

## Waqf-Based Microfinance: An Alternative Solution to Poverty Reduction

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### Abstract

*This paper intends to determine the scope and opportunity of waqf-based (Islamic endowment) microfinance by applying financial schemes and models to alleviate poverty in the society. The paper is a review-based conceptual piece of work in nature. Waqf-based microfinance model is designed and proposed as a solution to ensure an improved livelihood for the people of the Islamic countries through a comprehensive literature review and provide descriptive data to present its main notion. The development of micro-entrepreneurs integrating waqf-based microfinance will reduce poverty in Islamic countries. This paper proposes a distinct poverty alleviation model which will help generate income and employment for socio-economic development. The study does not address the regulatory and operational issues of the waqf in detail. Moreover, the study endeavours to integrate the waqf as a source of funding for the microfinance operation which is found to be constraining hence, an empirical model to be analysed in the future is proposed in this paper. The purpose of waqf is to ensure potential economic contribution and equality among the poor segment in the society through a noble charitable effort. This paper will also contribute to the existing literature in the field of poverty reduction. The integration of waqf in Islamic microfinance will make Microfinance Institutions (MFIs)' sustainable with an available source of funding. The MFIs' will fund the available capital to the micro-entrepreneurs and at the same time, innovative micro-financing models incorporating waqf will bring peace in the society by eradicating poverty significantly.*

**Keywords:** *Waqf*, microfinance, Islamic microfinance, poverty alleviation, microfinance institution, integrated model

### 1.0 Introduction

A human being is not born with poverty rather our social system traps him into poverty (Duvoux, 2014) and every human being is equal in the eye of Islam. Therefore, people cannot be distinguished based on their race, social status, and possession of assets (Qardawi, 2018).

They can be classified according to their *iman* (faith), *taqwa* (piety), and piousness. It is a crying need to change the social system that leads people to poverty and pandemonium. Poverty is a big issue in Muslim countries and the level of poverty is relatively higher compared to non-Muslim countries (Haneef et al., 2014). Budiman (2014) has mentioned in his study that among the total population of the Organization of Islamic Cooperation (OIC) member countries, 15.6 percent of people are earning less than 1 (USD) per day. Besides, only 31 percent of people are earning below 1.25 (USD) per day. This indicates that poverty in Muslim countries is extremely high. Besides, the Muslim population is increasing rapidly around the world (Rahman, Zailani & Musa, 2017). Haub et al. (2011) and Rahman (2014) point out that by the year 2030, the Muslim population around the world may reach 2.2 billion. Hence, it might be a great challenge to ensure social development for the growing number of Muslims around the world.

In Islam, equity and justice have been given more priority. The objectives of Islamic microfinance is to alleviate poverty, ensure socio-economic balance, and maintain proper circulation of income and resources (Chapra, 1985; Ahmed, 2007). Microfinance is a specialized and successful mechanism to fight against poverty (Rahman, Rahman & Jalil, 2014). This financial approach is now well recognized not only by the underdeveloped and developing countries but also by the developed countries. currently, this financial mechanism has been applied largely to alleviate poverty in an efficient manner. The very notable thing is that finance based on Islam will reflect all the values, complying with *shariah*, and ensure social justice and benevolence (Jalil & Rahman, 2010).

In conventional microfinance, a handful amount of money is lent to make the poor solvent by engaging themselves in a money generating activities through social collateral. For instance, group lending of Grameen Bank and other MFIs are imposing exorbitant interest rates which makes the borrowers more vulnerable to alter their insolvent condition. However, *waqf*-based (Islamic endowment) microfinance is an innovative model of Islamic finance (interest-free lending) and an alternative solution to poverty alleviation, unlike the conventional microfinance systems. In Islam, charging interest on the invested amount is strictly prohibited (Shaikh et al., 2017). In addition, the *waqf*-based microfinance is not familiar in Muslim countries. Thus, a suitable microfinance (e.g. *waqf*-based microfinance) model is needed to make sustainable development in the borrowers' livelihood. Therefore, *the waqf*-based microfinance model will contribute to the Muslims by complying with Islamic *Shariah* which is absent in the conventional financial system. However, this study aims to investigate the scope and opportunity of *waqf*-based (Islamic endowment) microfinance by applying financial schemes and models to alleviate poverty in the society.

In the following sections, the study discusses the literature review that includes the concept of Islamic microfinance, the concept of *waqf* (Islamic endowment), Integration of *waqf* in microfinance. Later in the third section, the study presents the proposed model of *waqf* based microfinance. Section four describes the benefits of *waqf*-based microfinance on the society and economy and finally section five concludes the study with some implications and policy suggestions.

