

**INNOVATIONS IN ISLAMIC PHILANTHROPY
AND MONETIZATION OF ISLAMIC
PHILANTHROPIC INSTRUMENTS**

by

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Innovations in Islamic Philanthropy and Monetization of Philanthropic Instruments: Micro-Funding of Micro-Finance

Abstract

The world today is plagued by hunger, epidemics, global warming and human rights violations. While several western civil organizations are actively dealing these challenges, Muslims are yet to be identified as global partners associated with peace building. To meet these challenges and to bring the world's poor out of poverty, we find a strong demand of carefully monetized Islamic Philanthropic instruments.

This paper shall discuss the introduction of specifically designed Islamic philanthropic instrument, Cash Waqf Certificate for one of the two major sectors of Islamic endowments, zakat and waqf. It shall elaborate the concept of implementing specialized financial instrument to deal with the long mismanaged charitable fund of waqf, introduce and enhance opportunities for participation, provide efficient and improved management of endowments, ensure selective investments to maximize the socio-economic benefit and most importantly invest the scattered funds in a productive usage as opposed to current practice of consumerism.

The Concept of Waqf

Muslims throughout history are known to have contributed portions of their wealth for charitable causes in their wills. This practice was espoused by Prophet Mohammad (SAW) who himself bequeathed much of his property to the poor and needy. This fact is underscored in the Hadith "It is the duty of a Muslim who has anything to bequeath not to let two nights pass without writing a Will about it" (Hadith; Bukhari)

This voluntary, permanent, irrevocable dedication of a portion of ones wealth – land or a trust investment or any other kind of property – to Allah in known as Waqf. Once one's wealth is dedicated as waqf it never gets gifted, inherited, or sold. It belongs to Allah and the corpus of the waqf always remains intact. The basic regulations governing waqf trusts are laid down in Sha'aria law, but interpretation and implementation may vary in different Muslim societies.

According to the Middle East Encyclopaedia, Waqf is:

- A Sustainable Development Institution
- A Capital Gift to Allah
- A Legacy for the Future
- A Revival of the Sunnah
- A Social Responsibility Investment
- A Dedication to Allah
- A Civil Society Initiative
- An Enduring Endowment

Key Potential of Cash Waqf

Cash Waqaf (Waqf al-Nuqud) is waqf donated by individual, group of individuals, or legal entity, in cash including securities. Cash waqf can only be distributed and allocated for anything not against Sha'aria Law. This form of waqf provides opportunities for facilitating its participation in social development.

(i) Mass Participation: It provides an opportunity for participation of all segments of the

Muslim society and not just the wealthy Muslims, like in the case of real property Waqf. This gives every interested Muslim a chance to participate, contribute with whatever means he has to offer, even with the simplest amount.

(ii) Rightful Utilization: Cash Waqf scheme can gather the scattered endowments to create a common fund to maximize its utilization rather than the endowment being spent in mere consumer consumption. This lends itself to employ an efficient management scheme of modern financial system and thereby protect Waqf being destroyed by incompetent Mutawallis.

(iii) Social and Economic Development: Such a scheme can enhance the government's national development plan for poverty eradication and social services through co-ordination. In fact the fund raised by Cash Waqf scheme can be used to fund microfinance projects which are currently funded by high interest rate and charges.

Poverty Alleviation

One the subject of poverty alleviation, the role of microfinance institutions in empowering the poor and critically lift them out of poverty is a time-honored mechanism. In the words of the UN Year of Microcredit report 2005 "Micro-credit has been changing people's lives and revitalizing communities". Microcredit has been described as a sustainable and dignified tool for poverty alleviation. The

microfinance institutions are required as the commercial banks are not willing to lend to those in poverty as they lack collateral, credit histories, and business track records.

Despite their proven track record, MFIs have not been able to penetrate large sections of poor population. Key limitations to the growth of MFIs are lack of adequate quantities of risk capital and lack of long-term finance to pay for creation of the necessary infrastructure and pre-operative expense to serve these unbanked segments.

The lack of real donor commitment to funding micro finance is a serious problem. Sporadic and erratic funding does not create commercially viable entities. The much-talked about Grameen Bank in Asia has received a large amount of donor funds, and, after operating for almost 20 years, still receives donations. Substantial capital investment by donors is needed by such MFIs in order to ensure their success and sustainability. And this were we see a potential for partnership between MFIs and Islamic endowment funds.

