

## **The Role of the Waqf and Zakat as Islamic Social Finance Institutions on Sustainable Development**

*Paper for Malaysian Security Commission Conference , 20 July 2023, KL, Malaysia*

By Mehmet Bulut

Istanbul Sabahattin Zaim University

E-mail:mehmet.bulut@izu.edu.tr

Many Fiqh scholars have gone as far as to argue that when paying Zakah on stocks or shares, one must first deduct all real estate and fixed assets of the firm (Adnan & Abu Bakar, 2009). They justify this by the Ahadith that exempt tools of craftsmen and work animals of farmers from Zakah, such as a bullock used for ploughing (Al Zuḥaylī, 2001, Vol. 2). They drew an analogy between the tools of individual farmers or workers and today's assets of large corporations. However, most real estate in today's world did not exist a hundred years ago, and most current global wealth is invested in this type of assets.

By not applying Zakah to major items of modern wealth, we face two main problems: on the one hand, we might infringe on the primary sources of Islam. On the other hand, Zakah collection might drop to meaningless levels and thus fail to fulfill its role as a pillar of Islamic faith and Islamic Economics. Consequently, Zakah may not play a significant role in poverty alleviation, although it has the potential to do so, as has been shown in several studies in various countries (Abdelmawla, 2014; Hassan & Khan, 2007). Several scholars in recent times have thus called for the inclusion of these types of wealth and income to fulfil the purpose of Zakah (Zarka, 1984; Kahf, 1989; Al Maṣrī, 1999). The consideration of new asset classes or means of payment is of utmost importance, as demonstrated by the rise of cryptocurrencies (Muneeza et al., 2023).

One possible reason for the exclusion of these assets by Fiqh scholars is that real estate for investment purposes and business fixed assets were neither widespread nor did they constitute a major part of wealth or income during the lifetime of the Prophet (sas) and many centuries later. This could explain why the Prophet (sas) did not explicitly mention the zakatability of those assets. If the role of these assets was negligible, then the dominant Fiqhi perspective was justified for such a particular reality. If the share of commercial real estate and business fixed assets in the capital structure of the economy during the lifetime of the Prophet (sas) was significant, then this hypothesis would be disproven. The following paper intends to test this hypothesis. If the hypothesis is correct, this would allow for a reconsideration of the zakatability of these wealth items and contribute to the Fiqhi discourse. The enlargement of the Zakah pool in harmony with the primary sources, as well as today's reality, could have major practical implications, including a reduction in inequality and accelerated poverty alleviation (Sulaeman & Sukmana, 2023). Otherwise, Zakah collection will remain at ineffective levels, as is the case in several Muslim countries (Asfarina et al., 2019).

### **The Role of Zakat**

The first Sustainable Development Goal (SDG) is to reduce poverty by 2030, primarily concentrated in nations with a Muslim majority. Therefore, zakat, a form of charitable giving mandated for Muslims, could potentially be effective in alleviating poverty if collected and managed appropriately. The zakat system has two primary actors: the giver or muzakki, who donates a portion of their wealth, and the receiver, who uses this gift to meet their basic needs. The difference between these two actors is that the giver or muzakki, typically wealthy, possesses a surplus above their basic needs, known as nisab. In contrast, the receiver, who is typically impoverished, lacks the minimum wealth limit necessary to meet their basic needs. Hence, the apparent distinction between these two groups makes it possible to distribute income to those less fortunate.

**Açıklama [A1]:** What do you mean by "in harmony with"?

It is essential to note that the redistribution of wealth through zakat is a unique aspect of Islamic social finance that has the potential to contribute significantly to the eradication of poverty, particularly in Muslim-majority countries. By directing funds from the wealthy to the poor, zakat can support sustainable development and promote social welfare, aligning with the goals of the SDGs. Therefore, the effective collection and management of zakat are critical in realizing the potential of Islamic social finance in achieving sustainable and inclusive development (Shaikh and Ismail, 2017; Atah et al., 2018).

Shaikh and Ismail (2017) suggest that zakat is an effective and reliable tool for achieving redistribution objectives because it includes less volatile wealth than income in business cycles. Zakat also has a broader base because it is assessed based on wealth and income. As a result, zakat has an inherent structure to accomplish the proper objectives for zakat collection and distribution (Adhiatma and Fachrunnisa, 2021). It has long been established that wealth redistribution significantly contributes to eradicating poverty. In this regard, Shaikh, and Ismail (2017) conducted a statistical analysis demonstrating the effectiveness of wealth redistribution in reducing poverty. Their research revealed that only "eight individuals have as much wealth as the bottom 50% of the global population. Their combined wealth is \$426.2 billion as of end-2016. According to World Bank, 767 million people were below the poverty line of \$1.90 daily. The poverty gap is \$531.9 billion ( $1.90 \times 767,000,000 \times 365$ ) per year. Comparing the wealth owned by only the richest eight persons (\$426.2 billion) and the total global poverty gap funding requirement (\$531.9 billion)". Hence, zakat, one of the primary tools for wealth redistribution, can significantly contribute to poverty reduction.