## **2.0 Literature Review**

### **2.1 Concept of Islamic Microfinance**

According to the 2018 World Bank report, until 2015 nearly 736 million people of the world earn less than USD 1.90/day, and Muslim countries are the worst sufferer compared to others that leads them to engage in micro-loans. Among all the Muslim poor countries, micro-finance plays a great role in Bangladesh and Indonesia. The need for poor people in such

countries is not different from the need of other countries. They need financial services and micro-investment opportunities in business, land, or household assets. Financial services (e.g. credit, savings, money transfer, and insurance) are important to fulfil the needs of the poor people in their daily lives.

The Islamic financial system encourages religious perceptions among poor Muslims (Hunt-Ahmed, 2013; Jalil & Rahman, 2014). On the contrary, though conventional microfinance is trying to make millions of needy Muslims financially solvent, it simultaneously compels them to pay high interest. Mahmood et al. (2015) report that Islamic microfinance plans to engage poor Muslims in Shariah-compliant and inclusive financial system and congregate the unbanked poor Muslims under the shelter of Islamic microfinance. Nimrah (2011) showed that due to religious reasons, conventional microfinance has been denied by almost 20 percent of the Algerians and Jordanians. In the case of Yemen and Syria, 40 percent of people declined conventional microfinance. The MFIs operating in different countries suggested that this declining trend of conventional microfinance is also visible in the territories of Indonesia, Afghanistan, Pakistan, and the Palestinian and in those areas of India, Sri Lanka, Brunei, Cambodia, and the Philippines which are known as Muslim majority areas (Karim et al., 2008). The poor Muslims who are away from conventional microfinance, Islamic microfinance establishes a varied model for them. So, in this context, the demand is obvious and it is important to enrich this growing industry with some innovative, thoughtful, creative, and comprehensive microfinance models which will ensure sustainable financial services for the deprived Muslims of the world.

From the total share of the Islamic finance market (USD 1.6 trillion), Islamic microfinance possesses less than 1.0 percent (USD 1.0 billion). Islamic microfinance is operated throughout the world by only 300 institutions and among these majority belongs to Sudan, Yemen, Pakistan, Indonesia, Egypt, Qatar, Bahrain, Jordan, Mali, Lebanon, Syria, KSA, Iraq, Palestine, Afghanistan, and others (Ahmed et al., 2015). From a religious point of view, the necessity of establishing a Shariah-based microfinance system has been grounded that may fulfil the finance-related demand of the Muslim world. The Consultative Group to Assist the Poor (CGAP, 2008) reports that the overall contribution of Islamic microfinance is very poor which is operated only in few countries (i.e. 80% of the 380,000 clients of Islamic microfinance worldwide are in Bangladesh, Indonesia, and Afghanistan). Besides, El-Zoghbi and Tarazi (2013) also report that 255 financial institutions are giving service to 1.28 million people with shariah-compliant microfinance products of which almost 82 percent customers live in Bangladesh, Indonesia, and Sudan.

However, the Global Islamic Finance Report (2016) mentions that Islamic microfinance has yet reached to less than 1 percent of the global microfinance outreach. The report further mentioned that there are about 1.2 billion people in the globe who have been maintaining their livelihood below the poverty line and earning only less than 2 USD per day, surprisingly, almost 44 percent of them are from the Muslim countries. The outreach and practice of Islamic microfinance are very limited, and not more than 0.05 percent compared to the total microfinance outreach around the globe which is a matter of great concern (Karim & Khaled, 2011). Therefore, the concept of this Islamic microfinance must be promoted at the global stage as a time-tested mechanism to support the Muslim poor and at the same time, it can build a strong financial foundation that may contribute positively to the Muslim countries' economic growth and prosperity.

## **2.2 Concept of Waqf (Islamic Endowment)**

In Islamic history, *waqf* carries a great value in the institutional development process from long since. However, in the contemporary world, *waqf* is commonly known as a form of

endowment that plays a vital role in Muslim and other countries. The operational definition of waqf is a potential asset that is used to generate income in an efficient and organized manner. In the Islamic concept, waqf has been considered and institutionalized as a potential and perpetual charity measure that signifies a greater impact on people, institutions, and society by generating regular income in the long run. For example, waqf has been productively utilized to establish educational institutions in society for long since (Muhsin, 2009). *Waqf* is an important pure endowment in Islam which involves holding assets. It has been successfully serving the underprivileged by augmenting welfare in society. *Waqf* is contributing effectively in the area of public utilities, education, health, and research activities (Khan & Jareen, 2015). For example, educational *waqf* is assigned to research activities in the field of science, physiology, pharmacology, mathematics, and astronomy. It is also contributing immensely to the healthcare sector, for example, *waqf* Children Hospital of Istanbul. *Waqf* has been utilized extensively to land for religious and charitable dedications. It is commonly known as Sadaqah Jaria (running charity). It ensures benefits through its voluntary operations of the supported areas.

