



ISLAMIC DEVELOPMENT BANK GROUP  
ISLAMIC RESEARCH & TRAINING INSTITUTE

# Role of **Zakāh and Awqāf** in Poverty Alleviation

*Occasional Paper*  
No.8



Islamic Development Bank Group  
Islamic Research & Training Institute

# **Role of *Zakah* and *Awqaf* in Poverty Alleviation**

**Habib Ahmed**

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**No. 8**

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7 September 2004

*Habib Ahmed*

## FOREWORD

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During the later half of the 20<sup>th</sup> century, developing economies of the world have experienced two contrasting trends. On the one hand some countries economies have had remarkable growth rates and increased their economic well being, and on the other hand many countries have lagged behind and poverty and squalor increased manifold. It is estimated that one-fifth of the world population lives under \$1 a day and more than two-fifths on \$2 a day. A large number of the poor live in Muslim countries. Different international bodies have acknowledged that poverty has to be tackled with concentrated efforts through ambitious plans for development. In a large gathering organized by the United Nations in 2000, the heads of states adopted the "Millennium Development Declaration". Accordingly, the "Millennium Development Goals" were to be met by 2015 or earlier. The first among these goals is to eradicate extreme poverty and hunger.

One important issue discussed in the development debate is the impact on religious institutions and cultures on economic variables and outcomes. In this respect, the role and scope of *zakah* and *awqaf* in tackling the problem of poverty is very relevant. These traditional Islamic institutions were able to solve the problems of poverty and provide much needed social services to the poor in the past. Given the pervasiveness of poverty in Muslim countries, it is important investigate how these institutions can be used in contemporary times to alleviate poverty in Muslim societies.

With this background, the Board of Executive Directors of the Islamic Development Bank (IDB) asked IRTI to conduct a research dealing the role of *zakah* and *awqaf* in poverty alleviation. As a result, Habib Ahmed – a researcher at the Institute has prepared the present paper. The paper is a comprehensive study addressing various issues of implementing *zakah* and *awqaf* in contemporary times. Using both theoretical arguments and data from a survey, the paper provides results and various policies that policy makers, practitioners, academia, and researchers may find interesting and relevant. It is hoped that the study

will be instrumental in motivating to conduct more research in this important area.

***Bashir Ali Khallat***  
***Acting Director, IRTI***

## Executive Summary

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While various policies have been tried in the last few decades to mitigate the menace of poverty, it still continues to plague large segments of humanity in general and IDB member countries in particular. The occasional paper examines the role and scope of *zakah* and *awqaf* in addressing the problem of poverty. *Zakah* is one of the fundamentals of Islam that has direct economic implications. It requires Muslims to distribute a part of their wealth among the specified heads in order to alleviate poverty and achieve economic emancipation. Similarly, *waqf* is a voluntary charitable act that has wide economic implications. These institutions were able to solve the problems of poverty and extend social services in the classical times. The objective of the paper is to investigate how these institutions can be used in contemporary times to alleviate poverty in Muslim societies.

In order to understand the role of *zakah* and *waqf* in poverty alleviation, it is important to comprehend the dimensions and causes of poverty. Poverty is a complex phenomenon and can be studied both from micro and macro perspectives. While macroeconomic policies affect the overall growth and development of economies, distribution of income in the society determines the overall poverty levels. At the micro-level, poverty is linked to the entitlements that individuals have to different sources of income. After having an insight into the causes of poverty, the paper identifies policies of reducing it. *Zakah* and *awqaf* can play a role in policies of redistribution of assets and opportunities, capacity building and wealth creation, and extending income support. Using *zakah* and *awqaf* for poverty alleviation should focus on the former two policies. Income support should be used for the section of the population who are unable to earn a living due to physical/mental inabilities.

Having explained the causes and possible solutions of poverty, the paper discusses how *zakah* and *awqaf* can be structured to play their designated role. To see potentials and practical ways in which these institutions can be used to mitigate poverty, the paper approaches the issue in the following ways.

First, the potentials and scope of using *zakah* and *awqaf* institutions to alleviate poverty are investigated at the macro-level. In this context, the amount required to move the poor out of poverty in a sample of IDB members is estimated. These figures are compared with the estimated potentials of *zakah* that can be collected. To assess the scope of *zakah* in combating poverty, the estimated potential figures are compared with both the actual amounts being raised and the needs of poverty alleviation scheme. The paper shows that the potential of *zakah* in tackling poverty will depend on the size of the GDP and the number of poor in an economy. The potential of using *zakah* to reduce poverty is less effective in countries with low GDP per capita and large number of poor. While no macro-level information is available for *awqaf*, these institutions can play an important role, if the number and size of the ones involved in social welfare activities can be increased.

Once the potentials of *zakah* and *waqf* are recognized, the second level of analysis assesses the practical ways to achieve the results. As the amount of *zakah* collected by governments and the size of *awqaf* appear to be very small, they are not playing a significant role in improving the economic conditions of the poor.<sup>1</sup> The paper explores the appropriate institutional framework of *zakah* and *awqaf* to help reach its potentials. To do so, the operational aspects of these institutions are examined in two IDB member countries (Malaysia and Pakistan) and a non-member country with Muslim minority (South Africa). The way these institutions are governed, raise and disburse funds, the type of beneficiaries, and programs for poverty alleviation are discussed.

Based on theoretical discussions and empirical findings, the paper finally discusses the various policy issues in connection with *zakah* and *awqaf*. Recommendations and policies are outlined in the light of the paper. The ways and means to collect and disburse funds effectively are outlined. In this respect, the suggestions fall under the following broad categories:

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<sup>1</sup> Note that a large part of the *zakah* is given to individuals and nonprofit welfare organizations. Similarly, institutions like trusts, foundations, and endowments are being created instead of *waqf*. Other than the case of South Africa, discussions on these non-government sector activities are not included in the paper due to the lack of data.

- i. Integrating *Zakah* and *Awqaf* into the overall Development Scheme: Many developing countries have adopted Poverty Reduction Strategies for the overall development and reduction of poverty. *Zakah* and *awqaf* should be incorporated into such development strategies. If used effectively, they can play an important role in the redistribution of opportunities and assets enabling the poor to become productive. There is a need for *zakah* and *awqaf* institutions to coordinate their activities with various similar organizations (other government agencies, non-government organizations, civil organizations, etc.) to produce an impact on the poor.
- ii. Laws and Regulations: There is a need for laws and regulations to create incentives for the proper functioning of *zakah* and *awqaf* institutions and establishing institutions that operate in an efficient and transparent ways. At present very small amount of *zakah* is collected by the government, while the *awqaf* properties in many countries are controlled by governments and not performing their developmental role. *Zakah* collections can be increased, if the right tax incentives are given to avoid double taxation. Similarly, new laws encouraging people to establish new *awqaf* institutions and regulatory guidelines emphasizing on good governance structures and operation mechanisms are needed to generate more *awqaf* for social development.
- iii. Effective Organizational Structures: Successful organizational structures would be those which build trust among people to maximize collections/revenues. The trust can be increased, if the proceeds are spent effectively to combat poverty. Results from the survey indicate that a corporate structure for *zakah* collection can raise the awareness of the concept among people and increase the funds raised in an efficient way. The disbursement, however, should be done by a government agency in association with other complementary organizations. *Awqaf* institutions for social development purposes are effective if operated as nonprofit institutions. A board of trustees overseeing the activities of these institutions may be able to enhance welfare of the target groups.

- iv. Institutional Development and Diversity: There is a need to operate *zakah* and *awqaf* with the help of various institutions using contemporary organizational structures and instruments to reinforce poverty alleviation endeavors. The paper suggests establishing several of these institutions/instruments and emphasizes the need for deliberate efforts and research to develop them.

## **Introduction**

Even with the manifold increase in the overall global income levels during the last century, poverty continues to plague large segments of humanity. Poverty has persisted even though different policies have been tried in the last few decades to mitigate the menace. Development policies in the developing economies in the 1950s and 1960s were based on growth models that emphasized investment and growth in output (e.g. Domar 1945, Harrod 1939, Lewis 1954, Solow 1957). The emphasis on growth resulted in high GDP percapita growth rates, but this did not improve the living conditions of the majority of the people. On the contrary, absolute poverty levels increased, distribution of income worsened, and unemployment levels rose in many developing countries (Todaro 1996, p. 14-15).

Critics of the growth paradigm emerged in the 1970s indicating that the objectives of development policies should be broader so as to address the issues of the quality of human life. Given the acuteness and persistence of poverty, its eradication has become part of a wider debate on development (Wilson 1996, p. 24). As a result, there was a shift of development policies towards the 'basic needs approach' and 'growth with equity'. New social indicators that considered aspects of poverty, like the Physical Quality of Life Index (PQLI) and Human Development Index (HDI), were used to measure development (see Todaro 1996, p. 62-68).

Recently, there is a realization in different international bodies that poverty has to be tackled with concentrated efforts through ambitious plans for development. In 2000, the United Nations organized the largest ever gathering of the heads of states which adopted the "Millennium Development Declaration". World leaders pledged to work together towards achieving the "Millennium Development Goals" by 2015 or earlier.<sup>2</sup> The first among these goals is to eradicate extreme poverty and hunger. Similarly, the IMF and World Bank initiated the Poverty Reduction Strategy (PRS) in 1999 that outlines a comprehensive country-

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<sup>2</sup> To see the Millennium Development Goals see UNDP (2003).

based strategy for poverty alleviation. Papers produced by low-income countries on Poverty Reduction Strategy describe the structural, social, and macroeconomic plans and policies that a country will undertake to promote growth and reduce poverty. These papers have adopted the Millennium Development Goals as their guidelines. Given the magnitude and complexity of poverty, governments and markets alone are unlikely to solve the problem. It is being increasingly realized that the 'third sector' consisting of civil societies, nonprofits, and non-government organizations is one of the important contributors to economic growth and welfare (Salamon and Anheier 1997).

While earlier research has studied poverty alleviation issues in the member countries of the Islamic Development Bank (IDB), this occasional paper focuses on the role and scope of two Islamic institutions, *zakah* and *awqaf*, in tackling the problem of poverty.<sup>3</sup> While *zakah* is obligatory and considered as the third pillar of Islam, *waqf* is a voluntary act. *Zakah* requires the believers to distribute a part of their wealth among the designated heads, while *waqf* is a charitable act with wide economic implications. Both of these institutions are meant to play an important role in mitigating poverty and thereby augmenting the welfare. The paper is an in-depth study of how these institutions can play their part in contemporary times. Before going over the objectives and plan of study, the Islamic view on poverty is discussed.

### **1.1. Islamic View of Poverty**

Islam, being a religion of balance, has given equal emphasis on both the spiritual and worldly affairs (Chapra 1980, p. 146). As such, the concept of richness/poverty in Islam does not only represent deprivation of goods and services, but also lack of richness/poverty in spirit.<sup>4</sup> Keeping this broader concept of poverty in Islam in mind, however, our focus will be on the notion of deprivation in the economic sense. This economic concept of poverty and its eradication indirectly addresses the spiritual aspects as Rahman (1974) asserts that in Islam, individuals can improve their spiritual lives by improving their material life. In this

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<sup>3</sup> See Salih (1999) for an earlier IDB Occasional Paper of poverty alleviation.

<sup>4</sup> Mannan (1988) makes this point by quoting a saying of the Prophet (pbuh) as reported by Abu Hurairah in Muslim: "Richness does not lie in the abundance of worldly goods but richness is the richness of heart itself".

section, the Islamic viewpoints on poverty and its mitigation are discussed briefly. It will present how *Shari'ah* (*Qur'an* and *Sunnah*) treats poverty and then point out classical and contemporary writings on Islamic economics on the subject matter.

