

Integration of Islamic Philanthropic Economic Services for Alleviation of Poverty: the Case of Affordable Housing

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ABSTRACT

This paper argues that the goal of poverty alleviation and a decent standard of living is not attainable in Muslim communities unless the economic and social services of the Islamic philanthropic institutes are integrated and a full-fledged collaboration would be resumed among the managing boards. The first part of the paper will examine why Muslims participate in altruistic giving and what are the alternative forms of contributions that are provided by Shariah of Islam. The second part will review the potential and actual contributions of the said Islamic benevolent giving for poverty eradication and well-being of low and vulnerable income families. The third and concluding part will discuss the conditions, methods and mechanism for integration and coordination among Islamic philanthropic institutes for provision of affordable housing.

1. Introduction

Poverty is predominant in many Muslim countries. A significant proportion of population lives at \$1.20 per day. Most of the IDB member countries population are living on less than \$ 1.25 a day. Under international poverty line of US \$ 2 a day, the incidence of poverty, in most of the Muslim countries is found to be more than 70 percent of their total population (Shirazi, 2014).

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Many macroeconomic policies and poverty abatement schemes have been carried out by national government and international aid agencies. Although some of these programs have been effective in some countries, the majority still suffer from severe poverty plight. On the other hand, Muslim countries are gifted with a wealth and variety of philanthropic institutions which have provided sustenance, shelter, health care and education to needy vulnerable income and poor families for a long historical period (Cizacka, 2000). However, due to lasting dominance of imperialistic rules in many Muslim countries superseded by the hegemony of dictatorial regimes, many endowed properties were confiscated and charity organization lost their autonomy. Consequently, the surge for benevolent giving and altruistic contributions subsided and the motive for establishment of new foundations and collaboration with governments in social protection endeavours were lost.

Recently, after the failure of national governments to eradicate poverty and provide a decent living for all families, the potential of Islamic Philanthropic institutes to perform their historical functions for promotions of social welfare is discerned by Muslim scholars. All Islamic altruistic institutes and contributions such as Waqf, Zakat, Infaq, Qard Hasan and Takaful have been studied individually and recommendations for efficient performance and more effective distribution have been made (El-Karanshawy, 2015).

It is recognized that although efficient management and monitoring of the said institutes is very crucial, the goal of poverty alleviation and a decent standard of living (i.e. Nisab¹ level of living) is not attainable unless the said economic and social services were integrated and a full-fledged collaboration would be resumed among the managing boards. It is this issue that will be pursued in this paper. The first part will examine why Muslims participate in altruistic giving and what are the alternative forms of contributions that are provided by Shariah of Islam. The second part will review the potential and actual contributions of the said Islamic benevolent giving for poverty eradication and well-being of low and vulnerable income families. The third part will discuss

¹. Nisab [نصاب], stands for a minimum amount of wealth owned which determines the *zakatability* of a person. This amount is equivalent to twenty dinars (approximately 87.48 grams) of gold or two hundred dirhams (approximately 612.36 grams) of silver (Al-Qaradawi (2011): xii, xxxiii & Islamic Relief UK (2016)).

the conditions, methods and mechanism for integration and coordination among Islamic philanthropic institutes.

2. The role and spectrum of altruistic giving in Islam

The Muslims' altruistic precepts have played important economic roles in stabilizing the economy and maintaining its growth over the history. At recession periods, the benevolent contributions have sustained food security, and provided clothing, fuel and shelter services for the poor and vulnerable income families. During normal economic periods, the philanthropic funds have been invested in building schools, higher education centers, hospitals, roads, water saving houses, and also construction of Mosques and religious congregation courts. The enhancement of this giving will provide social protection for vulnerable and low income families and further contributes to financing of public investment projects. It will save government expenditures, contribute to efficient allocation of economic resources, and promote aggregate demand and supply in the economy.