Mahmood et al. (2015) classify *waqf* into three types, such as religious *waqf*, philanthropic *waqf*, and family *waqf*. Religious *waqf* denotes that the revenues from *waqf* mosques and property will be used for their maintenance and continuous operating expenses. The philanthropic *waqf* concentrates on providing aids to the poor Muslims of the society, for example, the promotion of education, research and training, health care of humans and animals, environmental protection, and other activities. Besides, microfinance can be considered in this category. Under the third category, children and descendants of the endower have the prime right to the benefit and revenues, however, the surplus can be provided to the unfortunates to eradicate poverty (Cyprian & Rashid, 2017). A cash *waqf* is a kind of pure endowment where the original remains intact and the returns from the original endowment are kept intact (Thaker, Mohammed, Duasa & Abdullah, 2016). The history of cash *waqf* is long. It dates back to the first century of Hijrah. Cash *waqf* is of two types, the first one is cash made into *waqf* which is used to invest on the underprivileged and the second type refers to the cash invested, and its net return is assigned to the beneficiaries of the *waqf*.

### **2.3 Integration of Waqf in Microfinance**

Literature related to waqf-based microfinance is limited. Among the available sources, Global Islamic Finance Report (2016) mentions about *waqf* and *Zakat* as a source of necessary funding for microfinance and further addresses that microfinance can exclusively utilize *zakah* and *waqf* as a potential source of funding required to fulfil the need for the poor people's consumption and alleviate poverty significantly. However, before this report most of the Islamic microfinance literature discussed the models used to serve the poor people, for example, El-Zoghbi and Tarazi (2013) show that the Islamic microfinance industry extensively used *murabaha*, *musharaka*, *mudaraba*, *salam*, *istisna*, *qard hassan* etc., models, to serve the poor people in the society. In line with the previous studies, Mohammed et al., (2013) have argued that Islamic microfinance is hardly involved in any investment with the customers based on *mudarabah* and *musharakah* principles that involve risks. However, the study of Thaker et al., (2016) address that cash *waqf* can play a vital role in alleviating poverty and it can be funded by microfinance institutions.

Islamic microfinance has the limitation of funds, whereas conventional microfinance can collect funds by taking loans from other financial institutions paying a certain rate of interest, and they further reinvest the loan amount to micro-entrepreneurs. But Islamic microfinance institutions cannot deal with interest and they mostly depend on endowments and donations. Therefore, Islamic microfinance institutions can consider Cash *waqf* as a source of their funds. Duasa and Thaker (2016) indicate that how cash *waqf* was used in micro-financing

in the period of Osman (R). In the period of Osman (R), cash *waqf* was developed by some people, which they lent to not more than 20 different borrowers. The houses of the borrowers were transferred as collateral and they would pay a rental of that *waqf*. When the loan amount is repaid, the ownership will be reverted to the borrowers. The total rent collected by the investors is divided into three portions; some of the amount from the third portion of the profit is used for administrative purposes, some part for charitable for which *waqf* was developed and the rest portion was included in the original endowment to protect the real value from inflation.

A cash *waqf* is mainly a charitable endowment developed from cash as a source of fund for investment (Obaidullah & Khan, 2008). The duo further mentioned that modern scholars are in favour of establishing cash *waqf* with the shares of incorporated joint-stock companies (Thaker et al., 2016). The idea of integrating microfinance with *waqf* is to overcome the limitation in fund mobilization. Microfinance can mobilize funds from internal sources such as deposits and equity. But it might not be sufficient as most of the microfinance customers are mostly poor people. Although Islamic microfinance could get alternative funding from the Government agencies, it imposes certain terms and conditions which are sometimes contradictory to the Islamic principles. For instance, the Government funds are usually provided based on interest payment. Thus, it will be impossible to conduct an Islamic financial scheme when the source of funds is not lawful (halal). Therefore, to resolve this problem, the integration of Waqf in Islamic microfinance is necessary. It implies that the Waqf fund can be used as an external source for microfinance. This integration of Waqf is expected to be mutualized by returning certain portions of profit generated out of that fund to the providers of *waqf*.