There are sufficient provisions for all mankind in this world as can be deduced from the following verse: "And surely, We gave you authority on the earth and appointed you therein provisions (for your life). Little thanks do you give" (*Qur'an* 7:10).<sup>5</sup> Muslims are, however, urged to work hard for their living and meet their needs. Allah commands them in the *Qur'an*, "And when the prayer is finished, then disperse in the land and seek Allah's bounty" (*Qur'an* 62:10).

Muslims believe that life on earth is a test for humans. All their actions will be judged and rewarded accordingly in the Hereafter. This test, among others, aims to know how people deal with the differences in income and wealth put under their disposal. In this respect, both the poor and the rich are expected to behave in accordance with certain principles laid down by Islam (Iqbal 2002). The Prophet (pbuh)<sup>6</sup> warns that "On the one hand excess of wealth may endanger the faith and morality of the Muslims, and on the other hand, poverty may drag them to disbelief". Muslims should not aspire to be poor as advised by their Prophet to "Seek Allah's refuge from poverty, scarcity, and ignominy". He further asks Muslims to invoke "Allah, I seek Your refuge from apostasy and poverty".<sup>7</sup>

Islam discourages extreme income inequality and poverty. While it is expected of each individual to exert his/her effort to the fullest extents of his potential to fulfill his/her needs, yet there may be situations and circumstances in which individuals will not be able to earn enough to meet their needs. To address poverty and deprivation, however, Islam has instituted social support mechanisms for the deprived. The *Qur'an* says "And those in whose wealth there is recognized right, For the beggar who asks, and for the unlucky who has lost his wealth" (*Qur'an* 70: 24-25). Similarly, the Prophet clarifies:

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<sup>5</sup> The translation of the *Qur'an* is taken from Al-Hilali and Khan (1404H).

<sup>6</sup> 'Pbuh' is an acronym for 'peace be upon him'.

<sup>7</sup> The sources of references for these *ahadith* can be found in Siddiqi.(1988, footnotes 6 and 7).

"Allah revealed to Musa, son of Imran...I have not deprived the poor because My treasure could not afford it and My mercy could not accommodate them. But I have appointed for the poor in the wealth of the rich what would suffice for them. I decided to test the rich (and see) how they behave in respect of what I have levied upon their wealth for the poor..."<sup>8</sup>

The responsibility of the rich for the poor has been instituted in various ways. These responsibilities express themselves in the institution of *zakah* and various charitable acts like *waqf*. *Zakah* on the wealth of the rich is considered as a right of the poor. There are a host of other charitable activities including *awqaf* that are encouraged in Islam so that all the basic needs of the people can be met.

The rightly-guided Caliphs and the rulers that followed them were conscious of the state's responsibility towards the poor and the needy. The classical scholars recognize fulfilling the basic needs of all citizens in an Islamic society as collective social duty (*fard kifayah*) (Siddiqi 1988). Furthermore, they set need fulfillment of the people as one of the objectives of *Shari'ah*. They consider protection of religion, life, progeny, property and reason to be the five goals of *Shari'ah*.<sup>9</sup> Religion and life can be protected by meeting the basic needs that include, among others, food, health, and shelter. Thus, poverty eradication by providing for basic needs of every citizen is a duty of every Muslim society.

Contemporary Islamic economists have also come up with similar views on poverty and its mitigation. Chapra (1980 and 1985) maintains that eradication of poverty, socio-economic justice and equitable distribution of income are considered unyielding features of an Islamic economic system. He asserts that establishment of justice is one of the primary goals of Islam, and as such an Islamic economic system should endeavor to eradicate "all forms of inequity, injustice, exploitation, oppression and wrong doing" (Chapra 1992, p. 209). Similarly, Siddiqi (1988, p.251) asserts that in an ideal Islamic state, the basic needs of all in the society will be fulfilled. Zarqa (1988) identifies various institutions and structures that Islam has instilled to redistribute income and wealth

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<sup>8</sup> Quoted from Siddiqi (1988). For sources and reference see Siddiqi (1988, footnote 15)

<sup>9</sup> These objectives can be found in the works of al-Ghazali and Shatabi. For a discussion see Siddiqi (1988).

for the fulfillment of the basic needs for all in the society. The focus of this paper, however, is to examine two such institutions, *zakah* and *awqaf*, and discuss their role in poverty alleviation.

## 1.2. Objectives of the Paper

The institutions of *zakah* and *awqaf* have had a historic role in solving the problems of poverty and provide social services during classical times. The objective of the research is to investigate how these institutions can be employed in contemporary times to alleviate poverty and enhance welfare in Muslim societies. Specific objectives of the paper are the following:

- i) Outline the historical experiences and present the contemporary resolutions (*fatawa*) on the use of *zakah* and *awqaf* for poverty alleviation.
- ii) Assess the poverty, need for funds and the scope and potentials of *zakah* and *awqaf* for poverty alleviation in IDB member countries.
- iii) Study the experience of a few institutional and operational frameworks of *zakah* and *awqaf* to identify the ones that are efficient in reaching the objectives.
- iv) Suggest the ways and means in which the collection of funds can be enhanced and disbursement made effective in poverty alleviation.
- v) Propose new institutional formats in which *zakah* and *waqf* can be used to alleviate poverty in contemporary times.

## 1.3. Outline of the Paper

In Chapter 2, the concepts of *zakah* and *awqaf* as found in *Shari'ah*, classical jurisprudence, and contemporary writings are discussed. The chapter also outlines some of the historical experiences in these two areas. Chapter 3 examines the extent of poverty in IDB member countries. The chapter reports various indicators of poverty and deprivation. In order to understand the role of *zakah* and *waqf* to mitigate poverty, it is important to comprehend the dimensions and causes of poverty. This is done in Chapter 4. After identifying the causes of

poverty, the paper presents various approaches of mitigating it. Chapter 5 explores the potentials and scope of using *zakah* and *awqaf* institutions to alleviate poverty at the macro-level. To assess the scope of *zakah* and *waqf* in attacking poverty, the estimated potential figures are compared to both the needs for poverty alleviation and estimates of the actual amounts being raised in a few countries.

Once the potentials of *zakah* and *waqf* are recognized, Chapter 6 reports the institutional frameworks of *zakah* and *awqaf* being used in two IDB member countries of Malaysia and Pakistan and a non-member country with Muslim minority (South Africa). Apart from the nature and scope of operations of *zakah* and *waqf* institutions in these countries, Chapter 7 identifies the appropriate institutional structures suitable for the efficient implementation of poverty eradication programs. The chapter also addresses the ways in which *zakah* and *waqf* can be integrated to meet the overall development goals. The last chapter concludes the paper.

## ***Shari'ah and Historical Aspects of Zakah and Awqaf\****

The institutions of *zakah* and *awqaf* (s. *waqf*) are among several instruments instituted by Islam to combat poverty and enhance welfare in the society. While *zakah* helps generate a flow of funds and recruit the necessary manpower, *awqaf* provides the material infrastructure and creates a source of revenue for use in, among others, social welfare enhancing activities. This chapter focuses on *Shari'ah* and historical role of these institutions with special reference to poverty alleviation. Having outlined the concepts of *zakah* and *awqaf* as enunciated in *Qur'an*, *hadith*, and *fiqh*, the classical experience of *zakah* and *awqaf* are presented.<sup>10</sup> The chapter then discusses the rulings of contemporary scholars on various aspects of these institutions and presents some recent experiences.

### ***2.1. Zakah and Awqaf in Shari'ah and Fiqh***

In contrast to *zakah*, which is mandatory for Muslims, establishing *awqaf* is voluntary. In this section we briefly discuss basic features of these institutions as they appear in *Shari'ah* and early Islamic jurisprudence (*fiqh*).

#### ***2.1.1. Zakah in Shari'ah and Fiqh***

The word *zakah* means growth, increase, cleanness, and purity in Arabic (Ibn Faris 1998). The *Qur'an* mentions the word *zakah* 30 times and at three places it appear as being commanded by God. *Zakah* is often called *sadaqah* in the *Qur'an*. The importance of *zakah* as an obligation on Muslims is also emphasized in many sayings of the Prophet (pbuh). According to some sayings, *zakah* is recognized as one of the five pillars

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\* This chapter is based on Kahf (2004).

<sup>10</sup> The sources of knowledge in Islam can be broadly classified into two: revealed and derived. The revealed knowledge, the *Shari'ah*, constitutes the primary source of Islamic principles and rulings. The other source of knowledge is that derived from human intellect through *ijtihad* (exertion). This derived knowledge resulting from *ijtihad* is referred to as *fiqh* (Hassan 1992).

or basics of Islam. The importance of the institution may be established from a saying of the Prophet (pbuh) in which he indicates that refusing to pay it represents a rebellion against the Islamic State.<sup>11</sup> *Zakah* is thus considered among the essential forms of worship.

*Zakah* is defined in *Fiqh* as “a due right on specific items of assets/properties, in specific percentages with consideration of the passage of a year and satisfaction of the condition of *nisab*.”<sup>12</sup> Various schools of Islamic jurisprudence maintain that *zakah* is compulsory on “all adult (who reach maturity) sane Muslims, female or male, who own properties that fulfill certain conditions” (Al-Qaradawi 1973, p.95). Furthermore, the concept of *tamlík* (ownership) is an important aspect of *zakah*. Accordingly, *zakah* must be given to the poor making him/her owner of what is disbursed so that the recipient enjoys the full authority to use it at his/her free will.

Most of the items that are subject to *zakah* are mentioned in the texts of the *Qur'an* and *hadith*. These include gold and silver (two monies of the time), herds of camels, sheep and cows, goods readied for sale, and agricultural products. Islamic jurists (*Fuqaha'*) classify *zakatable* items in to apparent and non-apparent assets. The apparent assets (*amwal zahirah*) are ones that can be easily observed. These would include agricultural products and livestock. The non-apparent assets/goods (*amwal batinah*) are not readily observable by outsiders. Goods for trade and cash fall under this category.

The *nisab* of *zakah* refers to the minimum amount of *zakatable* assets which is subject to paying *zakah*. If an asset reaches the *nisab*, it becomes *zakatable*. The *zakah* is calculated on the total amount of the asset including the *nisab* amount. *Zakah* is due on certain items after the passage of *hawl* (lunar year), while for some other items this condition does not apply. The former items include livestock, cash, gold, silver, and goods for trade. The latter type includes agricultural products on which *zakah* is not due annually but at their harvest time. Three rates of *zakah* apply depending of the type of assets. *Zakah* rate is fixed at 2.5

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<sup>11</sup> In this regards, Ibn Majah (undated) reports from Abu Hurairah that the Messenger of God (pbuh), said: “I am ordained (by God) to fight (rebellious) people until they recognize that there is no deity except God and that I am the Messenger of God, and establish prayers and give *zakah*.”

<sup>12</sup> The *Fiqhi Encyclopedia* (1992).

percent on cash, gold, silver, debts (receivables) and goods for trade. While the rate of *zakah* is 10 percent on agricultural products that are rain-fed, or by rivers and springs, it becomes 5 percent in case of the crops irrigated by water extracted from wells by animal power.

