Crisis

- High levels of poverty in Muslim majority countries.
- Low levels of underdevelopment in Muslim majority regions.
- Lack of infrastructure for adequate health and education.

## ■ Need for Comprehensive and Integrated Response

- Need crowdfunding to mobilize funds to scale up efforts in Islamic social finance.
- Need to support industrialization through channeling and savings via Islamic banking.
- Need development finance to build infrastructure and institutions through Islamic capital markets.

# STATE OF POVERTY IN THE MUSLIM WORLD

Country	PHCR-National (%)	Country	PHCR-National (%)
Guinea-Bissau	69.3	Egypt	32.5
Togo	58.7	Lebanon	28.6
Sierra Leone	56.8	Tajikistan	26.3
Mozambique	54.7	Bangladesh	24.3
Afghanistan	54.5	Kyrgyz Republic	22.4
Gambia	48.4	Pakistan	22.3
Senegal	46.7	Uganda	21.4
Sudan	46.5	Iraq	18.9
Guinea	43.7	Bosnia	17.9
Chad	42.3	Uzbekistan	16
Mali	42.1	Jordan	15.7
Burkina Faso	41.4	Tunisia	15.5
Niger	40.8	Turkey	14.4
Nigeria	40.1	Albania	14.3
Cameroon	39.9	Indonesia	9.8
Benin	38.5	Morocco	8.9
Syria	35.2	Malaysia	5.6
Yemen	34.8	Kazakhstan	2.5
Gabon	33.4		

# STATE OF UNDERDEVELOPMENT IN THE MUSLIM WORLD

Country	HDI Value	HDI Rank	OIC Rank	Country	HDI Value	HDI Rank	OIC Rank
UAE	0.89	31	1	Guyana	0.682	122	29
Saudi Arabia	0.854	40	2	Iraq	0.674	123	30
Bahrain	0.852	42	3	Tajikistan	0.668	125	31
Qatar	0.848	45	4	Bangladesh	0.632	133	32
Brunei	0.838	47	5	Syria	0.567	151	33
Kazakhstan	0.825	51	6	Cameroon	0.563	153	34
Turkey	0.82	54	7	Pakistan	0.557	154	35
Oman	0.813	60	8	Comoros	0.554	156	36
Malaysia	0.81	62	9	Mauritania	0.546	157	37
Kuwait	0.806	64	10	Benin	0.545	158	38
Albania	0.795	69	11	Uganda	0.544	159	39
Iran	0.783	70	12	Nigeria	0.539	161	40
Bosnia	0.78	73	13	Ivory Coast	0.538	162	41
Azerbaijan	0.756	88	14	Djibouti	0.524	166	42
Algeria	0.748	91	15	Togo	0.515	167	43
Lebanon	0.744	92	16	Senegal	0.512	168	44
Maldives	0.74	95	17	Afghanistan	0.511	169	45
Tunisia	0.74	95	18	Sudan	0.51	170	46
Suriname	0.738	97	19	Gambia	0.496	172	47
Jordan	0.729	102	20	Guinea-Bissau	0.48	175	48
Libya	0.724	105	21	Guinea	0.477	178	49
Uzbekistan	0.72	106	22	Yemen	0.47	179	50
Indonesia	0.718	107	23	Mozambique	0.456	181	51
Turkmenistan	0.715	111	24	Burkina Faso	0.452	182	52
Egypt	0.707	116	25	Sierra Leone	0.452	182	53
Gabon	0.703	119	26	Mali	0.434	184	54
Kyrgyzstan	0.697	120	27	Chad	0.398	187	55
Morocco	0.686	121	28	Niger	0.394	189	56