### **3.0 Waqf-based Microfinance Model**

All the Islamic instruments and models, for example, *zakat*, *waqf*, *sadakah* etc. ensure peace, justice, equity, and social stability through satisfying the basic needs of the poor segments of the society. *Waqf*-based microfinance is looming as a potential prospect in the service of poverty reduction. From time to time some researchers and scholars have supported this view by proposing *waqf*-based microfinance system (El-Gari, 2004; Kahf, 2004; Ahmed; 2007; Obaidullah and Khan, 2008; Hasan, 2010; El-Zoghbi and Tarazi, 2013; Mohammed et al., 2013; Haneef, M.A. et al., 2015; Thaker et al., 2016; Shaikh et al., 2017). However, the outreach of Islamic microfinance will depend on the demand and supply forces. Muslims usually follow Islamic rules and regulations rigorously. Therefore, Islamic microfinance demands solvent Muslims. The absence of a sustainable micro-finance model increases operating cost which is a barrier to MFIs financial sustainability and outreach. Ahmed (2007) mentions two approaches to finance micro-enterprises. The first approach links some financial intermediaries like conventional commercial banks, leasing companies, and financial institutions to the target groups like businessmen, entrepreneurs, service holders, and people in general. This approach is more formal. However, the second approach is to finance a small amount of money, often known as micro-credit via informal or specialized organizations like NGOs, Govt. Agencies, co-operatives, and development organizations.

The study conducted by Haneef et al., (2015) explain that informal NGOs that operate microfinance programs with poor human resource often impose high-interest rates on the poor borrowers and subsequently proposed to integrate *waqf* as a source of fund in the microfinance system which will make it cost-effective for the poor borrowers in Bangladesh and at the same time alleviate poverty significantly. However, a limited source of funds is one of the major constraints to the growth and development of Islamic microfinance. Moreover, Islamic financial institutions often face challenges from the external sources of funds as well. For



example, some funds of government agencies are approved along with certain terms and conditions and sometimes these conditions do not comply with Islamic Shariah. Therefore, it is important to come up with a compatible and sustainable integrated model that will fit the situation and alleviate the level of poverty significantly. A proposed Waqf-based microfinance model (Figure 1) has been designed to meet the need of the poor Muslim borrowers.