The *Qur'an* (9: 60) determines eight categories of heads to whom *zakah* can be paid, saying: “*Sadaqat* (here it means *zakah*) are only for the fuqara (poor), and miskin (the needy), and those employed to collect (the funds), and to attract the hearts of those who have been inclined (towards Islam), and to free the captives, and for those in debt, and for Allah's cause, and the wayfarer. A duty imposed by Allah; and Allah is All-knower, All-wise.” Having included the poor, needy, wayfarers, freeing the captives or slaves and persons in debts as recipients of *zakah*, the verse covered all categories of the poor at the time of the revelation.<sup>13</sup> Other verses and sayings of the Prophet (pbuh) added destitute, orphans, and prisoners of war to the heads of *zakah*.<sup>14</sup> While no strict definition of poverty appears in *Shari'ah* to categorize persons eligible to receive *zakah*, it is agreed upon that it is not meant for the rich. This is evident from the following *hadith* which says “the *saqadah* (*zakah*) is not lawful to a rich or a strong, non-defected (non-handicapped) person.”<sup>15</sup>

Various sayings of the Prophet (pbuh) that makes distributing *zakah* to people close to the payer such as one's own poor relatives, orphans under one's guardianship, etc. preferable. Al Tabarani in his *al Mu'jam al Awsat* reports “The Messenger of God (pbuh) used to instruct the *zakah* workers while sending them that whatever they take as *sadaqat* should be distributed to the relatives of (the persons from) whom it is taken (if they are poor), the closer first then the farther, and if (the payer) has no relatives, then to the needy from the (same) clan, then to the needy in the neighborhood and others.” (al Haitami, 1967, p. 87).

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<sup>13</sup> Wayfarers (persons who are away from their properties and have no access to them) are under temporary poverty. Slaves have no properties at all and they are in need for liberation and those under debts are basically persons who are either loaded with personal/business debts more than they can pay or who carried a big financial load for reconciling groups of people.

<sup>14</sup> See for instance: *Quran* (76: 8, 51:19 and 70:24-25).

<sup>15</sup> Tirmithi, Abu Dawud, Al Tabarani in *al Mu'jam al kabir* and in *al Mu'jam al Awsat*, and *al Bazaar* report from the narration of 'Abdullah bin 'Amr bin al 'As that the Messenger of God, pbuh, said “the *saqadah* (*zakah*) is not lawful (*halal*) to a rich or a strong, non-defected (non-handicapped) person.” (Ibn alAthir 1976, v.4, p.661, Al Haithami 1967, v.3, p. 91, and Ibn Hajjar 1986, v.1, p.249).

All Islamic jurists agree that the government is responsible for the implementation of *zakah* in a Muslim society. The government of the Prophet (pbuh) took charge of the *zakah* management in his time and *zakah* collectors/distributors were appointed to implement it (Al Qaradawi 1973, pp. 749-55). The majority of the Islamic jurists contend that *zakah* due on apparent properties should be collected and distributed by the government. Al Qaradawi (1973) maintains that the government is responsible to check if individual payers are actually paying their *zakah* on non-apparent properties. Failing this, the government should take direct charge of the collection on both kinds of assets/properties.

### 2.1.2. *Awqaf in Shari'ah and Fiqh*

*Waqf* is a voluntary act of charity that comes under the general terms of *sadaqah* and *infaq*. *Waqf* means “stand still, hold still, not to let go.” *Waqf* implies holding from consumption and sale and not to let go. The Maliki school use 'habs' (p. *ahbas*, *hubus*) for *waqf* which is the term used by the Prophet (pbuh). That is why *ahbas* is more common in the Maliki North Africa than *awqaf*.

Muslims are encouraged to create *sadaqah* that continues generating benefits/revenues for use in the targeted objectives. Muslim, Tirmithi, Abu Dawud, Nasa'i and Ibn Majah report “The Messenger of God (pbuh) said: Whence a child of Adam dies, his/her deed comes to an end except for three things: an ongoing *sadaqah*, knowledge that benefits (others), and a righteous child who prays for him/her.” *Waqf* is also termed “*sadaqah jariyah*” or “ongoing *sadaqah*”. An ongoing *sadaqah* may include a mosque that he/she built, a house for the wayfarer, a river/canal he/she dug or a *sadaqah* gave during his/her life that continues (giving its benefits) after his/her death (Ibn alAthir 1976 and Ibn Majah undated).

An important characteristic of *waqf* relates to its objective or *birr*, which means doing charity out of good intention. This implies that a *waqf* for bad or immoral objectives is not recognized. The objective of *waqf* may be for the society at large, including the provision of religious services, socio-economic relief to the needy, the poor, education, environmental, scientific, and other purposes. This kind of *waqf* is traditionally characterized as philanthropic (*khayri*) or public ('*amm*). In case of a family (*ahli*) or private (*khass*) *waqf*, the objective is related to the family and descendants of the founder or another specific person. A

combined/mixed *waqf* (*waqf mushtarak*) has dual objectives of serving partly the family/descendants and partly the public.

Many scholars term the ownership of *awqaf* assets/properties “as if it were owned by God.”<sup>16</sup> The founder (*waqif*) determines the objectives for which the *waqf* property can be used and the way its fruits, services and revenues can be distributed. The founder also determines the *waqf* management and the procedure governing the succession of managers. The founder can impose any restrictions or qualifications he/she likes in his/her *waqf*.<sup>17</sup> Most *awqaf* are perpetual and very often this is emphasized in the *waqf* deeds. However, there is nothing in the texts that implies such a restriction or prevents creating temporary *awqaf*.

The organizational structure of *awqaf* is flexible because it is essentially in the hands of the founder, who can mold it the way it pleases her/him. Umar bin al Khattab was the manager of the *waqf* he founded. In the *waqf* deed, Umar appointed his daughter, Hafsa as a successor manager, and upon her death any wise person from her family.<sup>18</sup> This tradition has been carried over for centuries. All *awqaf* deeds normally have an article about appointing managers and their successors. The founder can include instructions and restrictions he/she would like to impose on the manager. Several names are used for the *waqf* managers throughout history (like *mutawalli*, *nazir*, *walyy*, *qayyim* and *wasyy*). In the early period of Islamic jurisprudence, there is reference to the governor being a supervisory authority over *awqaf*. In the later stages of *Fiqh*, the supervisory authority shifted from the governors to the judges (Kahf 2000, p. 91).

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<sup>16</sup> These scholars include Abu Yusuf and Muhammad of the Hanafites, the Shafiites and the Hanbalites.

<sup>17</sup> There are, however, a very small number of areas of sensitivity in the *Shariah* on the basis of which the jurists sometimes challenge the conditions of the founders. For instance, a *waqf* for the rich only or for the male descendants only is not acceptable, even in private *waqf* and the remedy is to invalidate the condition of the founder and include females and poor of the same categories of beneficiaries (Ibn Abidin 1301H, p.552 and Zarqa 1947). On the other hand a *waqf* to the poor only is certainly permissible and encouraged.

<sup>18</sup> This reported by Abu Dawud. See text No. 793 in Kahf (1995, p. 267).

## 2.2. Historical Application of *Zakah* and *Awqaf*

The historical experiences of *zakah* and *awqaf* are very rich all over the Muslim world. Throughout history, *zakah* was the backbone of philanthropy and *awqaf* provided its physical infrastructure and source of revenue. Some aspects of the historical experiences of these institutions during the classical times are given below.

### 2.2.1. Historical Experiences of *Zakah*

As mentioned, *zakah* used to be collected and distributed by the government of the Prophet (pbuh). There are many sayings of the Prophet (pbuh) that indicate appointing *zakah* workers and assigning to them some income from the *zakah* proceeds. The Prophet (pbuh) employed many companions to work for the collection and distribution of *zakah* (Al Qaradawi 1973, pp. 749-53). Upon becoming the first Khalifah, Abu Bakr retained most of the *zakah* appointees of the Prophet (pbuh). The importance given to *zakah* by the early Islamic state is indicated in the famous statement of Abu Bakr regarding groups that rejected paying *zakah* to the state upon the death of the Prophet (pbuh). Abu Bakr said: “If they withhold giving (as *zakah*) even a (little) rein of a camel or a small baby sheep (that is due on them) I will fight them for it. *Zakah* is the due obligation on properties. By God, I will fight whoever discriminates between prayers and *zakah*”<sup>19</sup>

During the early history of Islam, *zakah* officials used to go to potential *zakah* payers, and after having properly assessed their *zakatable* assets collected the due amounts. The application of this method was clear with regards to *zakah* on livestock and agriculture. During the early Umayyad period (around 40-60H), the distribution of *zakah* was done by the same collecting officials.<sup>20</sup> There are several reports from the time of Umar bin Abdul Aziz that the distribution of *zakah* continued to be regional whereby the *zakah* proceeds were disbursed in the same area and its surroundings.<sup>21</sup>

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<sup>19</sup> Ibn Kathir (1997 v.9, pp. 437-39) points out it is reported by Bukhari, Muslim, Tirmithi, Abu Dawud and Nasa'i.

<sup>20</sup> Abu 'Ubaid (1353H, p. 595) reports this being the case in Yemen.

<sup>21</sup> Abu Ubaid (1353H, p. 595) indicates that Umar bin Abdul Aziz ordered *zakah* proceeds to be returned to its region of collection.

While the collection and distribution of *zakah* proceeds was entrusted to the same officials at the time of the Prophet (pbuh), this practice changed partially, with the introduction of the idea of *al'ashir*. During the reign of Umar bin al Khattab a new form of collecting *zakah* on merchandise was introduced. Umar set several check points on major highways, especially those coming from other countries, and appointed tax collectors who used to collect both taxes on imports from non-Muslims foreign traders and *zakah* from Muslims traders. These officers were called *al Ashir* (p. *Ushshar* and *Ashirun*) (Abu Ubaid 1353H, p. 595). The collection and distribution of *zakah* on apparent assets by the government continued throughout the early history of Islam. Any non-apparent goods that passed through any *ashir* checkpoints were treated as apparent because it was easy for *zakah* officers to count them (Al Qaradawi 1973, v. 2, pp. 758-59 and Ibn Abidin 1301H, v.2 p.5).

While no quantitative data on the amount of collections and disbursements during the classical time exists, two reports give some indication about the effect of the distribution of *zakah*. Narrations from the time of Umar bin al Khattab (13-22H) and the period of Umar bin Abdul Aziz (99-101H) indicate that poverty was eliminated during the time of these two rulers as the *zakah* proceeds in some regions could not be disbursed due to the lack of poor (see Box 1).

**Box 1: *Zakah* and Poverty Alleviation: Evidence from History**

There are two reports that give an account of the role of *zakah* on poverty alleviation during classical times. These two reports are from the time of Umar bin al Khattab (13-22H) and the period of Umar bin Abdul Aziz (99-101H). Although there are no figures of the amount of *zakah* collection, there are indications regarding its quantitative effect. Abu Ubaid (1353H) reports from Amr bin Shuayb that "Muath bin Jabaj continued as a governor since the Messenger of God (pbuh) sent him to Yemen during the time of Abu Bakr and then Umar. Then (one year) Mu'ath sent to him (in Madinah) one third of the *sadaqah* (collected) from people (in Yemen). Umar rejected it and told him: I did not send you as a collector and we don't take duties, I rather sent you to take from the rich people and to render it to the poor among them. Mu'ath said: I didn't send a thing that I find anyone who would take it from me. In the following year he sent to him (in Madinah) one half of the (collected) *sadaqah*; then the same exchange of talks happened between them. When the third year came, he sent him all the (collected amount of) *sadaqah*; Umar discussed it with him as in the past but Mu'ath insisted: (this year) I did not find a single person who (needs/accepts to) from me anything (of the *sadaqah*)."