# STATE OF DEVELOPMENT ASSISTANCE IN THE MUSLIM WORLD

Country	Net ODA (% GNI)	Net ODA (% GFCF)	Country	Net ODA (% GNI)	Net ODA (% GFCF)
Afghanistan	20.43	..	Kyrgyz Rep.	5.16	13.88
Albania	2.27	9.39	Lebanon	2.60	12.42
Algeria	0.08	0.17	Malaysia	-0.01	-0.04
Azerbaijan	0.19	0.89	Maldives	2.48	4.34
Bangladesh	1.06	3.55	Mali	9.01	42.73
Benin	4.04	15.16	Mauritania	6.38	14.15
Bosnia	1.75	8.06	Morocco	0.70	2.06
Burkina Faso	7.22	30.43	Mozambique	12.51	24.49
Cameroon	3.07	13.20	Niger	8.92	32.18
Chad	7.90	37.33	Nigeria	0.87	4.20
Comoros	7.31	49.07	Pakistan	0.44	2.50
Ivory Coast	1.71	7.75	Senegal	4.38	13.50
Djibouti	5.70	104.59	Sierra Leone	13.32	71.03
Egypt	0.85	4.96	Sudan	2.97	24.05
Gabon	0.74	3.16	Suriname	0.42	..
Gambia	14.17	66.69	Tajikistan	4.54	16.87
Guinea	5.51	28.61	Togo	5.51	21.82
Guinea-Bissau	10.46	95.88	Tunisia	2.10	9.66
Guyana	2.15	..	Turkey	0.15	0.52
Indonesia	0.09	0.26	Turkmenistan	0.05	..
Iran	0.04	0.10	Uganda	6.07	23.65
Iraq	1.03	7.97	Uzbekistan	1.07	2.93
Jordan	5.91	31.09	Gaza	11.75	48.59
Kazakhstan	0.05	0.17	Yemen	34.02	..

# STATE OF DEBT SERVICE BURDEN IN THE MUSLIM WORLD

Country	Debt Service (% of Exports)	Debt Service (% of GNI)	Country	Debt Service (% of Exports)	Debt Service (% of GNI)
Afghanistan	2.98	0.28	Kazakhstan	48.11	20.61
Albania	12.30	4.31	Kyrgyz Rep.	18.15	7.24
Algeria	0.51	0.12	Lebanon	88.21	36.32
Azerbaijan	8.58	4.70	Maldives	12.18	9.01
Bangladesh	12.82	1.82	Mali	4.83	1.35
Benin	5.85	3.61	Mauritania	14.07	5.10
Bosnia	11.01	4.73	Morocco	9.19	3.51
Burkina Faso	3.03	1.02	Mozambique	16.42	6.47
Cameroon	14.11	3.03	Niger	7.85	1.15
Chad	..	1.41	Nigeria	7.09	1.18
Comoros	3.10	0.40	Pakistan	35.35	4.03
Ivory Coast	12.35	5.27	Senegal	14.33	4.10
Djibouti	1.52	2.47	Sierra Leone	7.66	1.59
Egypt	16.10	3.01	Sudan	4.92	0.68
Gabon	..	4.24	Tajikistan	19.30	5.89
Gambia	13.41	2.65	Togo	6.84	2.13
Guinea	2.52	0.85	Tunisia	15.74	8.28
Guinea-Bissau	3.29	1.18	Turkey	34.29	11.60
Guyana	7.65	2.71	Uganda	4.85	0.88
Indonesia	39.42	7.53	Uzbekistan	13.19	4.48
Iran	0.46	..	Yemen	14.56	0.51
Jordan	19.17	7.56			