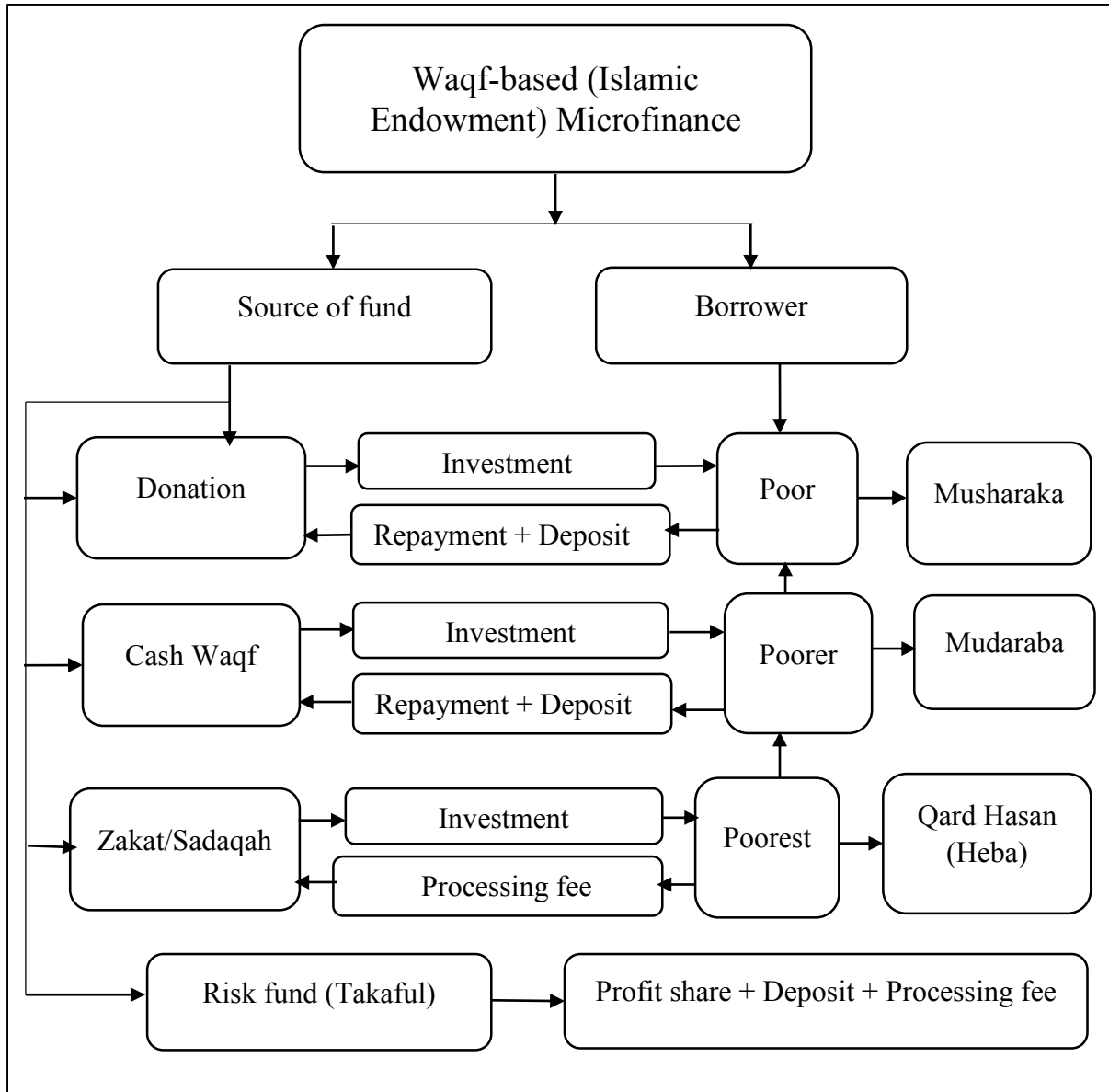


Figure 1: Model of Waqf-based microfinance

In the above model, the source of the fund has been classified into three segments namely donation, cash Waqf, and zakat. Subsequently, the fund will be distributed as an investment to the poor Muslims. The level of poverty of the Muslims has also been classified into three segments like poor, poorer, and the poorest according to their possession of assets, several family members, education of their children, and health conditions. The fund obtained from the donation will be disbursed to the poor people through *Musharaka* (sharing/partnership) financing methodology. The poor segment will utilize the invested amount and repay the instalment along with the deposit amount determined together by the lender and borrower. Similarly, cash Waqf will be distributed as an investment to the relatively poorer segment through *Mudaraba* (trust financing contract) financing

methodology and the borrowers of this loan will repay the instalment with a certain amount of determined deposit. Finally, the poorest segment of people will be entertained by *Zakat* fund through *Qard Hasana* (interest-free loan) financing methodology. The poorest lies at the hard core level of poverty.

Therefore, if the poorest cannot repay the loan amount they will not be imposed any fine or punishment rather the loan will be given away to the poorest segment of the society who will not be obliged to repay the amount given from the *Zakah* fund. In this case, the borrower will only be asked to pay the administrative cost for processing the loan amount. The total fund will be ensured by a risk fund either by incorporating *takaful* (mutual guarantee/cooperation) or any internal risk management provision. The risk fund can be built by a portion of the deposit and processing fees provided by the borrowers. The whole conceptual model can be applied to any novices MFIs or existing Islamic microfinance institutions operating in the market. Our proposed Shariah-based microfinance model will make the microfinance institution financially sustainable and ensure maximum outreach. By adopting this model, the microfinance institution will be able to include a maximum number of poor Muslims around the world in the income-generating activities.

Consequently, the acute unemployment problem in Islamic countries will be reduced significantly. Moreover, the underprivileged Muslims who already involved in the conventional microfinance and trapped themselves in exorbitant interest payments will be able to practice Shariah-based financial transactions by emancipating themselves from the forbidden interest payments under this model. In recent years, microfinance borrowers are becoming over-indebted by taking multiple loans from different microfinance institutions. Therefore, the borrowers are now burdened with instalments and interest repayments. The aggressive operational strategies of microfinance institutions are violating the noble mission of microfinance of alleviating poverty. The high profit-making intention and extreme competition are pushing the borrowers into deep trouble. Now the borrowers are desperately waiting to come out of this trap. Our proposed model will make an end of such dire condition of the borrowers and contribute to alleviating poverty significantly. The proposed model of this study will efficiently address the different levels of poverty in society and subsequently endeavour to alleviate poverty effectively using distinct financing methodology at the distinct levels of poverty. The entire model will be bolstered by the supply of Islamic endowment, commonly known as *waqf*.

#### **4.0 The Benefits of Waqf-Based Microfinance on Society and Economy**

This study is important since the standard of living, poverty, inflation, economic crisis, and unemployment have become so acute in Muslim countries. The study of Ahmed (2004) has mentioned that many studies recommended utilizing *waqf* endowment to developed human resources. Along with this view, the concurrent research by Krafess (2005), recommends that *waqf* can turn to be a potential mechanism for ensuring social welfare and economic progression. This mechanism is helpful to promote humanitarian missions, for example, this tool can be used in providing health education and training facilities for the society. Hasan (2006) states that *waqf* has been dedicated to health hygiene, learning, and urban services. Further, Ahmed (2008), suggests that *waqf* endowment can be a strong means to create certain assets for the economic sustainability in the society by boosting up the productive capacity of the poor through transferring knowledge and entrepreneurial skills. Later, the study of Hasan (2010) shows that the integrated model of *zakah*, *waqf*, and Islamic microfinance facilitate human capital development which helps alleviate poverty through sufficient educational facilities.