In Islam, a set of economic deeds are proposed and made partly obligatory and partly optional, so that any individual with varying degree of wealth holding could contribute to economic well-being of the Islamic community. The required financial duties include Zakat and Khums which are a kind of perpetual annual income and wealth transfer from the excess holders to those who are in short of sustenance. The highly recommended practices include Waqf, Alms giving and Qard Hasan among other voluntary transfers. Individuals who have invested their excess funds in socially desired projects, like schools, hospitals and roads are given the incentive for transferring those projects to the public. Endowment activities are the most significant form of wealth transfer in Islam. For voluntary income transfers, alms giving are designed as a holy economic undertaking. In cases where shortage of individuals' budget does not permit donation, bona fide loaning of the precautionary saving is foreseen. It is remarkable that moral incentives for all kinds of voluntary contribution from wealth, income and savings are provided by Islamic Shariah. *As if a diversified spiritual asset portfolio is designed by the Shariah for devout wealth holders to maintain for combination of short, medium and long run assets; with certain return and zero risk.* Maintaining

portfolios of altruistic assets was initiated by the Prophet's progeny and companions at the early Islam (Sadr 2016) and followed by the devoted Muslims over the history (al-Mohsin, Magda, et.al, 2016). By stipulating the legal forms of alternative optional giving, the Islamic Shariah has directed and institutionalized the intrinsic human motive for financial contributions to other fellow human beings and their social wellbeing.

3. Integration of Islamic philanthropic institutions

The integration of Islamic Philanthropic economic services seems to be achievable if three underlying conditions will be satisfied. First, is the Shariah prescription for using Waqf, Zakat, Khums and donated funds for ear-marked purposes? Waqf properties are endowed for uses that are specified by the founder and cannot be used otherwise. Zakat has prescribed applications and similarly cannot be used in competing venues. The same applies to donations which are purported for donor's assigned spending. Unless the Shariah prescriptions and endowers and donors' specified uses are followed, alignment and coordination between the said religious contributions is not feasible. Fortunately, both the domain of Zakat and diversity of Waqf funds are so inclusive that they hardly create any barrier for consolidation and application of the said funds for any human development project. The first two Shariah earmarked applications of Zakat funds are for giving the poor and destitute families. The top priority social and economic needs of these groups are food and shelter. Therefore it will be abiding with the rules of Zakat if part of the collected fund will be used for provision of housing services for them. Waqf funds have also been endowed for multiple purposes including helping the needy people, by provision of food, clothes and shelter services. In addition, education and health services and also construction of mosques, hospitals, schools, roads and accommodations for pilgrims in different holy places and occasions are among intended uses. Therefore, funds that are endowed for social well-being of the unprivileged sector of the Muslim community can legitimately be used for affordable housing project. Donations are made mostly for common good purposes and seldom have specified application. Similarly are Qard Hasan loans which can be borrowed for any consumption or business purposes.

The second requirement for integration and coordination among the activities of the Islamic philanthropic institutes is the consent of their custodians for the usefulness of reallocation of funds to a specific alternative use such as housing. Most of the Waqf foundations have trustees, Zakat funds are also administered by either public or private organization (Alpay & Haneef 2013). Consequently, the management boards have already determined the disbursement method of the collectible funds. Reallocation of funds to new projects where the incumbent boards are not the sole administrator and supervisor entails considerable deliberation and decision making cost for the latter and new boards. It may be a formidable task to convince each separate management body of alternative use. Unlike Shariah rule compatibility which can be satisfied soon, thanks to comprehensiveness of the laws, achievement of mutual agreements by the managing bodies may require presentation of data, informative documents and illuminative deliberations. A cost-benefit study of the newly proposed project, in addition to budget and procedural plan for implementation of the project, will facilitate reaching a decision. In addition, the support of the local community and the public authorities are facilitative and confidence building.