The second report appears in the biography of Umar bin Abdul Aziz. The governor of Egypt wrote to him asking what to do with the proceeds of *sadaqah* because he found no deserving poor and needy all over the country. Umar answered: 'buy slaves and set them free, build rest areas on the highways and help young men and women get married'. Ibn Kathir (1997) reports "Umar appointed a person to call throughout the streets and cities on a daily basis 'Where are the persons who are under debts? Where are those who intend to get married? Where are the needy? Where are the orphans? (This process continued) until he enriched all these people"

### ***2.2.2. Historical Experience of Awqaf***

Prophet Muhammad (pbuh) established *awqaf* himself and advised his companions to establish them. As such, many *awqaf* properties were established for religious as well as charitable reasons. The first *awqaf* created by the Prophet (pbuh) was the purchase of the land and the construction of a mosque in Madinah, known today as the Prophet's Mosque. Ibn Hisham (1955, pp. 87-88) also mentions that seven orchards left to the Prophet by Mukhayriq upon his death in the battle of Uhud were assigned by him as *waqf*. The Prophet (pbuh) used to spend their fruits on his household and for buying weapons for defense (Al Kettani 1346H, v. 1, p. 401).

On the recommendation of the Prophet (pbuh), a few *awqaf* were established by his companions. The well-known of these are the ones established by Umar and Uthman. Umar established a *waqf* with a land in Khaybar upon the advise of the Prophet (pbuh). Umar made it a *sadaqah* that could not be sold or given as a gift. The fruits from the farm were to be distributed to the poor and kinships, to liberate slaves, to provide for guests and the wayfarer, and some reasonable quantity to its custodian (Ibn alAthir 1976, v.6, p. 378 and Ibn Majah undated, v.2, p.88). Another *waqf* for drinking water was established in Madinah on the suggestion of the Prophet (pbuh). The Prophet (pbuh) once wanted to drink water in Madinah, but it was being sold at a high price. He then called on Muslims to buy the well and render the water free for everybody. Uthman bin Affan bought the well of Rumah and made it free for everybody (Ibn alAthir 1976, v. 8, pp. 637-8, and 642). Once people heard about the establishment of *waqf* of Umar "there was not a single able (rich) companion who did not make *Waqf*" (Ibn Qudamah 1994).

The significant point about the *waqf* of Umar and Uthman is that they were not for religious purposes. These were civil *awqaf* created to serve social objectives. Since the *waqf* of Umar was created on the advise of the Prophet (pbuh) the poor, the needy, and the orphans have always figured as the most prominent beneficiaries from *awqaf*. Islamic *awqaf* went beyond the need fulfillment of the poor and the deprived to providing means for the long-term empowerment and enrichment of the poor. This was done by equipping them with the tools of earning income and increasing the productive capacity by providing education and health care. Furthermore, as in many cases the elderly and handicapped were

taken care of by the *awqaf*, economic burden on the low income group was lessened.

The history of *awqaf* is very rich with impressive achievements in serving the poor in particular and enhancing the welfare in general. Various kinds of *awqaf* were established including the cash *waqf*, *awqaf* for public utilities, education and research, and health care. Similarly, there were *awqaf* of grain to be used as seeds, and *awqaf* to provide loans to persons who need financing and providing services and supplementary income to low income people (Ibn Abidin 1301H). Education of religious and physical sciences and of mathematics used to be often offered in mosques. Thus, the religious *awqaf* of mosques and mosques activities were also partially educational. Educational *awqaf* also covered scientific research that was not restricted to Islamic studies. There were *awqaf* assigned specifically for research in science, physiology, pharmacology, mathematics, astronomy, etc. Hospitals and medicines are one of the most famous sub-sectors of *awqaf*. Muslims continued to establish *awqaf* hospitals and health care centers until the first part of the 20<sup>th</sup> century when the *Waqf* Children Hospital of Istanbul was founded (Kahf 1995) (see Box 2 for various services provided by *awqaf* in Islamic history).

The cash investment *waqf* dates back to as early as the turn of first century of Hijrah. Bukhari narrates an incident of cash *waqf* given to a merchant to use for trade and its profit to be used for charity.<sup>22</sup> Imam Malik bin Anass (Circa 179 H) also mentions cash *waqf* (al Dardir 1989, p. 651). Cash *waqf* had two forms. First, cash was made into *waqf* to be used for free lending to the beneficiaries and second, cash was invested and its net return is assigned to the beneficiaries of the *waqf*.

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<sup>22</sup> Commentary of al al Asqallani (1986, V 5, p 475) on Bukhari. See also Sahih al Bukhari (1378H, v. 4, p.14).

### **Box 2: *Awqaf* Institutions in Islamic History**

Ibn Jubayr, the Andalusian historian, in the diary on his trip for Hajj recorded his observations on the universities in Damascus and Alexandria and said that they were giving their overseas students stipends, housing with separate quarters for single and married students, special Turkish bathrooms, a special hospital, doctors and medical care and servants to help in all their affairs. He added that the scholarships were so generous that he felt he should encourage Andalusian students to go eastward for study. All that was financed mainly from *awqaf*, partially from *zakah* and the governor instructed the *mutawallis* (managers) that he should be informed of any shortage in order to finance it from his own money.

Similar reports are also found in the diaries of another traveler from West Africa. Describing his finding in Damascus, Ibn Batutah (Circa 756H) reported that the *awqaf* of Damascus had innumerable objectives. There were *awqaf* for enabling the poor to go for Hajj, *awqaf* for helping poor brides with cloth, jewelry and other needs for their wedding days, *awqaf* for paying ransoms to liberate prisoners of war, *awqaf* for the wayfarers, *awqaf* for maintenance of roads and streets because the streets of Damascus had two side walks for humans and a center for domestic animals, *awqaf* for all kinds of charitable activities, and special *awqaf* for replacing glass kitchen utensils broken in the hands of children and servants, and others.

By the middle of the second century of Hijrah, *awqaf* had already been extended to the medical services. During the Abbasids, many hospitals were founded and financed by the *awqaf*. It is reported that Al Ma'mun (Circa 218H) built several specialized hospitals for ophthalmology, leprosy, mental health, and for handicaps as *awqaf* in most of the major cities of his large Empire. He also established investment *awqaf* to spend on their operational expenses. These *awqaf* included agricultural lands and business and residential rental buildings. Property deeds of *awqaf* or health care during the late Abbasid period started to refer to medical schools and educational hospitals where apprentices are trained under the supervision of licensed doctors. There were also *awqaf* for dispensing medicines to patients, research on medicines and pharmacology, for persons hired to influence the spirit of patients (by chatting near their beds about an imminent cure and release from the hospital and by singing for them all night long), for battered wives until they reconcile with their husbands, and there were *awqaf* for veterinarian research and animal care.

*Awqaf* for public utilities provided the services of drinking and cleaning water. A water system consisting of independent wells were established especially on the highway and wells and springs with small canals and ponds set up mostly in villages and small cities. Underground-canal-based water systems were built in the major cities such as Damascus, Qayrawan, Fez and Cordova. Certain cities (like Damascus and Fez) also had sophisticated underground sewage systems built as *waqf* for the city's inhabitants.

In terms of the size of educational *awqaf* properties, there are several indications that they may have come on the top of all kinds of *awqaf* especially if we take into account that mosques were also used as places of providing education at all its levels. For instance, at the turn of the 20<sup>th</sup> century, al Quds had 64 operating schools (incidentally, with a lesser number of mosques) that were supported by revenues of *awqaf* lands in Palestine, Turkey and Syria.

But in addition to education in mosques, schools and universities were established throughout the Muslim world. In Cecily, under the Muslim rule, there were more than 300 elementary schools for young pupils and one school in Central Asia had more than 3000 students; all were built and operated on *awqaf* properties and from revenues of *awqaf* lands. Al Azhar, built around the year 330H as the first university in the world, along with its subsidiary system of schools starting from elementary to high schools. This extensive educational system spread throughout Egypt and sometimes extended abroad was, and is still, financed by *awqaf*

Source: Kahf (2004)

The significance of the *awqaf* in historical Muslim societies of the past is evident from information available on the size of these institutions. In certain Muslim countries *awqaf* reached one third or more of total cultivable land and other properties.<sup>23</sup> The first land survey in Egypt conducted during Muhammad Ali's rule indicated that 600,000 were *awqaf* out of a total of 2.5 million Feddan (acre) of cultivable land; most of these *awqaf* were for mosques and education and a great chunk was for al Azhar itself.<sup>24</sup> This large investments in the social sector succeeded in transforming the society and empowering the poor segments of it. Education, offered almost only by *awqaf*, enabled the poor to move up the economic ladder and obtain high levels of economic and political power.

### **2.3. Contemporary Resolutions on *Zakah* and *Awqaf***

In this section, some of the contemporary opinions/resolutions or *fatawa* (s. *fatwa*) on *zakah* and *awqaf* on poverty related issues are discussed.

#### **2.3.1. Contemporary Resolutions on *Zakah***

A closer look at the *zakatable* goods/assets mentioned in the texts of the *Qur'an* and the *Sunnah* indicate that items constituting wealth during the time of the Prophet (pbuh) are included so that all rich persons of his time were subjected to this obligation. The coverage included the flow of income (e.g., agricultural products) as well as the stock of wealth or assets. There are many new items of income and wealth in contemporary times that determines financial status of individuals and institutions. But these latest items are not mentioned in the classical *Fiqh*. Contemporary scholars have discussed some of these issues and argued that many assets and income sources of today need to be brought under the purview of *zakah*. While there is consensus on some of these new items, for others there appears to be difference of opinions.

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<sup>23</sup> Turkey, Syria, Egypt, Palestine and Algeria had significant *awqaf* (see Armagan 1989, pp 337-345, and Kahf 1995). Kahf quotes IRCICA that in Palestine at the turn of the 20<sup>th</sup> century there were 233 recorded deeds of *awqaf* containing 890 properties in comparison with only 92 private ownership deeds containing 108 properties.

<sup>24</sup> Kahf (1995) quoting from Muhammad Mustafa Ramadan's "*Dawr al Waqfi Da'm al Azhar*".

According to Al Qaradawi (1973), salaries and professional income should be subject to *zakah* provided that the total yearly income reaches *nisab* after deducting the amount needed for normal personal expenses.<sup>25</sup> The applicable rate on salaries and income would be 2.5 percent, similar to those on money and trade inventory. Rental income from properties like real estate and revenues from factories and similar productive establishments, including agricultural and livestock industries are *zakatable* at the rate of 5 percent on the gross returns, or 10 percent on the net returns in analogy with the return of agricultural land (Al Qaradawi 1973, v.1, Chap 8 &9). A more recent assertion is forwarded to assess *zakah* on the net worth of the business including fixed assets appearing at the end of the accounting period. This is argued on the ground that fixed assets of business are properties that are *de facto* intended to make profit similar to goods for sale. This argument can be extended to factories, rental properties and other businesses (Kahf 1995b and 1997).

There are diverse opinions and views on the *zakatability* of some other new items/entities.<sup>26</sup> The new items of wealth and income that have been discussed by contemporary scholars include stocks and shares of companies, economic enterprises that are either wholly or partly owned by the government, mineral resources, including petroleum, and income from the service sector businesses. The latter type of businesses are normally labor intensive with no or very little capital and inventory investments (like travel agencies, law firms, and real estate agents). Another contemporary economic reality is the existence of legal entities/persons other than natural persons.

The main objective of *zakah* is to eliminate poverty for which the term “enriching the poor” is very often used in the *Fiqh* literature (Al Qaradawi 1973). Enriching the poor is, thus, the most important guiding principle in determining the criteria of distribution to eliminate poverty among the targeted heads. An important *Fiqh* position on the general rules of distribution that targets poverty is that a person capable to work may be given what he/she needs to become a productive earner so that he/she can earn an income that satisfies the basic needs. This may include

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<sup>25</sup> Personal expenses would include expenditures by the payer of *zakah* on himself, his family members, and all persons who are covered by the financial responsibility of the payer according to the *Shari'ah* rules.