However, recent studies also address *the waqf*-based social system that can contribute to resolving the problems of the Muslim community throughout the world by forming multinational and country-to-country support programs among the Muslim majority nations. Emphasizing the importance of *waqf*, Khan (2015) argues that it is such a mighty mechanism through which educational programs, provision of infrastructure, and healthcare services are ensured. The sustainability of microfinance institutions is also a big challenge. After the economic crisis, the funding in the form of aid and assistance became limited and the institutions which would depend on the donors' funding encountered huge challenges. It is important to design a sustainable model that can fit the situation and make the institutions sustainable in their regular operation.

Besides, more recently, Shaikh, Ismail, and Shafiai (2017) reports that *waqf* is a social and development finance institution. Among the Muslim-majority countries, many countries cannot budget the expected amount of money in schooling and health care services due to the levels of poverty and weak governments. The countries have a lower rate of literacy primary school enrolment compare to the middle-income and high-income nations. Table 1 shows a comparison of socioeconomic indicators across country groups. According to Table 1, in the healthcare infrastructure, the basic facilities such as pure water and sanitation are far behind the middle and high-income countries. Further, Shaikh et al. (2017) report that in respect of average per capita income, though Muslim countries exceed the middle-income countries, their socio-income performance is still poor that indicates a strong social and financial foundation to assist the poor Muslims of the world so that they can be self-reliant. Most of the poor income households suffer from the scarcity of income sources.

**Table 1:** Comparison of Socio-Economic Indicators Across Country Groups

Indicators	Muslim countries	Middle-income countries	High-income countries
Education			
Literacy rate of the adult population	73.46	93.22	98.46
Net enrolment ratio in primary	85.55	92.34	96.92
Govt. expenditure on education	3.69	4.67	5.19
Economic			
GDP per person employed	40341	29631	76507
Poverty ratio	24.58	5.95	0.56
Gross fixed capital formation	22.87	24.50	21.95
Health			
Hospital beds	1.98	3.37	5.18
Health expenditure	5.18	6.20	8.75
Improved sanitation facilities	64.53	81.85	97.14
Improved water source	82.04	91.89	99.28
Life expectancy	66.53	71.69	79.06

Source: The World Bank (2015), and Shaikh, Ismail and Shafiai (2017).

#### 4.1 Continuous Funding for the IMFIs

The sustainability of Islamic microfinance institutions is a major challenge. Islamic microfinance institutions mostly follow a charity-based donor-dependent approach. After the European economic crisis, the funding from donors as aid and charity became very limited. As a result, the existence of these institutions became very vulnerable. In the meantime, many institutions resort to the secondary funding sources from commercial banks by paying high-interest rates and consequently started to focus more on productivity by imposing higher interest rates and minimizing operating costs (Rana et al., 2019). Therefore, *Waqf* as a Sadaqah



(voluntary charity) can be a potential source of funding for these institutions. *Waqf* as an additional source of funding for Islamic microfinance, especially to overcome challenges of affordable finance and human resource development.

#### **4.2 Development of Micro and Small Enterprises**

Islam supports and promotes entrepreneurship. According to Obaidullah (2008), the Islamic approach puts immense importance on micro-enterprises development through financial and non-financial assistance. He further mentioned that the Islamic approach is more inclusive with a greater emphasis on the wants of the poorest of the poor. Haneef et al. (2014) point out that the *Waqf* fund can be used as an investable fund to promote capital investment and working capital for micro-businesses. Establishing a microenterprise through *Waqf* based microfinance can ensure stability in the income generation of the poor and unemployed people of the Muslim countries.

#### **4.3 Generating Micro Savings**

Islamic microfinance institutions also contribute to generating savings. The small savings will come from the profit share of the micro-enterprises of the borrowers. The micro-savings of the borrowers will work as a collateral of the invested amount and subsequently, the deposited amount will be reinvested in some profitable sectors by the institutions and eventually will be returned to the borrowers with profit. Thus, *Waqf* based Islamic microfinance also contributes to micro-savings.

#### **4.4 Development of the Agricultural sector**

Most of the farmers who engaged in agriculture are very poor. Sometimes they cannot even buy their seeds and fertilizer for farming crops. Islamic microfinance can help the farmers to maintain their agricultural activities on time. The agriculture sector sometimes faces destruction due to natural calamities and thus the farmers lose everything of their possessions. Microfinance institutions play a vital role in rehabilitating the people who usually go through natural calamities.