# STATE OF DEBT SERVICE BURDEN IN THE MUSLIM WORLD

Country	Net ODA (% GNI)	Debt Service % of GNI	Deficit	Country	Net ODA (% GNI)	Debt Service % of GNI	Deficit
Lebanon	2.60	36.32	33.72	Cameroon	3.07	3.03	-0.04
Kazakhstan	0.05	20.61	20.57	Senegal	4.38	4.10	-0.28
Turkey	0.15	11.60	11.45	Benin	4.04	3.61	-0.43
Indonesia	0.09	7.53	7.44	Mauritania	6.38	5.10	-1.28
Maldives	2.48	9.01	6.53	Sudan	2.97	0.68	-2.29
Tunisia	2.10	8.28	6.19	Djibouti	5.70	2.47	-3.23
Azerbaijan	0.19	4.70	4.52	Togo	5.51	2.13	-3.37
Pakistan	0.44	4.03	3.59	Guinea	5.51	0.85	-4.65
Gabon	0.74	4.24	3.51	Uganda	6.07	0.88	-5.19
Uzbekistan	1.07	4.48	3.41	Mozambique	12.51	6.47	-6.04
Bosnia	1.75	4.73	2.98	Burkina Faso	7.22	1.02	-6.20
Morocco	0.70	3.51	2.81	Chad	7.90	1.41	-6.50
Egypt	0.85	3.01	2.16	Comoros	7.31	0.40	-6.90
Kyrgyz Rep	5.16	7.24	2.08	Mali	9.01	1.35	-7.66
Albania	2.27	4.31	2.05	Niger	8.92	1.15	-7.77
Jordan	5.91	7.56	1.65	Guinea-Bissau	10.46	1.18	-9.28
Tajikistan	4.54	5.89	1.35	Gambia	14.17	2.65	-11.52
Bangladesh	1.06	1.82	0.76	Sierra Leone	13.32	1.59	-11.73
Guyana	2.15	2.71	0.55	Afghanistan	20.43	0.28	-20.15
Nigeria	0.87	1.18	0.31	Yemen	34.02	0.51	-33.51
Algeria	0.08	0.12	0.03				