<sup>26</sup> For a discussion on these opinions, see Kahf (2004).

training, rehabilitation, craft's tools and capital to start a business. However, capable but work-averse parasitic persons must not be given from *zakah* as a pressure means to force them to seek productive jobs.<sup>27</sup>

The International *Shari'ah* Board of *Zakah* (ISBOZ) of the *Zakah* House of Kuwait has established a socially-determined standard of provision that can be fulfilled by paying *zakah*. This standard fulfills basic human needs and provides an adequate standard of living that reflects the principle of social solidarity and mutual responsibility among all Muslims. The *Fatwa* Committee in the Ministry of *Awqaf* and Islamic Affairs in Kuwait ruled that full time students, of any subject of benefit and at any level of study, are covered under the heads of the poor and needy as long as they do not have sufficient means to finance their living and study needs during their study.<sup>28</sup> Another fatwa deals with medical care for the poor and needy including cost of surgeries, within the country or overseas.<sup>29</sup> Interestingly, lawyers' fees of poor persons, who need lawyers to reach their legitimate rights in courts, are also considered legitimate causes to give *zakah* for.<sup>30</sup>

There are several resolutions on the permissibility of establishing various institutions for the poor and needy Muslims. The permissibility covers both construction and operating expenses depending on the case.<sup>31</sup> The Islamic *Fiqh* Academy permits investment of *zakah* proceeds provided the "basic and immediate needs of deserving beneficiaries" is satisfied.<sup>32</sup> The first priority is to satisfy the immediate basic human needs of everybody who can be reached, and once the hunger and nakedness are eliminated, the remaining *zakah* resources can be used for investment projects to benefit the deserving beneficiaries (i.e., the poor and needy).

Similar rulings are issued by the *Shari'ah* Board of the *Zakah* House in Kuwait.<sup>33</sup> It issued a detailed ruling on the construction and operation of orphanages and hospitals from *zakah* proceeds, including

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<sup>27</sup> As derived from Al Qaradawi (1973) and al Mawardi (1973).

<sup>28</sup> The *Zakah* House (1988, p. 154) *Fatwa* No. 100/81.

<sup>29</sup> The *Zakah* House (1999, p.101) *Fatwa* No. 22/831.

<sup>30</sup> The *Zakah* House (1999, p. 119) *Fatwa* No. 8/95.

<sup>31</sup> The *Zakah* House (1988, p. 154 and p. 156) *Fatawa* No. 3/78 and 44/84.

<sup>32</sup> OIC *Fiqh* Academy (1998), Islamic *Fiqh* Academy Resolution No. 15,<sup>32</sup> dated 13 Safar 1407H (16 October 1986).

<sup>33</sup> The *Zakah* House (1999, pp 104, 111, 117-18, 133-137, and 177).

building and financially supporting hospitals, clinics, and refugee centers. It is permissible to appoint physicians to treat the poor and pay their salaries from *zakah*. The *Fatwa* Committee of the Ministry of *Awqaf* in Kuwait also makes it permissible to spend from *zakah* on a charitable organizations specialized in providing medical care to poor Muslim. Treatment of any rich person in these facilities must be paid for by the patient and the money used for the clinic itself. ISBOZ has ruled that it is permissible to operate rehabilitation centers that aim at providing apprentice training to handle certain jobs like sewing, embroidery, carpentry, word processing, car repair, etc. as long as the beneficiaries are the poor and needy. *Zakah* funds can be used to establish such centers and buy the necessary equipment. Furthermore, *zakah* can be used on the poor students of these centers in the form of purchase of equipment/tools or stipends to students.

ISBOZ (undated) discussed the principle of *tamlík* (making the recipient own what is given as *zakah*) with a special reference to investment of *zakah* proceeds.<sup>34</sup> Accordingly, investments satisfy the *tamlík* condition if the following three conditions are met. First, the beneficiaries of these projects are only the *zakah* deserving persons. Non-deserving persons may be admitted for fees that compensate the price of these services and the fees are used to benefit the deserving beneficiaries. Second, the principal or equity of these projects must remain owned by the *zakah* deserving persons but may be managed by either the government or a governmental agency. Finally, if the project is sold or liquidated, the proceeds are considered *zakah* money and must be used as such.

With regards to the principle that *zakah* collected in an area should be disbursed in the same area, the *Shari[ah]* Board of the *Zakah* House of Kuwait permits transferring *zakah* money when there are deserving beneficiaries with more dire needs than those in the same area of its collections.<sup>35</sup> Similarly, several other rulings issued by *Al-Azhar* and the Permanent Committee for Research and Fatwa in Saudi Arabia allow transferring *zakah* to persons who need it more than those in its area.<sup>36</sup>

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<sup>34</sup> ISBOZ, *Fatawa wa Tawsiyat*, pp 52-53.

<sup>35</sup> The *Zakah* House (1999, p. 95) *Fatwa* No. 29/83.

<sup>36</sup> *Zakah* House (1988) *Fatwa* by the late Grand Shaikh of al Azhar Hasanain Muhammad Makhluḥ, pp. 189-190 and *Fatawa* No. 2619, 4356 and 2716, pp 191-4.

Al Qaradawi (1973, p. 634) quotes the late Muhammad Abu Zahrah, Abd al Rahman Hasan and Abd al Wahab Khallaf and Muhammad Hamidullah on the permissibility of giving loans from *zakah*. They argue that if giving *zakah* as a grant is acceptable it should be more permissible to give it as a loan to persons who are temporarily poor and have the ability to return it after a while. Al Qaradawi himself resolves that giving loans from *zakah* is permissible by analogy to giving help to indebted persons because of the similarity between persons who already took financing and those who need it. The Fatwa Committee of the Ministry of *Awqaf* and Islamic Affairs in Kuwait has also issued a *fatwa* that permits giving loans (from the money of *zakah*) provided there are adequate (material and/or) personal guarantees (and/or collaterals).<sup>37</sup>

### 2.3.2. Contemporary Resolutions on *Awqaf*

Zarqa (1947, p. 15) asserts that there is nothing outside the realm of rational thinking/deduction (*ijtihad*) in the *fiqh* of *awqaf* except that its objective must be *birr* (righteousness/benevolence). Contemporary laws in the Muslim countries define *waqf* in manners that reflect this diversity. For instance, the Algerian and Indian laws of *awqaf* emphasize the ideals of perpetuity while the proposed Kuwaiti law of 1999 came inclusive of temporary *waqf* as well as the *waqf* of revenues and usufruct. Compared to *zakah*, recent resolutions on *awqaf* are rather less abundant. However, the *fiqh* of *awqaf* is simpler and given the rich historical experience of *awqaf*, it was more developed during classical times.

The main and predominant idea in the *fiqh* of *awqaf* is that whatever the founder decrees is binding, provided it does not violate a clear-cut *Shari'ah* rulings. This implicitly means that the renovation and revitalization of *awqaf* and their services and developmental role in the contemporary Muslim society need creating awareness and interest among Muslim donors much more than having new resolutions (*fatawa*).

There are various perspectives in which *awqaf* can be classified. Kahf (2000) categorizes *awqaf* as philanthropic, religious and private. Additionally, in each category Kahf distinguishes between direct *waqf* and the second investment *waqf*. The former type of *awqaf* provide services directly to the beneficiaries (such as mosques, hospitals, schools or private guest houses). The latter are the ones invested in business and

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<sup>37</sup> The House of *Zakah* (1988, pp. 222-3), *Fatwa* No. 5/78.

industries and net revenues are used for religious, philanthropic or private objectives. *Awqaf* may also be classified according to their objectives. Accordingly, there can be *awqaf* for the poor, *awqaf* for education, *awqaf* for health care, *awqaf* to preserve forests, *awqaf* for helping newly wed women, *awqaf* to feed birds or to maintain cats, etc. *Awqaf* may also be sorted according to the kind of property made as *waqf*. There can also be *awqaf* of real estates, *awqaf* of books, *awqaf* of horses, *awqaf* of cash, *awqaf* of copyrights, etc.

The *Shari[ah]* Board of the *Zakah* House in Kuwait resolved to establish an 'Ongoing' *Sadaqah* Fund that accepts donations which are invested in revenue-generating fixed assets. The returns from this fund will be spent on the activities of the Fund that include charities of public benefits and other benevolent matters such as establishment of hospitals and schools for poor Muslims, stipends to poor students and orphans, and other charitable expenses encouraged in Islam. The difference between Fund and *waqf* must be noted. Although *waqf* is a kind of 'running' *sadaqah*, it differs in nature, conditions, and rulings from Fund. In *waqf*, it is not allowed to sell, exchange or give away the properties except under extreme necessity and subject to restrictions known in the *fiqh* literature. These actions may be permissible in the Fund project, provided they are explained to the contributors in advance. Similarly, management of the Fund can change the kind of use of its assets or even sell them or give them away as charity, if it turns out that such a change is most beneficial.<sup>38</sup>

Note that the classical *fiqh* does not make any distinction between 'ongoing *sadaqah*' and *waqf*. However, there is a need to reconsider several issues in the classical *fiqh* to accommodate a variety of conditions and items in the establishment of *waqf* during current times. In this regard, the *fatwa* on the Ongoing *Sadaqah* Fund is an important step in the right direction, regardless of the name given to these donations. These new ideas enable the inclusion of a variety of forms/activities to serve the society in contemporary times. These forms may include temporary *waqf* due to its nature as well as by the will of the founder, certain types of limited and life long annuities that are formulated in ways compatible with *Shari[ah]*, permanent donations of periodicals and other publications to schools, libraries and individuals, *waqf* of usufructs such as free or

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<sup>38</sup> The House of *Zakah* (1999, pp. 169-70) Fatwa No. 38/84.

discounted rides to certain categories of persons (handicapped and aged), and several other forms of long-term flow of goods and services.

## **2.4. *Zakah* and *Awqaf* Institutions in Recent History**

The institutions of *zakah* and *awqaf* have lost their glory, purpose, and effectiveness in poverty mitigation in the recent past. The status of these institutions in the recent history in some Muslim countries is outlined next.

### **2. 4.1. *Zakah* Institutions in Recent History**

There was a period of history when *zakah* application had a serious setback. As several parts of the Muslim world fell to the military and cultural colonization during the nineteenth century, many laws and social practices were changed. The collective *zakah* application, mainly by the government, was one of the early victims of this reality in the Muslim world.<sup>39</sup> It is believed that the only country where *zakah* application by a government agency continued since the time of the Prophet (pbuh) is Yemen. However, only *zakah* on livestock and agriculture and *zakatul-fitr* are collected by the government. *Zakatul-fitr* has also continued to be collected and distributed by the different Sultanates' offices in parts of Malaysia.<sup>40</sup>

In recent times, governments of many countries have introduced the collection of *zakah*. Saudi Arabia resumed the responsibility for the collection and distribution of *zakah* at the state level in 1951. Similarly, Libya instituted *zakah* in 1975, Pakistan in 1981, and Sudan in 1983. While some kind of *zakah* is collected on a mandatory basis in these

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<sup>39</sup> It should be noted that corruption in the government ranks also caused mistrust on the institution of *zakah*. We find voices as early as the late Umayyad era calling for withholding *zakah* payment from the government. During the Abbasids and later the Ottomans, the system of contracting *zakah* and 'Ushr collection, in spite of strong opposition by the *Fuqaha*', to persons of influence led to a complete collapse of confidence because of the great injustices and oppressive means used in extracting payments from people.

<sup>40</sup> *Zakatul fitr* (the end of Ramadan toll *zakah*) is considered by some *Shafi'ites* similar to the *zakah* on apparent properties, obviously because counting heads is so visibly easy (Ibn Abidin 1301H). This is what explains that in countries like Yemen and Malaysia the collection of *zakatul fitr* continued to be considered as one of the tasks of the government until the present time.

countries, there are differences in the coverage of kinds of *zakatable* assets/properties. Several other countries have established governmental agencies or funds to receive *zakah* that is paid to them voluntarily. These include Jordan, Kuwait, Qatar, Bahrain, Bangladesh, Indonesia, Oman, etc. (Kahf 1989 and 1997). The *zakah* proceeds are distributed to all deserving categories including the poor.