#### **4.5 Alleviation of Poverty and Human Resources Development**

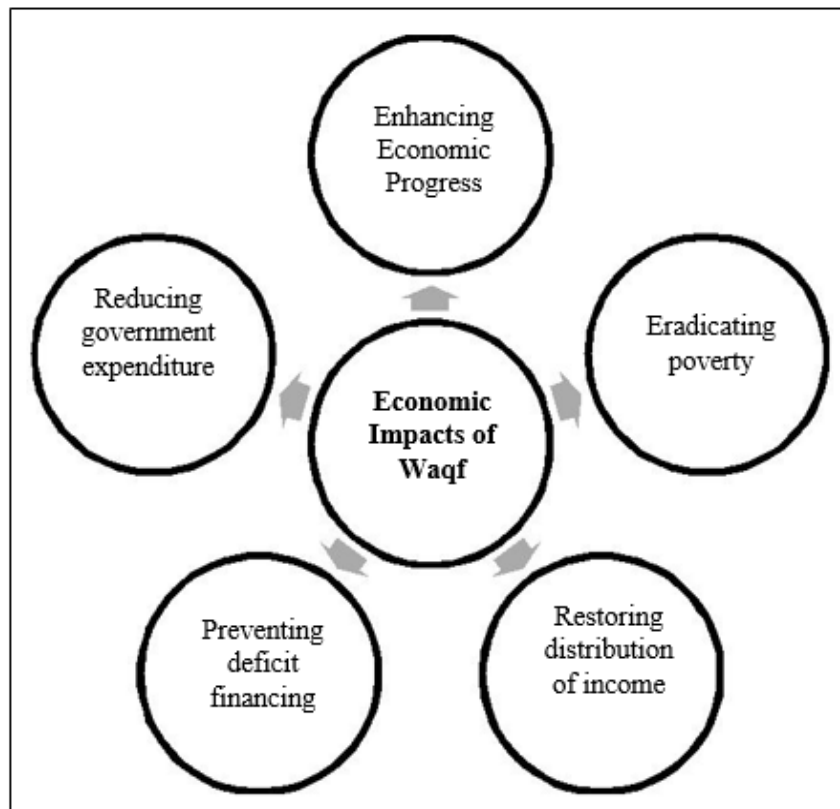
*Waqf* is considered as a funding agency on the other hand Islamic microfinance is an implementing agency. *Waqf* based Islamic microfinance is an efficient weapon to fight against poverty. When people are deprived of their unavoidable needs like, education, medication, sanitation, economic stability, nutrition, literacy, proper income, community participation empowerment, and so on, then they feel poverty as a burden and a curse for them. Truly living is determined by the social security and standards of the citizens' well-being, while merely living is the result of being deprived of many necessary things to survive.

Islamic countries are the worst sufferer of poverty than that of non-Islamic countries. Intending to alleviate poverty from the Muslim society, Hassan (2010) has developed the idea of a holistic model that incorporates Islamic microfinance with *Zakah* and *Waqf* institutions. Ashraf et al. (2013) point out that many practicing Muslims who often struggle with the impoverished condition and do not like to take interest-based conventional microfinance loans provided by commercial banks can be offered Islamic microfinance services. Moreover, Islamic microfinance Institutions provide not only the micro-investments to the poor but also

provide training and development services to them so that they can develop the required skills to meet the challenges of maintaining their enterprises.

#### 4.6 Economic Impacts of *Waqf*-based Microfinance

The current alarming economic scenario can be radically changed and developed through the formation of *waqf* and its proper management. How *waqf* can contribute to economic development is shown in the following figure (Figure 2).



**Figure 2:** The Role of *Waqf* in Economic Development

##### 4.6.1 Reducing Government Expenditure

*Waqf* is neither government's income nor expenditure, rather it's a kind of fund that is donated voluntarily by the economically solvent Muslim people of the society for the welfare of the deprived. This *waqf* fund can help the government in reducing the planned budget for the public interests which they can use in other sectors of the development. In this connection, Hasan (2008) says that the *waqf* system can help the government minimizing its burden and responsibility by reducing its contribution to the overall economy. *Waqf* fund adds an advantage to the social development and simultaneously it also eases the burden of the government by reducing its budget.

Therefore, *waqf* can assist the government in economic participation from a right and balanced perspective (Khan & Jareen, 2015). Since private sectors are playing a great role in the overall development of the economy, they should be provided with a wider scope to contribute more actively. More innovative and creative thinking in economic development can be achieved when the private sectors are being promoted. The progress of the private sectors is hindered when governments' participation in the economy is seen on a large scale that tends

to see the economy to be more centralized. But, the *waqf* system always favours the private sectors to participate more actively and tries to minimize governments' engagement in the economy (Hassan, 2008).