The third condition for ensuring the success of any integration plan is the feasibility of transferring funds from states, regions or countries with excess funds to those with deficit. This has been the practice at the early Islamic period (Sadr, 2016) and is perfectly compatible with Shariah rules. However, in practice it may not be easy to follow the suit, unless strong social ties and altruistic attachment will link different states and countries together. Certainly, scientific justification for transfer and reallocation of funds and informative data and illustrations will again be very instrumental. The cultural bonds, social affiliations and political interaction are also synergetic in approving the transfer. In short, integration of religiously collected funds and their reallocation resembles very much that of central government's budgeting and disbursement among local governments and municipalities. It seems that the whole process of budget preparation, approval, allocation, monitoring and implementation have to be followed if Islamic benevolent budgets are to be integrated and spent mutually. The difference is that the former is based on political goals and the latter on religious precepts. However, as far as the

administration is concerned, the former is uniquely decided by the central government and the parliament. In the latter case, the Shariah rules confers the admissibility, which is self-evident thanks to comprehensiveness of their nature. However, decision making authorities are varied and their consent takes time and effort to be achieved. This is particularly the case when Zakat funds and Awqaf foundations are administered by the state department officials. On the other hand, the dedication of local authorities to the best performance of Islamic funds i.e. disbursement of Zakat fund as specified by the Shariah and spending of Waqf funds according to the wishes of founders will hopefully motivate them to reach an agreement. Further, once a decision is made by the local or regional trustees, it will cover the entire project's life period and need not be repeated every year. It will become clear to them that not only integration and consolidation of efforts and funds secures the stated goals, but an optimal choice of scale of operation achievable by consolidation of efforts and integration of funds, will expand the scope of operation and increase the outreach.

Another altruistic Islamic income transfers among community members is interest free lending and borrowing. In some Muslim countries such as Iran, Pakistan and Malaysia, Qard Hasan funds have been formed where many benevolent individuals deposit their savings and other needy families and even small businessmen borrow the funds (Sadr 2015). Although most of the lending are short term but at occasions long term loans are also given. It seems availability of Qard Hasan financing will support very much not only the low income but also the medium income families and businesses to satisfy their money demand for transaction purposes and investment in small scale enterprises. This service will particularly assist the new dwellers in the housing project to purchase home appliances and furniture.

The integration of Qard Hasan financing with other religious payments and donations seems quite feasible, since Qard funds have no prescribed use. If Qard Hasan funds have already been established in the community, they may readily accommodate the integrated funds and become a major component. Otherwise, part of social welfare funds from other sources could be lent to new house owners by Qard contracts. Initiative may also be taken by local

community leaders, fund managers and also new house dwellers to establish Qard Hasan funds.

Probably, the most suitable intermediary for organization of building and financing affordable housing project would be Islamic Microfinance organizations (IMOs). IMOs could play important roles in stages of initiation, intermediation, documentation and arbitration in case of early or default settlements. They could serve as a bridge between above mentioned Islamic philanthropic institutions and the new dwellers to monitor and implement the financing and repayment operations.

Furthermore, poor dwellers should obtain feeling of ownership; therefore, they should share financing of the home construction. In such a case, they will treat the dwellings not as a gift or a trust, but rather as their own property. They will be motivated to invest in its up-keeping in order to exchange it with more accommodative units when they graduate from poverty. Their participation will further supplement financing of the new projects; their instalments may be invested in building new projects.

4. A Review of Some Integrated Schemes

There are cases that have not been successful in alleviation of poverty. The barring factors have been reported to be insignificant allocation of money, low level of education among the poor or inefficiency in application. For instance, when survey questionnaires and interviews were conducted among the poor in Brunei Darussalam by Hasnol et al. (2015), they found that current structure of Zakat and Awqaf institutions were not efficient and there was strong need to redefine the role of those institutions. They argue that unless those institutions adjust and incorporate current financial needs of Bruneian poor, such as having bank account or credit facility, their contribution in reduction of poverty will be limited.

In another instance, Mahmud et al. (2015) studied 179 households of Manikganj District of Bangladesh which received Zakat contributions through the *Hasana* program of an organization called *MACCA* which was supposed to promote income generating activity. The study found that the contributions received did not have any significant influence in improving income, expenditure or saving of those households. Authors suggest that inadequate

size of the Zakat fund, lack of training for initiating income generating activities and diversion by households to spend the received money in non-productive activities are possibly causes of such failure.