*Zakah* collections by government agencies in various countries, however, have been insignificant and are expected to have little effect on the eradication of poverty. Kahf (1997, pp. 55-57) reports that the ratio of *zakah* to gross domestic product (GDP) in Saudi Arabia, Yemen and Pakistan is 0.3-0.4 percent. One reason for this poor performance could be using the traditional interpretation of the texts of *Sunnah* that define *zakatable* assets/properties. This makes most assets and income sources that determines wealth during contemporary times outside the reach of *zakah* (Kahf 1989 and 1997).

#### **2.4.2. *Awqaf* Institutions in Recent History**

*Awqaf* institutions have degenerated in many Muslim societies from its glorious past. For a long time there have been several attempts by the political authority to take over the *waqf* management but this has always been strongly resisted by the *Fuqaha*' and other social leaders. While the governments had an appetite to control *awqaf*, it was prompted due to couple of reasons. First, as many deeds of *awqaf* were either lost or very difficult to locate in the old records and archives of local courts, it provided an excuse for the governments to take over its management. Furthermore, the centuries old problem of corruption of *mutawallis* (managers) and judges led to the obliteration of most *awqaf* properties including some mosques or parts of them. Corruption and mismanagement induced many governments to take over the *awqaf* properties.

The shift of *awqaf* properties to governments started with the establishment of an *Awqaf* Administration by the Ottoman Empire in 1826. This led to the liquidation of most Islamic *awqaf* in the Ottoman Empire and later in the Turkish Republic (Cizakca forthcoming). Cizakca, however, maintains that major institutions were founded in modern Turkey out of the remnants of *awqaf* properties that existed in

the 1920s and 1930s. These institutions include a bank and four universities.

Since the beginning of the 1990s, governments in several Muslim countries have taken steps to change the style of administering the *awqaf* properties and activities. Almost all the Muslim countries have established some agency to cater to the needs of *awqaf* either as ministries or some central administrative unit. In some cases, however, the management of *awqaf* has become a typical public sector agency and being administered according to the bureaucratic system of the government.

From a practical point of view, the Muslim world still has a large number of *awqaf* properties, other than purely religious structures like mosques and cemeteries. The original deeds of most of these properties are lost. Very often their assigned objectives are no more known, although more often than not their original objectives included assisting the poor. All such properties, without any exceptions, can be used for reducing poverty in Muslim countries.

Cizakca (forthcoming) maintains that the cash investment *waqf* became very common in the later stage of the Ottoman Empire as well as in the Republic of Turkey. While the cash-for-lending *waqf* is used to help ease the liquidity stress of consumers and producers, beneficiaries of the revenue of cash-investment *waqf* can be any philanthropic, religious or private entities as may be assigned by the founder. The practice of cash investment *waqf* also dominates the establishment of “*Waqf Project*” in Sudan and “*Waqf Funds*” in Kuwait in the nineties of the past century. It also exists today in Saudi Arabia in the form of a cash investment *waqf*, accumulated through small donations, whose revenues are to be used for charity. It takes the name of “*Sanabil al Khayr*.”

A process of revitalization of *awqaf* began in Sudan in 1986 with the creation of an autonomous *Awqaf Corporation*. The substantial change, however, came in 1991 when the government gave wide executive authorities to the new *Awqaf Corporation* along with an enhancement in the form of assigning new properties, from the government-owned lots for its projects and activities. The Sudanese *Awqaf Authority* is structured in two directions. First, *awqaf* projects are created for which the management invites fresh donations and second, investment/construction department is established to develop the existing

properties of *awqaf* in ways that make them more productive and income generating (Kahf 2000, pp. 295-98).

Similarly, the recent experience of Kuwait started in 1993 with the establishment of an autonomous General Secretariat of *Awqaf*. The organizational structure of the General Secretariat is very similar to the Sudanese *Awqaf* Corp. It has a section for funds for new *awqaf* whose job is to establish specialized investment funds for each objective and invite donations to establish a pool of investment whereby its revenue will be used to promote the specific objective. Each Fund has an autonomous managerial board that takes all decisions for revenue utilization, while the investment of the resources of all Funds is left to a specialized investment department. On the other hand, the secretariat has an investment department and a construction/development department to revitalize the existing *awqaf* properties (Kahf 2000, pp. 299-304). A few other countries including Qatar and Bahrain reorganized their *awqaf* following the model of Kuwait.

## **Dimensions of Poverty in Muslim Countries**

While poverty usually implies lack of income to afford adequate basic needs, it is a more complex notion involving various facets. In addition to deficiency of food, shelter, education, and health, poverty covers other dimensions of deprivation. There are several non-economic factors that make the poor vulnerable and cause them to suffer. The extent of poverty in any society is affected by social values and norms, customs and institutions. Poverty denies people the freedoms of choice and actions that can help them get rid of deprivation. External shocks add to the vulnerability of the people living at the margin. Given the multifaceted nature of poverty, it is measured in various ways. World Bank (2001) suggests measuring poverty using education and health, and other indicators related to vulnerability, social exclusion, voicelessness, and access to social capital, in addition to income.

The most common method of measuring poverty is income or consumption. A person is considered poor, if his/her income/consumption level is below the 'poverty line'. Income poverty can be defined in the absolute and relative terms. Absolute poverty line is defined as the income or expenditure level required to purchase a predefined basket goods and services needed for basic needs. This poverty line is an income level that can sustain a minimum standard of living and separates the poor from the non-poor (World Bank 1993). Relative poverty line is identified as a fixed proportion of some standard income like the average. For example, this poverty line may be defined as an income below a certain percentage (say 50 percent) of the mean national income. It is possible that people who are not classified as poor in the absolute sense may be so in the relative sense. As such, relative poverty may exist in societies where overall living standards are high. In this paper, we consider the absolute poverty only.

To investigate the broader notion of poverty in IDB member countries, we will examine both income and non-income social

indicators.<sup>41</sup> These indicators can be broadly classified into three categories. First, aggregate data on the overall economic status in terms of the total output, population, and welfare in IDB members are given. Second, information is provided on the magnitude of poverty in IDB member countries is provided. In addition to reporting the extent of poverty in IDB member countries, measurements related to the distribution of income are also given. Finally, specific features on socio-economic indicators, like health and education related measurements of poverty in IDB member countries are reported. The averages of various indicators for IDB member countries are compared with those of other groups of countries in order to determine the comparative status of poverty. For income distribution, estimated averages for the OECD member countries are used for comparative analysis as these figures are not available for different income groups.

### ***3.1. Aggregate Economic and Welfare Information***

In 2001, 47 IDB member countries had a population of 1.1 billion with a combined Gross Domestic Product (GDP) of US\$ 1.31 trillion. This constituted 18 percent of the world population producing 3.8 percent of the world output. The combined GDP of 47 member countries was less than that of UK (US\$ 1.33 trillion), 74 percent of GDP of France (US\$1.8 trillion), 24 percent of that of Japan (\$5.65 trillion) and 15 percent of that of US (\$9.01trillion). As poverty is directly related to the quantity of output produced and distributed, the combined figures of output produced by IDB member countries indicates a very meager quantity compared to the outputs being produced in the developed economies.

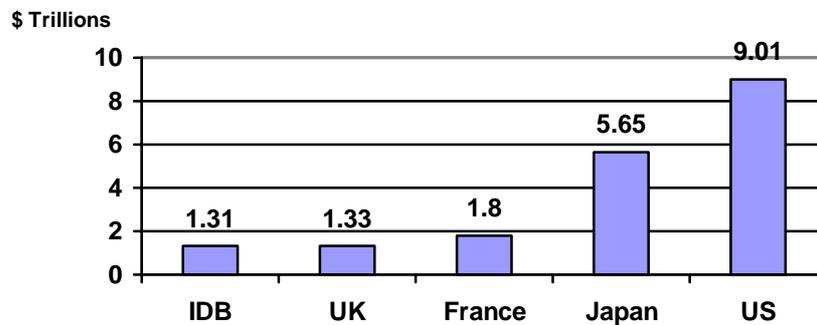
Chart 2 shows another comparative picture of outputs produced by IDB member countries. The average GDP per capita of 48 members was US\$ 1119.9 in 2001. This figure, though higher than the Low Income group (US\$ 479.9), is smaller than that of the Lower Middle Income group (US\$ 1365.9). The average GDP per capita of IDB member countries is 82 percent of that of Upper Middle Income countries (US\$

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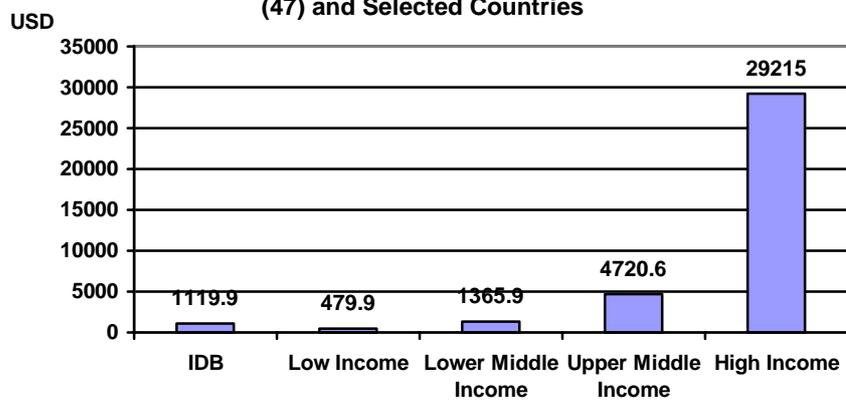
<sup>41</sup> The results presented are averages for IDB member countries. Note, however, that the sample size varies from variable to variable. This is because the data on some variables are not available for different countries. All the countries that have data for particular variables have been included. The sources of data used is given in Appendix 1.

4720.6) and only 3.8 percent of that of the High Income group (US\$ 29215). Chart 3 shows the distribution of the IDB members into different percapita income groups. Majority of the IDB member countries (25) are Low Income countries followed by 15 countries in Lower Middle Income countries. Only two IDB member countries are in the High Income group and double that number fall in the Upper Middle Income group.

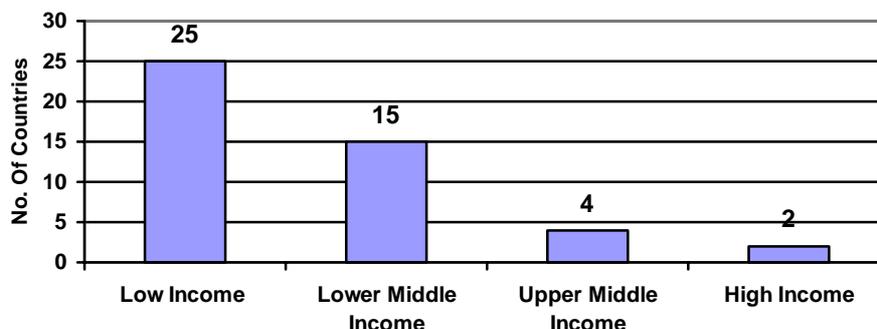
**Chart 1: Gross Domestic Product of IDB Member Countries (47) and Selected Countries**



**Chart 2: Average GDP Per Capita of IDB Member Countries (47) and Selected Countries**



**Chart 3: Distribution of Selected IDB Member Countries (48) into Income Group Categories**



While GDP per capita is an important indicator of decent standard of living, it is not adequate to capture the overall state of well-being of the population. Human development index (HDI) is an aggregate measure of welfare that considers two other dimensions of human welfare along with GDP per capita (UNDP 2002, p. 34). They include long healthy life and education. HDI uses life expectancy to measure healthy life and adult literacy rate and combined enrolment ratio to measure education. The HDI for IDB members and other income groups are given in Chart 4. We note that while the average HDI for 52 IDB member countries (0.609) is greater than that for Low Income countries (0.561), it is lower than those for Middle Income and High Income countries (0.744 and 0.927 respectively).