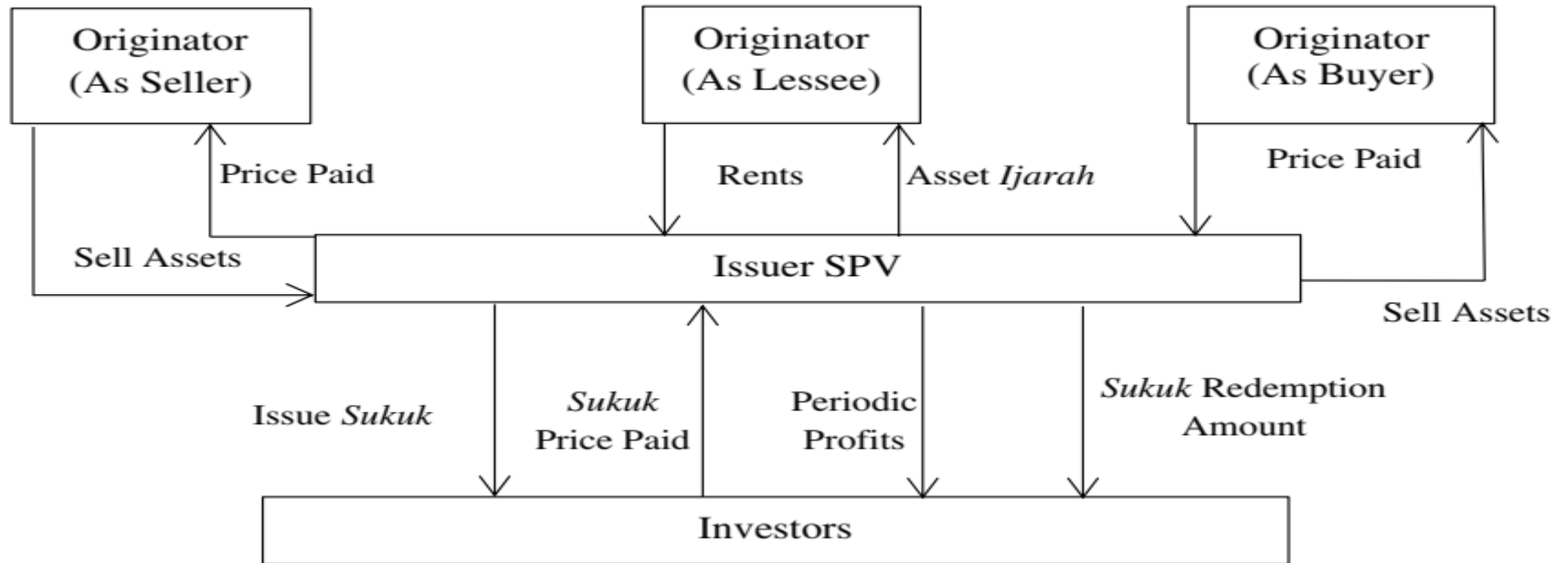


## ECONOMIC FUNCTION OF SUKUK IN DEVELOPMENT FINANCE

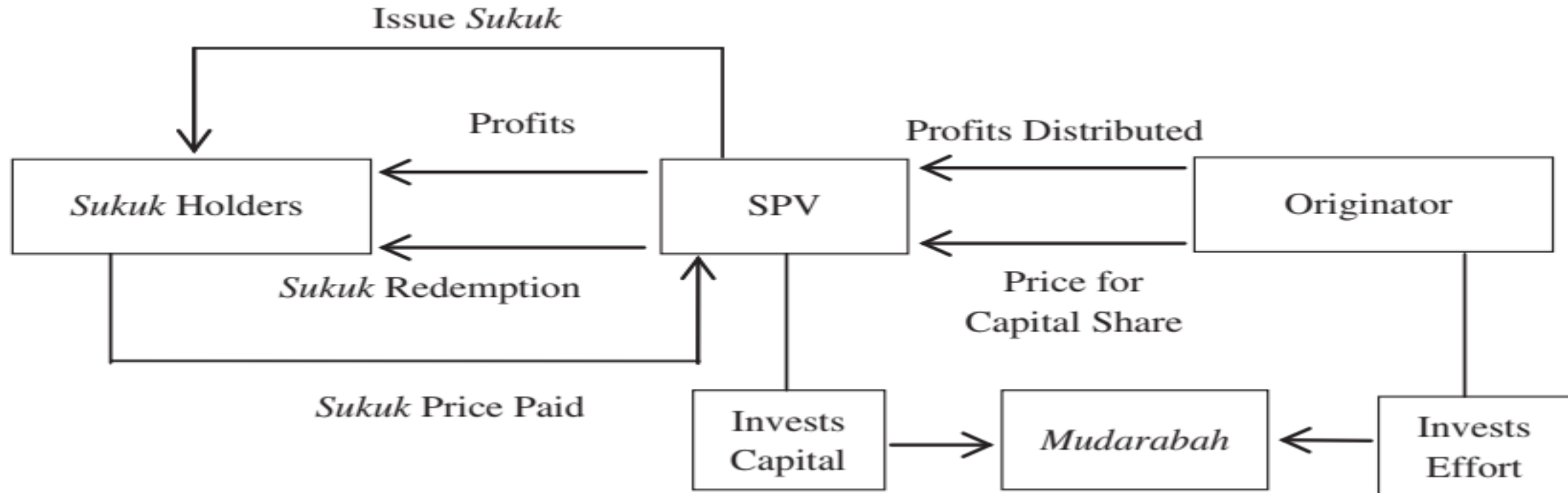
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- Sukuk is a viable financing mechanism to access funds on a long-term basis for the purchase of long-term fixed assets.
- By way of issuing Sukuk, the issuer obtains the required amount of financing from a wide range of retail and institutional investors who are looking for Halal, but stable, source of regular incomes.
- From the point of view of investors, Sukuk can provide consistent and regular incomes to investors over a long period of time. The standardized nature of Sukuk allows it to be marketable and hence liquid.
- In public finance, sovereign Ijarah Sukuk issued by the governments is structured in such a way that it allows the government to mobilize funds for public projects.