However, it needs to be mentioned that traditional microfinance institution are not compliant with Shariah Law as they are based on interest which is prohibited in Islam. However, the concept of microfinance is not contradictory to the Spirit of Islam rather the two does share a common goal of social and economic development. Hence the partnership of Islamic endowment funds such as waqf needs to be made with Shariah compliant Islamic MFIs which do not require the recipient of the loan to pay the bank a return with higher interest.

This paper attempts to look into the possibilities of a scheme that will Micro - Fund the Micro-Finance and ensure participation of millions of average Muslims in the spirit of Islamic charity.

Microfunding for Microfinance Institutions

The Islamic endowment of waqf can be collected by a specialized Bank which will act as a Mutawalli for Waqf. The Bank will offer a waqf purchaser a Waqf Certificate in return for his waqf investment. The value of such Waqf Certificate can be as low as \$1 USD.

This Bank will form a partnership with an Islamic MFI for use of its waqf funds. It is expected that the larger the amount of cash waqf collected, the larger the amount of fund can be invested in Shariah compliant micro business for empowering the applicants to the MFI.

In compliance with the concepts of Shariah the Islamic MFI may initially offer murabaha (cost-plus asset sale). However, with time it could also offer mudabara (investment with a profit-sharing agreement with the entrepreneur). The Islamic MFI's target segment is not to be limited by religion or ethnicity.

As discussed earlier the principle limitations of traditional MFIs are the high cost of funds limiting their accessibility to the ultra poor. The Islamic MFI that is funded by waqf funds will be able to better serve this segment of society. They are also better equipped for working with population in disaster prone areas where risks are considerably higher.

It may be mentioned that the poor inhabitants of disaster prone areas are often left out by traditional MFIs and thereby fall prey to informal moneylenders or local loan sharks, who typically charge as much as 10 percent interest per day. In borrowing money in this manner, those in poverty only sink further into poverty.

The Islamic MFI may coordinate its operations in partnership with other government development programs to lift the over socio economic status of a region.

Innovation is a key success factor of an MFIs. "The full promise of microfinance can only be realised by returning to the early commitments to experimentation, innovation and evaluation" (Morduch 1999.) Microcredit institutions combine microfinance, new technologies, and innovation to empower the world's poorest people to escape poverty. From simple small loans, the world's poorest families can then create their own jobs, raise household incomes, and improve their standard of living. In today's global crisis with diminishing donor funds, traditional MFIs are often left with limited funds for continued research and innovation. In this regard, Islamic MFIs based on endowment funds may be better placed for continued pursuit of research for innovative products to serve the ultra-poor segments.

The Indonesian Example

Following a fatwa from the Board of Indonesian Moslem Scholars (dated on 11 May 2002) stating Money donated as waqf can only be distributed and allocated for anything not against Shariah (Islamic law) led to the contribution of cash waqf to socio-economic development areas (e.g., agriculture, education, health, and infrastructure), urban poverty alleviation program, and other public service development. This opportunity in turn helped reduce poverty level and allow people help themselves. It is expected that the larger the amount of cash waqf collected, the larger the amount of fund can be invested in highly cost effective profit sharing-based portfolios, and the larger the amount of return can be distributed to poor people. The more fund allocated to finance micro business,

the sooner poverty in a society can be alleviated. If this programme goes smoothly and if those assisted micro enterprises continue their functioning smoothly for a period of 8 years after being financed, it will take approximately 12500 days (35 years) to eliminate poverty and 22400 days (63 years) to increase the quality of lives for the Indonesian population.

Concluding Remarks

The rise of global poverty, particularly in many Muslim countries, has repeatedly raised the issue of revival of Islamic philanthropic activities. It is apparent from the study of the history of Islam that the Islamic endowment acts, for centuries, have met the social needs of social services. Unfortunately, today when we find Muslim countries tied in the shackle of poverty, we are faced with the question- 'whether this is the failure of Islamic financial system or endowment activities or whether it is our own failure to properly use the knowledge left to us by our noble Prophet Mohammad (SAW) and the guidance provided in the Holy Quran. Perhaps, the reason lies in the proper utilization of charitable activities encouraged in the Holy Quran and its practice established by the noble Prophet Mohammad (SAW) through the Islamic philanthropic institutions of Zakat, Waqf, Saadqah. Against a backdrop of increasing levels of poverty and global credit and fund crisis, it is high time we engage the institutions of Zakat, Waqf and Saadqah for nation-building, poverty alleviation, and community empowerment.

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