In line with the United Nations' Sustainable Development Goals, the second goal is to eradicate global hunger by 2030, which is interrelated with the first objective of eradicating poverty. Poverty reduction could potentially contribute to zero hunger by the decade's end. According to Atah et al. (2018), the institution of zakat might significantly enhance food security for poor people by putting poverty alleviation initiatives in place. This is because zakat provides a means for redistributing wealth and eliminating poverty, the underlying cause of hunger worldwide. Gundogdu (2019) confirmed a causal relationship between poverty and hunger, highlighting the significance of zakat as an instrument for tackling hunger by eliminating poverty.

The third goal of the Sustainable Development Agenda is to attain good health and well-being. Access to food is essential for maintaining good health, and it is recommended that one's food intake should be equal to their minimum calorie requirement. Failure to do so may lead to energy and nutrient deficiencies due to an inadequate diet or other factors, according to Atah et al. (2018). As a result, insufficient food can make individuals in poverty susceptible to various health problems and more vulnerable to illnesses.

In addition, the payment of zakat can enhance impoverished individuals' medical care and welfare. Hence, it is necessary to eradicate poverty and hunger in communities. Additionally, by receiving a portion of the zakat funds, poor individuals could afford sufficient nourishment and necessary medical treatment, improving their economic well-being (Atah et al., 2018).

Following the fourth sustainable development goal, zakat has the potential to improve education quality. Impoverished people often lack the necessary skills to enhance their human capital, and education costs have increased significantly. This situation has resulted in an increased vulnerability to poverty among them. However, if zakat is effectively collected and distributed according to the Holy Quran, it can provide the necessary funds to receive education and enhance their economic well-being (Adedeji and Campbell, 2013). Education is crucial in developing human capital and acquiring the skills and qualifications required in the labor market.

Gender equality is the fifth sustainable development goal the zakat system can help accomplish. Following Islamic law, zakat is a gender-neutral institution that should be paid and received by both men and women regardless of their financial circumstances (Shaikh and Ismail, 2017).

Moreover, zakat can be given to women or organizations that work on initiatives for women's welfare, such as constructing maternity hospitals or girls' schools. Economic growth and suitable employment are the sixth sustainable development goal of the zakat system. People require excellent employment to become self-sufficient and sustain themselves and their families.

In order to achieve sustainable poverty alleviation and ensure the growth of the socio-economic sector, it is essential to provide opportunities for decent work and economic advancement. Zakat institutions can contribute to this goal by enhancing the skills and productivity of poor individuals through various programs. Zakat can also promote economic growth by raising the income and spending of the underprivileged. According to Shaikh and Ismail (2017), zakat funds can be used for healthcare and education initiatives to enhance the human capital of the underprivileged. By doing so, poor people can become more productive and contribute significantly to the economy.

The seventh sustainable development goal that the zakat institution aims to achieve is environmental sustainability. In many rural areas, firewood is the primary source of energy for cooking and other needs, but it leads to environmental degradation. For instance, only approximately 35% of homes in Kano state, Nigeria, can afford Gaz, a more environmentally friendly option; therefore, nearly 65% of houses there still use firewood for cooking (Atah et al., 2018). As a result, giving zakat money to the underprivileged can enhance their purchasing power and enable them to switch from using firewood or charcoal to cleaner energy sources like Gaz. In turn, this can lessen the adverse effects of poverty on the ecosystem, improving its sustainability.

Zakat and the SDGs have a strong correlation, with at least three zakat recipients directly related to the SDGs. These recipients include al-fuqara (the poor who lack a means of living), al-masakin (the needy who cannot meet their basic needs), and fi-sabilillah (those who spend in the path of Allah, which can relate to providing basic needs such as health, clean water, and sanitation programs). Zakat can be an essential tool to address extreme poverty and hunger in Muslim-majority countries, which is a direct aim of the SDGs. In Indonesia, a sizeable Muslim-majority country, the state zakat authority (BAZNAS) collects and distributes zakat funds, contributing up to \$32 billion annually, equivalent to 3.4 percent of the Indonesian GDP in 2016 (Noor and Pickup, 2017).

In Indonesia, BAZNAS is a formal institution that runs zakat programs in five primary areas, including social sector, education, economics, health, and da'wah. Through the formal collection and distribution of zakat, BAZNAS can contribute significantly to poverty reduction, economic empowerment, and advocacy for the SDGs (Noor and Pickup, 2017). Zakat's objectives align with those of the SDGs, and it has the potential to address at least eleven out of the seventeen goals. In this way, zakat can play a crucial role in achieving the SDGs not only in Indonesia but also in other Muslim-majority countries.