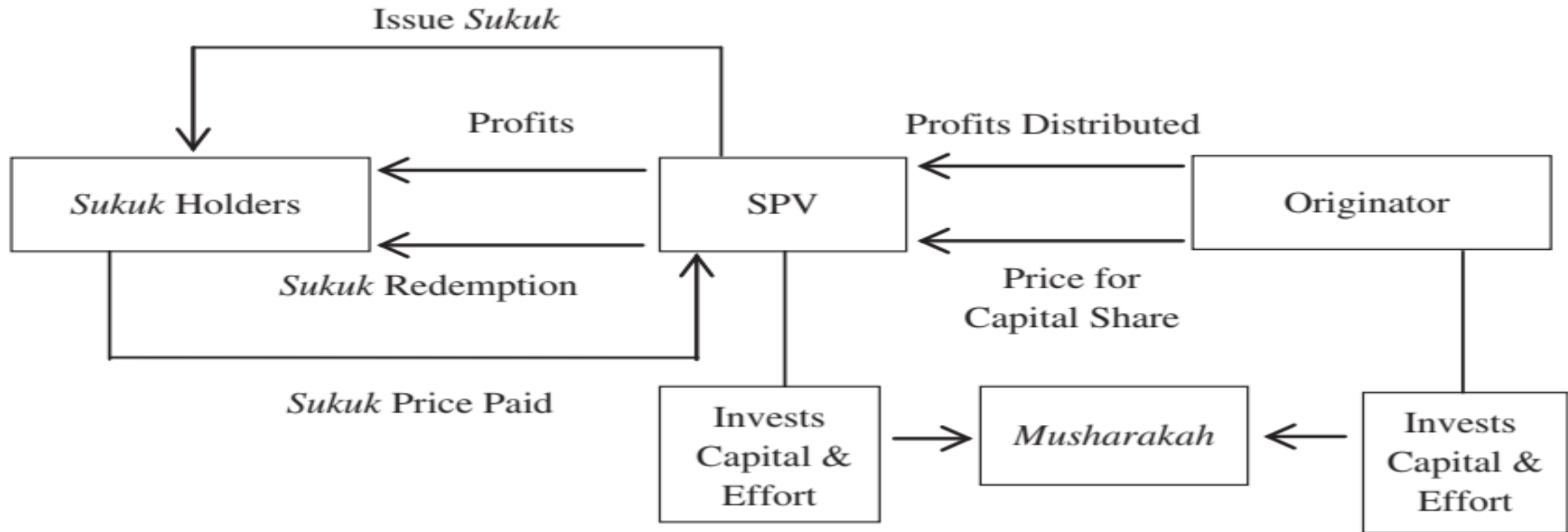
# ISLAMIC CAPITAL MARKET AND DEVELOPMENT FINANCE: IJARAH SUKUK



# ISLAMIC CAPITAL MARKET AND DEVELOPMENT FINANCE: MUDARABAH SUKUK



# ISLAMIC CAPITAL MARKET AND DEVELOPMENT FINANCE: MUDARABAH SUKUK



## ISLAMIC VALUE SYSTEM EMPHASIZES CHARITABLE GIVING

- Qur'an urges believers to spend what they love in order to achieve righteousness (Al-Imran: 92), spend throughout their lives (Al-Munafiqun: 10) and the ideal is to spend whatever is beyond their needs (Al-Baqarah: 219).
- Allah says of the ideal believers in Qur'an: "And they give food, in spite of their love for it to Miskin (poor), the orphan, and the captive. (Saying): 'We feed you seeking Allah's countenance only. We wish for no reward, nor thanks from you'." (Al-Insaan: 8-9).
- Prophet Muhammad (pbuh) advised anonymity and secrecy in charitable giving such that the right hand does not know what the left hand is giving (Sahih Muslim).
- Qur'an urges Muslims to show kindness, generosity and benevolence to their fellow human beings. Allah says in Qur'an: "... Do good to parents, kinsfolk, orphans, Al-Masakin (the poor), the neighbour who is near of kin, the neighbour who is a stranger, the companion by your side and the wayfarer (you meet) ..." (Al-Nisa: 36).