#### **4.6.2 Minimizing Deficit Financing and Interest Rate**

Deficit financing can never bring any benefit for a country, rather it has a very negative impact on the economic growth of a country. Only with the positive outlook of both the government and the nation, deficit financing can be wiped out or minimized. It can be an unavoidable threat to the growth of the economy soon. Considering this current condition, Budiman (2014) says the *Waqf* system is the way that can help the government reducing its expenditure. This system can also contribute to reducing the budget deficit and lessen governments' dependence on borrowing with interest.

Consequently, this system can reduce the rate of interest which constitutes a basic impediment to private investment and growth. So, to minimize the rate of interest by providing social services and without any cost of the government, Cizakca (1998) puts a great emphasis on the *waqf* system. As the *waqf* system can do this with the voluntary donation of the financially solvent Muslim people which also claims no cost to the government, this system can be taken into high consideration. In this way, this huge charity amount collected from private sources can be added to the national budget and can contribute to the overall development by abolishing deficit financing.

#### **4.6.3 Proper distribution of wealth**

In the proper and balanced distribution of income and wealth, *waqf* plays a very vivid role. It is the charity of the rich Muslim for the sake of the collective interest which has a positive impact on the redistribution of wealth (Hasan, 2008). In comparison to redistribution through taxes and government transfer expenditure, *waqf* is considered as a more just and balanced system since it costs a very minimum. The absence of a proper tax collection system causes an acute burden to the government as a huge amount of money is being spent on its collection and distribution. On the contrary, the *waqf* system can help the government in the just distribution of the economy as it costs a very minimum or nothing in some cases.

#### **4.6.4 Eradicating poverty**

Both poverty and income inequality are two burning problems for any society that can be removed through various preventive measures. Charity is considered as one of the best preventive measures to alleviate poverty and income inequality from the society that has the characteristics of perpetuity (Sadeq, 2002). In the light of Islam, the institution of *waqf* is a perpetual form of charity that ensures the proper distribution of wealth. In this regard, the holy Quran says, the property must be distributed among all sorts of people living in a society (Al-Hashr, 59:7) and must also be purified through the means of charity (Al-Taubah, 9:103).

The charity has two phases: *Sadaqah*, the voluntary charity that includes *waqf*, and then *Zakat*, the involuntary charity (Bonner, 2005). *Waqf* contributes to creating long term income generating flow that ultimately creates wealth through which poverty can be eliminated from society since the poor people are the receivers of *waqf*. Being combined with microfinance organizations, *waqf* can also contribute to creating new entrepreneurs from poor people by helping them with the fund and arranging training and skill development programs. All these voluntary activities done for the welfare of mankind are considered as *waqf* that helps eliminate poverty from society (Obaidullah & Khan, 2008).

#### 4.6.5 Enhancing Economic Progress

To find the outcome of *waqf*, a well-managed *waqf* system is necessary that brings the economic development of any country. In the Ottoman Empire, both *waqf* and economic development were interlinked with each other (Hassan, 2008). Countries with more *waqf* activities see more economic development that means if the size of *waqf* is bigger, the economic development is also higher as it helps to launch more private enterprises that have an undeniable influence in the national economy of a country. Moreover, through the means of an active *waqf* system, undersupply of public goods can be minimized since it provides public goods and thus fulfils the society's needs adequately. Thus, a well-managed *waqf* system helps with an abundant supply of public goods that decreases the scarcity of goods in the market which is also discouraged in the Islamic economy (Cizakca, 1998), and ultimately brings country's economic development.

#### 5.0 Conclusion

Waqf has been established as a potential mechanism in the form of charity and it has been playing a vital role to ensure socio-economic development in the Islamic civilization for long since. The efficient use of waqf certainly can contribute to generating income among the poor Muslims which will ultimately help alleviate poverty significantly in Muslim countries. Besides, waqf will significantly reduce essential service costs at the government level which will help reduce the budget deficit and the governments will require lower borrowing from the internal and external sources. Besides, waqf potentially reduces the interest rate and make financing inclusion easy among the poor. Moreover, waqf ensures proper distribution of income and wealth among the poor. This paper points out that cash *waqf* can be utilized as a potential source of funds for Islamic microfinance.

Waqf based Islamic microfinance can be used to overcome interest-based conventional micro-finance systems which are making the poor even poorer. *Waqf* fund will reduce the cost of capital for promoting Islamic microfinance to a wider range. *Waqf* based Islamic microfinance will develop human resources through project financing and ultimately it will alleviate poverty significantly. Integrated Waqf based Islamic microfinance model can effectively identify the need for the poor, poorer, and the poorest, and subsequently *Musharaka*, *Mudaraba* and *Qard Hasan* can be extended to support them. The effective development and outreach of the integrated Waqf based microfinance model require more support from the Government to provide infrastructural facilities for basic education and research, health care, and socio-economic development. If *waqf* can be used properly and efficiently the poverty level in the Muslim countries will reduce significantly.

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