**Chart 4: Average Human Development Index (HDI) of IDB Member Countries (52) and Income Group**

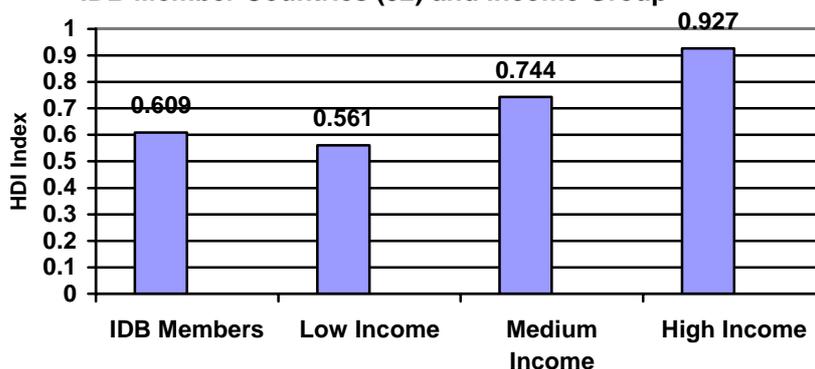
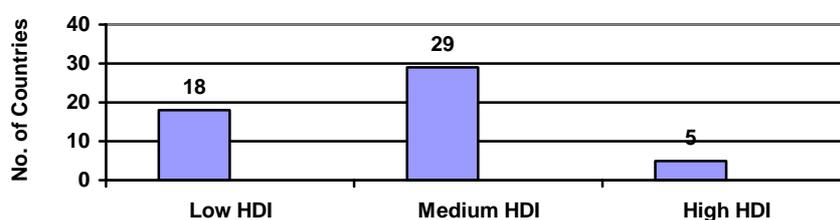


Chart 5 shows the distribution of the IDB members according to the HDI. While the majority of the IDB member countries (29) fall in the Middle Human Development category, a significant number of them (18) have Low Human Development index. Only five IDB member countries have High Human Development index.

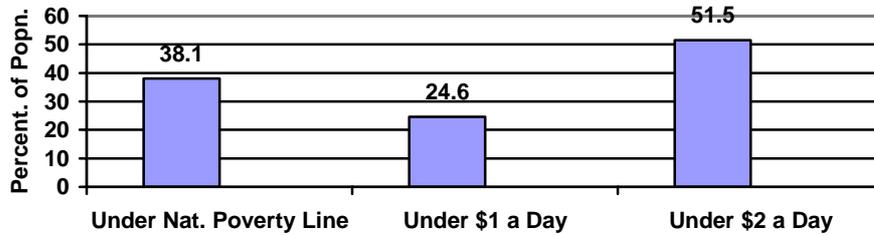
**Chart 5: Distribution of IDB Members Countries (52) in Human Development Index (HDI) Rankings**



### ***3.2. Poverty and Distribution of Income***

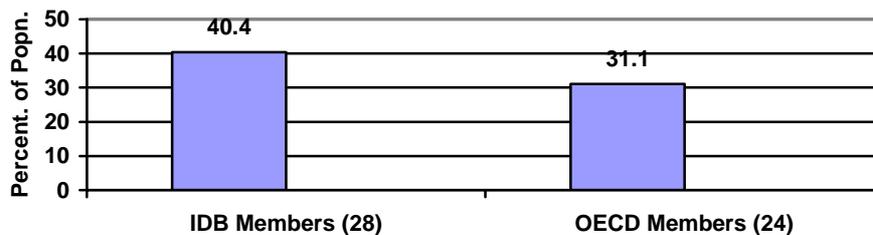
The extent of poverty can be measured at the national level by observing the percentage of the population living under national poverty lines. To measure poverty at the global level, however, a common reference point needs to be used. The usual measures used to measure poverty at the global level is to use \$1 and \$2 (at 1993 Purchasing Power Parity terms) at reference poverty lines. The percentages of population living in poverty according to national and global standards are shown in Chart 6. We observe that on the average 38.1 percent of the population in 26 IDB member countries live below the national poverty lines. More than half the population in 26 member countries (51.5 percent) live below \$2 a day and close to a quarter (24.6 percent) live below \$1 a day in these countries. An estimated 20 percent of the people in the world (1.2 billion) live on \$1 a day and 46.7 percent (2.8 billion) of them live on \$ 2 a day (World Bank 2001, p. 3). The corresponding percentages of poverty for IDB member countries indicate that a relatively large percentage of the population of these countries is poor compared to the world averages.

**Chart 6: Percentage Population Living in Poverty in Selected IDB Member Countries (26)**



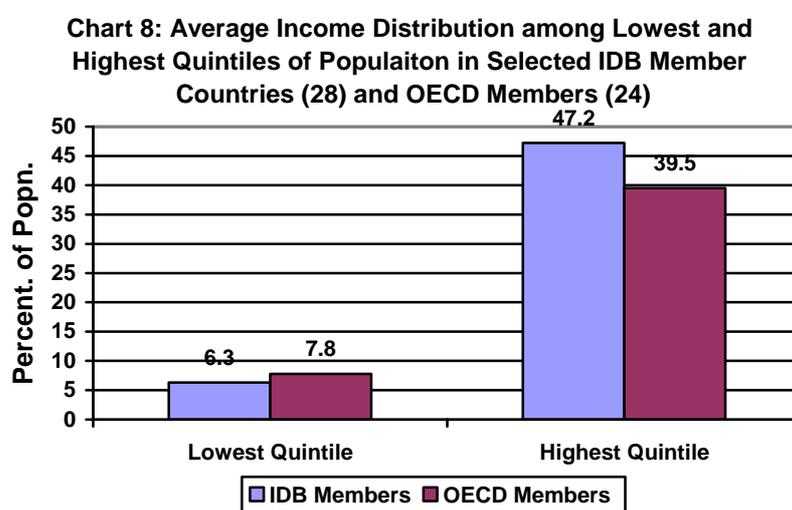
As will be discussed in the next chapter, a major determinant of poverty is the distribution of income. Charts 7 and 8 show the distribution of income in 28 selected IDB member countries. Chart 7 shows the Gini index for a sample of 28 IDB members and that of 24 OECD members.<sup>42</sup> The figures of an average Gini coefficient of 40.4 for IDB member countries and that of 31.1 for OECD member countries indicate that the distribution of income is more unequal in the former group of countries.

**Chart 7: Average Gini Index of Selected IDB Member Countries (28) and OECD Members (24)**



<sup>42</sup> Gini index is an indicator of income distribution among households in an economy. The index measures the area between the Lorenz Curve and the hypothetical line of perfect equality as a percentage of maximum area under the line. A Gini index of 0 implies perfect equality and 100 represents perfect inequality.

The extent of inequality in the income distribution in the sample IDB member countries relative to OECD member countries is also shown in Chart 8. We observe that the average income of the lowest quintile of the population for IDB members is 6.3 percent of the total income. The corresponding number for the OECD members is 7.8 percent. The highest quintile of the population for the sample IDB members have an income of 47.2 percent compared to an average of 39.5 percent for OECD members. These numbers indicate that the ratio of the income of the highest population quintile to the lowest population quintile is 7.5 in IDB member countries. This number is 5.1 for the OECD member countries.

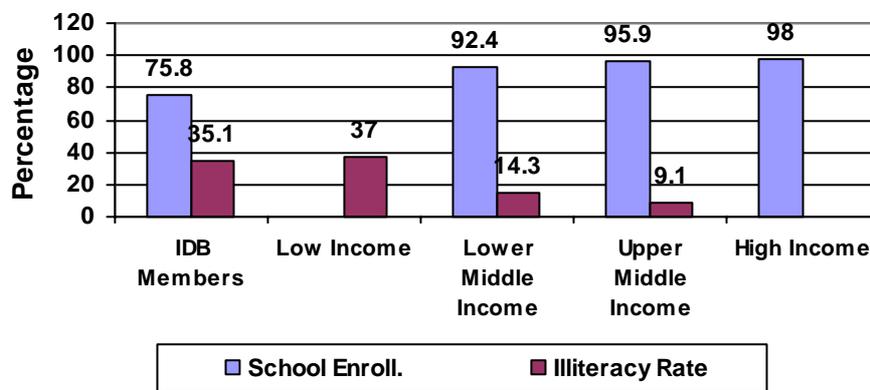


### 3.3. Other Social Indicators

As mentioned above, social indicators of education and health are used to get a broader view of the welfare and deprivation in a country. In this section we examine some of these indicators to have a better understanding of the degree of deprivation in IDB member countries. Following HDI, we use both adult literacy and the school enrollment rates as indicators to measure the overall educational standards. Chart 9 shows the average net primary school enrollment in 45 IDB member countries as 75.8 percent. This figure is significantly lower than the Middle and High Income groups that have averages of above 92.4 percent. The average illiteracy rate of the sample IDB member countries

is 35.1 percent. While this figure is slightly less than that for Low Income group (37 percent), it is more than double the figure of Lower Middle Income group (14.3 percent) and close to four times that of Upper Middle Income group (9.1 percent).

**Chart 9: Average Primary School Enrollment (Net) and Illiteracy Rate of IDB Member Countries (45) and Income Group Categories**

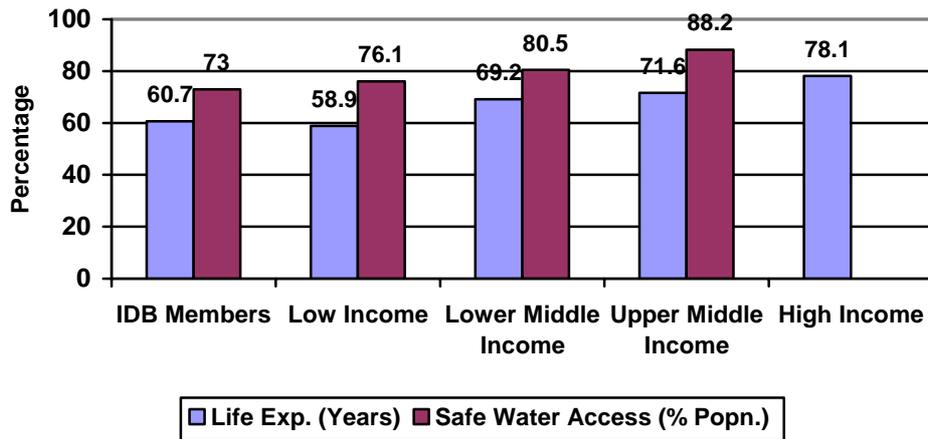


We examine life expectancy at birth and safe water access as indicators of overall health. The former indicator is used in the HDI to capture healthy life and both are used by World Bank for the development diamond.<sup>43</sup> Chart 10 shows that average life expectancy in 55 IDB members is 60.7 years. This is slightly higher than that of Low Income group (58.9 years), almost 10 years lower than the Middle Income group, and 18 years lower than the countries in the High Income group. The average access to improved water source for 46 IDB member countries, however, is lower than that of all income groups. While only 73 percent of the population in IDB member countries have access to safe water, the corresponding figures are 76.1 percent, 80.5 percent, and

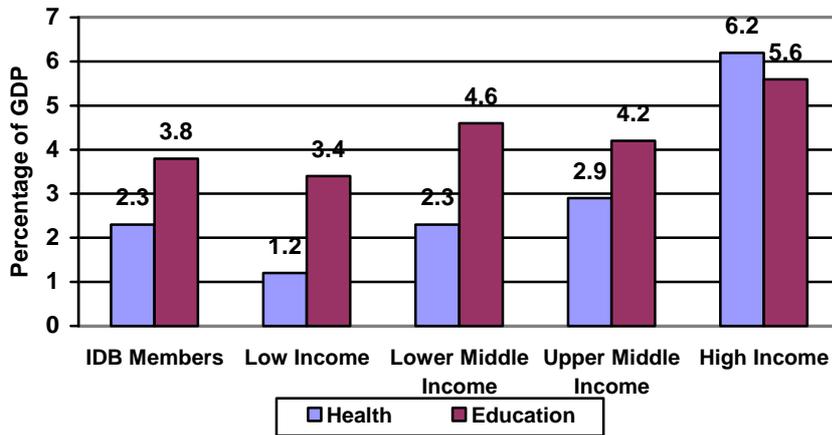
<sup>43</sup> World Bank uses life expectancy at birth and safe water access along with GNP per capita and primary school enrollment as development indicators to exhibit “development diamonds” for different countries. Development diamonds are used to see the overall state of development of different economies (see World Development Indicators 2003 Country Tables).