## ISLAMIC VALUE SYSTEM EMPHASIZES CHARITABLE GIVING

- Qur'an says in another place: "So give to the kindred his due, and to Al-Miskin (the poor) and to the wayfarer..." (Ar-Rum: 38).
- Feeding orphans and poor is regarded as highly virtuous acts (Al-Balad: 12-16) in Qur'an.
- Prophet Muhammad (pbuh) declared that the best charity is to spend (in charity) while you are healthy, aspiring, hoping to survive, and fearing poverty, and not delaying until death comes to you" (Sunan Abi Daud).
- Allah wants the believers to avoid miserliness (Al-Nisa: 37). Instead of enjoining miserliness, Islam urges Muslims to help one another in good acts and endeavours (Al-Maida: 2).
- In several Qur'anic verses, spending in charitable ways for the sake of Allah is compared to a good loan which Allah will repay with manifold increase (Al-Hadid: 11; Al-Hadid 18; Al-Taghabun: 17; Al-Muzammil: 20).

## ROLE OF ISLAMIC REDISTRIBUTIVE INSTITUTIONS: ZAKAT

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- *Zakat* is a compulsory obligation in the faith of Islam to pay a certain part of surplus wealth to the specified beneficiaries every year.
- Every year, 2.5% of wealth subject to *Zakat* has to be paid by the Muslims to the eight specified heads of beneficiaries and causes.
- In Islamic jurisprudence, if a Muslim owns an equivalent monetary sum of *Nisab*, he has to pay 2.5% of surplus wealth above the *Nisab* every year.
- *Zakat* is an important institution in an Islamic economic framework for poverty alleviation and economic welfare.

## ROLE OF ISLAMIC REDISTRIBUTIVE INSTITUTIONS: ZAKAT

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- In institution of *Zakat*, the payer of *Zakat* and the receiver of *Zakat* belong to two different income classes.
- The payer of *Zakat* is a non-poor person with surplus wealth above *Nisab*.
- The receiver of *Zakat* is usually a poor person with no surplus wealth above *Nisab*.
- The threshold wealth of *Nisab* makes a distinction between the payer and the receiver and helps to achieve targeted wealth transfer to the people who are usually the poor people.



## ROLE OF ISLAMIC REDISTRIBUTIVE INSTITUTIONS: ZAKAT

- *Zakat* can achieve the redistribution objectives more effectively and consistently since wealth fluctuates much less than income over the business cycles.
- *Zakat* system has an inbuilt mechanism to reach the right targets in terms of *Zakat* collection and disbursement.
- The accumulated wealth can be much more than the single period income, especially in the high net worth individuals of the society. *Zakat* targets accumulated wealth and transfers it to the poor.
- Oxfam (2017) reports that global wealth has reached \$255 trillion. It is enough to give \$1 a day to 767 million poor people for 910 years. A single year 2.5% *Zakat* on it will give \$1 a day to 767 million poor for 23 years.

## ROLE OF ISLAMIC REDISTRIBUTIVE INSTITUTIONS: ZAKAT

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- FAO estimates that food per capita availability has increased since the 1970s, but still close to 800 million people suffer from hunger.
- Unfettered Capitalism results in unmet needs as well as unused resources.
- *Zakat* helps in wealth transfer as well as wealth circulation in the real economy to enhance employment of labor and non-labor resources and provide sustainable incomes to the poor.
- *Zakat* could help in providing income support to the poor people who are food insecure due to lower and unsustainable incomes.

## ROLE OF ISLAMIC REDISTRIBUTIVE INSTITUTIONS: ZAKAT

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- Nearly 50 percent of the people living in extreme poverty are 18 years old or younger. A significant portion of our global population would not have a fair start to achieve socio-economic mobility.
- Proper nourishment, basic medicines and vaccinations are necessary to avoid ill-health, stunting and loss of capacities for independent productive living in adulthood.
- Unless effective redistribution happens, the purchasing power cannot be enhanced which is vital to afford even the basic necessities today, such as food, water and medicines.
- Effective administration and management of the *Zakat* funds can help in scaling up the benefits in terms of strengthening institutions to create synergistic effects.

