



## The Goals of Islamic Social Financing to Help Communities

15 June 2021

15.00-16.30 Beirut Time

Topic	<b>The Goals of Islamic Social Financing to Help Communities</b>
Seminar Lead/Support	SASG/ESCWA/IsDB
Language	English & Arabic
Summary	A virtual discussion amongst stakeholders on the history, origins, growth and goals of Islamic social finance. This session will invite scholars of Islamic social finance to discuss how Islamic social financing is used to help communities and the overarching aims of zakat, sadaqah, and waqf.
Participants	A diverse audience of individuals relevant to the Global Sustainable Development Agenda is targeted, including senior government officials, potential investors and beneficiaries, development partners, international and national civil society organizations/NGOs, private sector, philanthropists, foundations, think tanks and academia.
Objectives	To set the stage for following seminars by providing a broad overview of Islamic social finance and its goals

### 1. Background Information

#### **Islamic Social Financing and Helping the Community<sup>1</sup>**

Zakat, as well as sadaqah and waqf, share in essence with SDGs a huge portion of profound commonalities. The first and foremost of zakat recipients are al fuqaraa and massakin (poor and needy/vulnerable) which aligns with SDGs 1 and 2 to end poverty in all forms and achieve food security and zero hunger in the world. Moreover, zakat reflects the spirit of SDGs such as reducing inequality (Goal 10) and supporting economic growth by transferring the idle wealth to the less fortunate that empower<sup>2</sup> them as well as encourage them to have socio-economic opportunity to grow (Goal 8). In general, Zakat, waqf and sadaqah have long been used to help the poor, at-risk and destitute in a variety of ways — for instance, by providing access to affordable housing (Goal 11), by improving quality of living standards, and by implementing better avenues to good healthcare (Goal 3) and education (Goal 4), and access to clean water and sanitation (Goal 6) There are several best practices in utilizing zakat as a social intervention.

<sup>1</sup> Salman Ahmed Shaikh and Abdul Ghafar Ismail, "Role of Zakat in Sustainable Development Goals," *International Journal of Zakat* 2, no. 2 (2017): 1-9.

<sup>2</sup> Chapra, M. U. *The Islamic Vision of Development in the Light of Mqasid al- Shari'ah*. Jeddah: IRTI-IDB. (2008).



### Zakat an Overview

- One of the five pillars of Islam, obligatory alms-giving in Islam for all Muslims who meet certain wealth criteria (nisab).
- Calculated as 2.5% or 1/40 of the accumulated net wealth of personal assets (but not including home) over the course of a lunar (Islamic) year. It can be financial or in-kind (e.g. crops, livestock).
- Collection differs according to geographic location. In some Muslim-majority countries, the government assumes responsibility for collection and distribution locally (Indonesia, Malaysia, United Arab Emirates). Zakat can also be collected in the form of a tax (Qatar). In other countries, zakat collection is not organised by the state (Nigeria, South Africa).
- Official zakat delivery systems are not fully developed across many Muslim countries will commonly (but not only) use Islamic non- governmental organisations (NGOs) that offer zakat services internationally. Conversely, amongst Arabian Gulf donors, governments can offer this provision through official channels. For example, the UNHCR can collect and distribute zakat as a secular NGO.
- Depending on the context, zakat will be channelled through unofficial means, independent agencies or mosques. Zakat can also be given directly to a beneficiary.
- Zakat is given to those most in need and so is usually provided as humanitarian assistance (grant finance), rather than longer term development assistance (concessional loans).
- In particular, zakat can be effectively aligned with social SDGs, such as SDG1 'No Poverty', SDG2 'Zero Hunger', SDG3 'Good Health and Well-Being', SDG4 'Quality Education', SDG6 'Clean Water and Sanitation', SDG8 'Decent Work and Economic Growth' and SDG10 'Reduced Inequalities'. The use of zakat has so far limited for environment-related SDGs.
- One of the five pillars of Islam, obligatory alms
- The impact of zakat for development still needs to be better understood.

"How Islamic Financing Contributes to Achieving the Sustainable Development Goals," *OECD Development Policy Papers*, 30 (June 2020)

### Sadaqah (voluntary almsgiving)

- Sadaqah is the term used to describe an act of kindness that is given to the poor without the expectation of anything in return. Consistent with Islamic law, almost no restrictions on the giving of sadaqah, except that it must come from lawful gain and be given for rightful ends. While there are no official estimates of the annual amounts of sadaqah paid by Muslims, credible approximations may reach up to US\$ 10 billion per year.

**Waqf (endowment and trust)**

- Islamic endowment on an asset for a religious, educational or charitable cause, with the requirement to deliver returns to the community. For example, financing housing, schools and hospitals may be possible through awqaf in developing countries.
- Real estate is the usual form of waqf but other movable, financial and intangible assets could also fall in this category, provided the legal framework of a country allows for it.
- Endowments are made in perpetuity with no intention of assets being reclaimed. Rather the endowment seeks to deliver a social good to a given community over time and deliver returns accordingly.
- Awqaf can act as vehicles for both public and private giving if managed according to sharia. As long as they are established with a view to delivering a social benefit to a community, the financial resources can come from government or private donors, business or communities.
- Awqaf can contribute to social infrastructure in developing countries over a long period of time, which could be used for humanitarian or development purposes.
- In particular, awqaf can contribute to SDG4 'Quality Education', SDG6 'Clean Water and Sanitation', SDG7 'Affordable and Clean Energy' and SDG11 'Sustainable Cities and Communities'.
- For awqaf to be able to do so, then the SDGs need to be included in the waqf deed. However, most waqf are not yet referencing the SDGs and their impact on development needs further research.