#### The Role of *Waqf*

The idea of *waqf*, which refers to preventing poverty resulting from using a property by its owner, is crucial to the Islamic economic system (Abduh, 2019). It entails preventing a property from being used by the original owner and using its benefits to help the needy and underprivileged to preserve its capital in the same form (Yalawae et al., 2003). This procedure is a vital tool of Islamic social finance and is essential for accomplishing the Sustainable Development Goals (SDGs).

*Waqf* is a Shari'ah-based organization that upholds the maqasid *Shari'ah*, the highest goal of Islamic law, even though it is a nonprofit organization (Abdullah, 2018). The similarity between maqasid-based development and SDGs suggests that *waqf* could simultaneously be an

intermediation tool in objectifying the mutual goals of SDGs and maqasid-based development plans.

Therefore, waqf is an indispensable instrument in the agenda of SHED, particularly in Muslim-majority countries where the asset of the global waqf is estimated to be approximately \$1 trillion (ibid). This value indicates the potential for waqf to significantly impact SHED achievement, making it a critical aspect of the Islamic economic system.

As demonstrated by various practices and evidence, the historical evolution of waqf reveals that its purpose has extended beyond poverty alleviation to include education, health care, and infrastructure development, among other things (ibid). The significance of waqf in improving the welfare of the Ummah has been well-established. Moreover, as evidenced by the well-known hadith of Umar Ibn Khattab, waqf has been a critical Islamic tool for socioeconomic growth since the time of the Holy Prophet Muhammad (PBUH) (r.a). This hadith describes how Umar Ibn Khattab found land in Khaybar and asked the Prophet (PBUH) for guidance. The Prophet (PBUH) advised him to turn the property into a waqf and donate it as sadaqah (charity) for the needy, relatives, slaves, travelers, and guests, with the caveat that it should not be sold, purchased, given as a gift, or inherited. This incident exemplifies how waqf was utilized for the greater good of the Ummah historically, underscoring the significance of waqf as a charitable giving tool and its critical role in the early development of Islamic societies. Therefore, waqf's development remains indispensable in contemporary times, particularly in attaining sustainable development objectives in Muslim-majority nations.

The hadith of Umar, along with other examples like the waqf of Uthman Ibn Affan (r.a), emphasizes the crucial role of waqf in enhancing socioeconomic development and promoting the welfare of societies. Waqf has a long history of formally pursuing the objectives of Muslim societies, even prior to the introduction of the Millennium Development Goals (MDGs) and the Sustainable Development Goals (SDGs). According to Shatzmiller (2001), Ottoman practices provide a prime example of how the waqf system effectively reduced poverty for over six centuries, surpassing the efficacy of government budgets.

Although governments and public sectors may try, there will always be gaps in the financial abilities of community members. Therefore, the private sector is vital in providing essential services like education and healthcare to everyone in the community. These crucial issues must be addressed first to achieve the SDGs. By the system of infaq, the Holy Quran provides all-encompassing remedies to these issues. Islam recognizes infaq, which goes beyond simple gifts and is a God-given right for wealthy people to donate to the less fortunate. As the Holy Quran states: *“And from their properties was [given] the right of the [needy] petitioner and the deprived”*, [51:19].

According to Sohail et al. (1994), by helping the underprivileged and needy fulfill their fundamental requirements and become socially responsible citizens, infaq promotes economic harmony within the society in Islam. In the context of sustainable development, which acknowledges the need for inclusive and environmentally sustainable growth to decrease poverty and create shared prosperity for the present and future generations, this Islamic idea of infaq is also reflected (World Bank Group, 2016).

Sustainable development encompasses three key dimensions: economic growth, environmental sustainability, and social inclusiveness. In this regard, providing basic facilities through infaq fosters sustainable human development in communities by enabling individuals to become more productive in their economic and social activities. As Cusack (2019) notes, sustainable human development is essential for achieving economic growth, promoting community equity, preserving the environment, and enhancing people's well-being.

Empirical research like Sohail et al. (1994), which discovered that places, where infaq is practiced have lower poverty rates, shows that infaq can reduce poverty and help poor people

become socially responsible. In addition to its role in poverty eradication, infaq is also effectively advancing the pillars of sustainable development (economic growth, environmental sustainability, and social inclusiveness) in various ways. Muslims have historically worked towards realizing these pillars through infaq, as evidenced by satisfactory results obtained in the past (ibid).

The concepts of brotherhood and ihsan in Islam inspire Muslims to feel responsible towards their society and fellow Muslims, motivating them to contribute to the best of their abilities through infaq. This increased sense of communal responsibility is likely to facilitate the achievement of the SDGs. Suppose the institution of infaq is revived with its original spirit, as it was in the early centuries of Islam. In that case, it will be possible to restore the potential of the Muslim Ummah to bring about change, as it did during the reign of Caliph Umar bin Abdul Aziz when there were no needy people to give zakat to. In conclusion, creating infaq institutions is essential for fostering sustainable economic development and balancing the economic imbalances among communities and other Islamic social finance institutions like zakat and waqf.