Alpay & Haneef (2015) found Waqf funds' integration with Islamic microfinance institutions (IMFIs) in three countries, namely Malaysia, Indonesia and Bangladesh, have not been effective and Waqf funds were not used productively enough to support microfinance development. Thus, they propose an alternative model called the Integrated *Waqf*-based Islamic Microfinance (IWIM) Model, which would supposedly remove many issues related to integration of Waqf with Microfinance.

In his work Hassanain (2015) looks at three versions of integrated IMFI model that combine with Waqf and Zakat funds. The versions they look at are namely, Waqf-Based Islamic Microfinance Institutions, a Zakat and Awqaf-based MF Organizations and an Integrated Awqaf and Zakat Model of Microfinance. Author argues that Zakat and Waqf are best suited to assist the poor who require financing and if combined with microfinance could ultimately be effective in poverty reduction.

Many researchers have emphasized integration of Waqf with Islamic microfinance. For instance, Ahmed (2007) suggests the use of Waqf based microfinance institution in resolving the poverty problem. This view is also shared by Cizakca (2004); El-Gari (2004); Kahf (2004). They highlight the role of cash Waqf, Qard Hasan and Zakat.

Ahmed (2007) proposes a basic model of Waqf-based Islamic MFI; addressing the issue of sustainability. He has identified many obstacles that originate from shortage of fund, such as lack of proper supervision and monitoring, low productivity of field worker due to low wage, quitting from IMFIs, etc. which all eventually lead to increase the probability of loan default and lowering the expected income of MFIs. To the author, all these problems can be solved by adopting Waqf-based Islamic MFI. In addressing various risks associated with Waqf-based MFI, Ahmed (2007) suggests creation of various reserves by MFI to tackle the risk that may arise due to the mismatch of assets and liabilities. For example, he suggests adoption of takaful and profit-equalization reserves to overcome the depositor's withdrawal risks. Once these reserves get increased, a higher portion of Waqf fund can be

employed in financing microfinance sector. In this arrangement, MFIs can extend their lending coverage and outreach without lowering their profit margin (Haneef et al., 2013).

Hassanain (2015) explains that in the Waqf-based model, financing will be provided to those who need them most. He argues that the costs will be lesser for Waqf-based MFIs than the conventional MFIs; since financing will come from Waqf endowment fund. However, it is also argued that to be more efficient to eradicate poverty, there would be need to form a MFI based on both Zakat and Awqaf which will provide financing to the poor at either the market rate or by establishing cash Waqf.

In addition, Khaf (n.d.) argues that the essential ground of the proposal to combine Zakat and Awqaf with microfinance is to reduce the burden charged to the poor by involving the Zakat Institution and raising donation from the public. Thus, all or most of the services provided to the poor shall not add cost to the financing operation. According to Yumna & Clark (2012) incorporating charity-based funds such as Zakat and Waqf could complement the financing of non-investment activities such as assisting the poor in their basic needs; since this fund is non-interest bearing. Authors argue that such combination could reduce poverty by targeting not only economically active poor, but extreme poor.

Finally, the last Integrated Awqaf and Zakat Model of microfinance analyzed by Hassanain (2015) is the one proposed by Hassan (2010), formation of a unified body which will collect Zakat and Waqf donations from potential donors, and distribute the Zakat among qualified clients and invest the Waqf fund in promising microfinance projects. Iqbal & Roy (2015) suggest the addition of Qard Hasan funds to an integrated Waqf and microfinance institutions and further securitization of the latter specifically for home financing projects.

5. Conclusion

The models suggested above are to some extent similar; the main differences lie in making house ownership more affordable for the poor. Based on prescriptions of the Shariah which was discussed at the outset and local accessibility of the alternative benevolent Islamic institutes and practices and

also benefitting from the applied reported cases, integration of available funds are feasible at various economic conditions of Muslim communities. The innovation not only enhances the scale of affordable housing investments and reduces the cost of construction, it creates new job opportunities and fosters associated building and duelling industries. Above all, this integration contributes to alleviation of poverty which is the basic premise of a just Islamic economy.

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