## ROLE OF ISLAMIC REDISTRIBUTIVE INSTITUTIONS: ZAKAT

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- *Zakat* from endowment surplus households (those having higher wealth than *Nisab*) to the endowment deficient households can help in providing income support and affordability for skills enhancement programs.
- *Zakat* could also be used to provide funding for educational and health institutions, thereby contributing to human capital development which can provide decent work.
- *Zakat* could ensure circulation of wealth in the productive enterprise, thereby directing capital to go in the real sector of the economy rather than sitting idle in the hands of the wealthy individuals.

## ROLE OF ISLAMIC REDISTRIBUTIVE INSTITUTIONS: WAQF

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- *Waqf* is an important social institution in the Islamic framework. In the institution of *Waqf*, an owner donates and dedicates a movable or immovable asset for perpetual societal benefit.
- The beneficiaries enjoy its usufruct and/or income perpetually.
- *Waqf* can be established either by dedicating real estate, furniture or fixtures, other movable assets and liquid forms of money and wealth like cash and shares.

## ROLE OF ISLAMIC REDISTRIBUTIVE INSTITUTIONS: WAQF

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- The cash *Waqf* can pool liquid donations in order to build institutions, such as schools, hospitals, and orphanages (Sadeq 2002).
- Cash *Waqf* can pool more resources and ensure wider participation of individual donors (Aziz et al., 2013).
- *Waqf* provides flexibility in fund utilisation as compared to *Zakat* since *Zakat* funds must be utilized for specific categories of recipients.
- The institution of *Waqf* can be used to provide a wide range of welfare services, such as educational institutions, health institutions, environmental preservation programs and financial institutions like *Waqf* based microfinance (Habib, 2007)) and socially driven banks (Mohammad , 2011).

## ROLE OF ISLAMIC REDISTRIBUTIVE INSTITUTIONS: WAQF

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- Alongwith income support and cash transfers, poor people also require skills and productivity enhancement in order to get out of poverty and achieve social mobility.
- The increased and improved provision of education and health infrastructure funded through *Waqf* can enhance the income-earning potential of beneficiaries.
- Real estate-based *Waqf* can generate proceeds through the rental of properties, which then can be used to finance social development needs. Cash and commodity based *Waqf* can provide interest-free loans (*Qard Hassan*) to the needy in sectors like education, health and agriculture.

## EMBRACING TECHNOLOGY TO TACKLE INDUSTRIAL REVOLUTION 4.0

- Fintech provides an opportunity to improve efficiency through digitization of processes and operations and thereby enabling provision of finance to small scale microenterprises.
- In Microfinance, Fintech can help in increasing outreach, reducing the cost of administration and monitoring the financing side clients. Artificial intelligence can be used in client screening and suggesting the appropriate terms of financing to ensure financial stability and socio-economic mobility.
- The services and infrastructure of banks and telecommunication companies can be leveraged in increasing scale and outreach of microfinance in rural areas.
- Islamic banks with surplus liquidity need to think of embedding technology in their products and services so that they are able to compete on cost with the large conventional banks that have economies of scale.
- Technology has provided an opportunity for smaller Islamic banks to change the path of their cost curves by achieving efficient delivery and operations and excelling in service quality.



## CONCLUSION

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This paper highlighted the Islamic injunctions on pure altruism and philanthropy and how Islamic worldview and institutions can help in contributing towards effective mobilization, institutionalization and utilization of social savings and philanthropic and humanitarian assistance.

We discussed Islamic teachings of pure altruism which insist and reinforce the need for sharing and giving to poor people and social causes.

We looked at the state of development assistance and debt servicing in selected OIC countries.

Some countries have the capacity to source development finance by issuing Sovereign Sukuk, whereas other countries require more focus on social finance institutions.

The study explained that Islamic finance through its commercial and social finance options has market and non-market-based solutions to mobilize development funds for effective and impactful utilization in socio-economic development needs.

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**THANK YOU  
FOR QUERIES, COMMENTS AND FEEDBACK:  
ISLAMICECONOMICSPROJECT@GMAIL.COM**