"How Islamic Financing Contributes to Achieving the Sustainable Development Goals," *OECD Development Policy Papers*, 30 (June 2020)

**SDGs 1, 2, 10 – no poverty, food security, zero hunger and reducing inequality**

The first sustainable development goal is to have no poverty by 2030. If we look at the institution of Zakat, we find that the payer of Zakat and the receiver of Zakat belong to two different income classes. The payer of Zakat is non-poor with surplus wealth above nisab. On the other hand, the receiver of Zakat is usually a poor person with no surplus wealth above nisab. Thus, the threshold wealth of nisab makes a distinction between the payer and receiver and helps to achieve targeted income and wealth transfer to the people who are usually the poor people. The redistribution of wealth can help in pooling poverty alleviation funds.

The second sustainable development goal is to end hunger. According to Food and Agricultural Organization (FAO), there are approximately 800 million people who suffer from hunger and are food insecure in their routine lives. Most of the poor countries lack basic resources to kick-start growth and to invest in health and education. The mere scientific solutions to health and education issues solve the supply side problem, but not the demand side problem since these essential services are produced and marketed in the global market economy on a commercial basis. If only 70% of the people in a country can afford to pay the market price of food, then for whom should the food be produced, i.e. the 70% of those who can afford or the 100%? The answer by market economy where price mechanism reigns supreme is that it is quite possible to have market equilibrium at a price where only the 70% non-poor could afford food and 30% remain unserved and unfed unless they get charity or government's support. Thus, the redistribution of resources is vital to enhance income as well as the capacity to earn sustainable incomes, which requires income support programs, basic health and education as well as microfinance to build small enterprises.



The function of waqf may encompass donating a piece of land or building or even cash with no aim of reclaiming such asset, sadaqat (charity) and also the qard al hasan loan (the benevolent loan) whereby the borrower does not pay interest in any form because interest acts as transferring wealth from the assetless section of the population. This instrument will play an enormous role in social protection and in the redistribution of income which will go a long way to reduce poverty and hunger.

### ***SDGs 3, 6 – health, clean water and sanitation***

Another important sustainable development goal is to have good health and well-being. Nearly 50% of the people living in extreme poverty are 18 years old or younger. This goes on to show that a significant portion of our global population would not have a fair start to achieve socio-economic mobility. Thus, proper nourishment, basic medicines and vaccinations are necessary to avoid ill-health, stunting and loss of capacities for independent productive living in adulthood. Some life-saving medicines cost less than a dollar, but they are underprovided due to commercial reasons. 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.

### ***SDG 4 – quality education***

The sustainable development goal of quality education is vital for achieving permanent poverty exit, enhancement of skills and capacities, and to ensure upward social mobility. The financial institutions can come to the rescue once the people are able to hold enough assets and skills for the enterprise. But, much before that, people require survival and human capital development in the early stage of life. There are mosque-based schools in the Muslim majority countries which effectively channel Zakat funds to ensure basic religious and secular education. Effective administration and management of the Zakat funds can help in scaling up the benefits in terms of strengthening institutions to create synergistic effects.

### ***SDG 5 – gender equality***

Another important sustainable development goal is gender equality. The institution of Zakat is completely neutral to gender in terms of its principles of rules regarding payment and receipt of Zakat. The Zakat funds can be paid to the women and to institutions which are working for the wellbeing of women, such as maternity homes and schools for girls, for instance.



### **SDG 8 – decent work and economic growth**

Decent work and economic growth is the most vital sustainable development goal to realize a sustainable reduction in poverty and in ensure upward socio-economic mobility. On one hand, 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 education and health institutions, thereby contributing to human capital development which can provide decent work. On the other hand, the institution of Zakat would 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.

## 2. Agenda

90min

		Speaker
3min	<b>Welcome</b>	<i>Dr. Abdullahi Mohamed, Senior Financial Products Development Specialist, IsDB Institute</i>
5min	<b>Islamic Social Financing to Help Communities</b>	<i>Dr. Ahmed Al Meraikhi, Special Adviser to the UN Secretary-General</i>
The Goals of Islamic Social Financing		
15min	<b>Zakat, Sadaqah</b>	<i>His Eminence Sheikh Dr. Ali al-Qaradaghi, Islamic Scholar</i>
15min	<b>Waqf</b>	<i>Dr. Al-Ayachi Sadeq Faddad, Islamic Development Bank</i>
Discussion		
40min	Lead by the moderator	
5min	<b>Closing</b>	<i>Dr. Ahmed Al Meraikhi, Special Adviser to the UN Secretary-General</i>

## 3. Additional Information

- We should aim to achieve representation of the world geographically. Also, make sure youth and gender representations are well reflected.
- Shedding light on the live feedback received from the attendees. This is to be carried out by the moderator of the session.