88.2 percent for Low Income, Lower Middle Income, and Upper Middle Income groups respectively.

**Chart 10: Average Life Expectancy at Birth and Access to Safe Improved Water Source IDB Member Countries (55 and 46 respectively) and Income Group Categories**



**Chart 11: Average Public Expenditure for Education & Health in IDB Member Countries (46) and Income Group Categories**



In most cases, the education and health indicators in IDB member countries appear to be on the lower side. One reason of this undesirable

situation may be lower expenditure by the governments in these sectors. Chart 11 shows the average public expenditure as a percentage of GDP in 46 IDB members and other income groups. We observe that public expenditure on health in 46 IDB member countries is on the average 2.3 percent of GDP. This figure is equal to that of Lower Middle Income group and larger than that of Low Income group (1.2 percent). The percentage devoted to health is, however, less than half that spent in High Income countries. The figures on education show that the percentage of GDP spent on this head in IDB member countries (3.8 percent) is little higher than the average for the Low Income group (3.4 percent). The Middle Income group countries spend more than 4 percent of their GDP on education. The corresponding figure for High Income group is 5.6 percent.

All three categories of indicators show that the overall status of poverty in IDB member countries is serious. The aggregate output produced in these countries is small compared to population, giving an overall lower standard of living. Large percentages of the population living under poverty lines show the pervasiveness of the problem in IDB member countries. The distribution of income indicators imply that part of this problem is due to the relatively unequal distribution of income. The overall poverty level is also reflected in the education and health indicators. The averages of these indicators for IDB member countries are closer to those of the Low Income group. Though the situation in individual countries may be varied, the indicators reflect that the overall poverty level in IDB member countries is critical and deserves serious attention.

## **Poverty and its Persistence: Causes, Solutions, and the Role of *Zakah* and *Awqaf***

Though poverty is usually meant to be deprivation of wellbeing, there are many factors that cause it and various approaches to explain the concept.<sup>44</sup> Poverty results from the way a society's economic, political, and social systems are organized. These systems create processes that interact with each other and produce deprivation among a group of people (World Bank 2000). Often the poor are weak and vulnerable to hostile factors and events beyond their control. One characteristic of poverty is its tendency to persist in what is referred to as the vicious circle of poverty (Basu 1984). Though the concept of poverty has evolved from derivation of material needs, education, and health to more broader idea of vulnerability, exposure to risk, voicelessness and powerlessness, the focus of this paper will be on the former notion.<sup>45</sup>

In poverty research, more attention is paid to facts and definitions and relatively less emphasis is given to the causes and strategies (Wilson 1996, p.20). However, one has to comprehend the underlying causes of poverty in order to arrive at policies and strategies to resolve the problem (UNDP 2003, p. 1). In this section, the focus is on the economic dimensions of poverty. The causes of poverty at the macro and micro levels are explained and then various strategies that can be used to mitigate it are outlined. The role that *zakah* and *awqaf* can play to reduce poverty will be discussed in the light of the strategies so outlined.

### **4.1. Macro Dimensions of Poverty**

The growth rates in output and population and the distribution of resultant incomes are important determinants of the extent of poverty in any society. Bourguignon (2004) discusses the dynamics of poverty in the macroeconomic context in terms of the "poverty-growth-inequality triangle". According to this analysis, the extent of poverty depends on

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<sup>44</sup> For a discussion on various concepts of poverty and approaches see Sen (1986).

<sup>45</sup> World Bank (2001) discusses the broader concept of poverty in details.

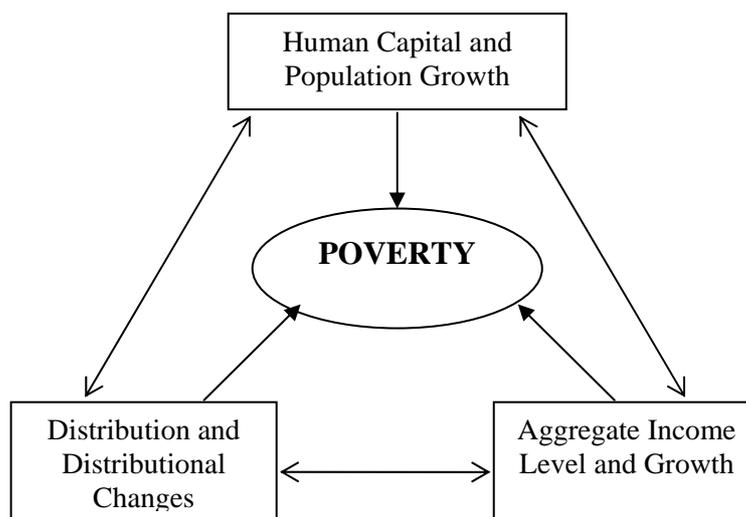
growth, distribution, and changes in the distribution of incomes over time. While overall growth in the economy can mitigate poverty, worsening of the income distribution can aggravate it. Changes in the distribution of income is decomposed into the growth effect and the distributional effect (Datt and Ravallion 1992 and Kakwani 1993). The former is the case when distribution of income changes due to growth in income and latter is caused by changes in the relative income across the whole population. The interaction between income level and growth, income distribution, human capital and poverty is shown in Figure 1.

As Figure 1 shows, there are various ways in which the macroeconomic factors affect poverty. Growth of aggregate output was explained by the Neoclassical theorists (e.g. Solow 1959) by focusing on physical capital. These theories did not discuss the distribution aspects of growth but emphasized the growth possibilities in an economy. The endogenous growth theories of Romer (1986) and Lucas (1988) emphasized the role of human capital in the growth process. Investment in human capital creates externalities and economies of scale that leads to rapid productivity growth and the rise in percapita income. It is assumed that knowledge is embodied in both physical capital and labor. As the body of knowledge increases, the quality of both physical and human capital improves, increasing the productivity of labor and overall aggregate output and income levels in the economy. An implication of this view is that countries and people are poor not only because there is scarcity of capital but also because they have less knowledge (World Bank 1999).

While growth in percapita income is an indicator of the overall economic development, the distribution of the resulting growth in output among the lower income groups will determine the effects of growth on poverty levels in an economy. Distribution of income has to improve to have poverty reduction in reasonable time. For example, Bourguignon (2004) shows this point with a hypothetical example for Mexico where 20 percent of the population live in extreme poverty. If real income percapita increases at 3 percent per annum without any change in income distribution, then poverty will reduce by 7 percent in the next 10 years. If however, the income equality reduces so that the Gini index falls from the current level of .55 to .45, then poverty rate will fall by more than 15 percentage points and will equal less than 5 percent by the end to the 10<sup>th</sup>

year. Without any changes in income distribution, this reduction in poverty will take close to 30 years.

**Figure 1: Macro-determinants of Poverty**



Note: Adapted from Bourguignon (2004) and Iqbal (2002).

Economic growth may, however, change the distribution of resources across sectors and population groups that may affect distribution and poverty levels. Earlier work of Kuznets (1954) and Lewis (1954) studied the relationship between growth and inequality. These theories predict that income inequality increases during the initial stages of development. Once a threshold level of percapita income is achieved, growth in the economy brings about more equality in income distribution. Empirical studies, however, find no systematic relationship between growth and inequality (Ferreira 1999, Dollar and Kraay 2002). While evidence shows that high growth in economies has not brought about more inequality, some studies indicate that slow growth can increase inequality over time by not providing opportunities to the population in general and the poor in particular to generate income.

The impact of growth on poverty will depend to some extent on the initial inequality in the impoverished people's access to opportunities. For example, if the income inequalities occurs due to inequality in education levels, then growth in the economy will not be able to bring benefits to

people who cannot get employment in the high-paying sectors of the economy due to lack of required skills. Note, however, that increase in inequality does not inevitably increase poverty. There may be cases where the income level of the poor has increased but inequality rises because the income of the rich increases at a faster rate. Similarly, there can be improvement in poverty levels with relatively less growth in the economy.

#### **4.2. Micro Dimensions of Poverty**

To understand the causes of poverty from a micro-perspective, we identify the factors that affect the income and wealth of a typical household. Ownership relationships along with the institutional arrangements determine, what Sen (1986) calls, entitlements of a household. Entitlement relationships in a market economy that affect income levels of households can be classified as follows:

- a). Trade-based entitlements ( $E_t$ ): Income derived from trading goods/assets with the willing parties. Typically, trading would involve exchange relationships in which goods/assets may be bought and sold and net income gained in the process.
- b). Production-based entitlement ( $E_p$ ): Income generated from producing a good or service by engaging one's own resources or hiring from other willing parties. Production can take various forms, depending on the state of the economy and the position of the household in the economic class structure. For example, in rural areas, production will include both agricultural and non-agricultural activity. In the latter, many different activities ranging from traditional cottage industries to more sophisticated mechanized production may be included.
- c). Own-labor entitlement ( $E_l$ ): Income obtained by selling one's labor in the market. The income from labor depends on the quality and quantity of labor sold or used in productive employment. The wages earned in the labor depends on the supply and demand conditions of the labor market. The income generated will depend on the productivity of labor. As the productivity of labor is directly related to its skills and knowledge content, the market rewards these factors favorably.

- d). Wealth/income transfer entitlement ( $E_i$ ): Income can be gained from entitlements coming from transfer of either assets/wealth owned or income. The assets/wealth can be acquired or transferred through inheritance or other means. Among others, inheritance laws in a community determines the distribution of wealth and the resulting income of an household. Income can be transferred through certain income transfer scheme. For example, unemployment and social security benefits given in different countries give individuals an income provided certain well-defined conditions are met.
- e). Non-entitlement transfers ( $E_c$ ): This represents voluntary transfer of funds/assets/resources through charitable acts by members or institutions in a society to various households.

The ownership of resources and opportunities to trade at reasonable prices will determine the total income level of a household. Factors affecting the income level of a household will include the ability to sell labor and non-labor assets, the price at which the labor and assets can be sold, and the costs of the assets used and goods consumed. Given the above sources of income, the total income ( $I$ ) derived from different entitlements by a household is given by:

$$I = E_t + E_p + E_l + E_i \quad (4.1)$$

Let us define the poverty line income,  $I^0$ , as the level needed to consume a well-defined bundle of basic needs goods. The basic consumption bundle of a household includes, among others, food, shelter, health, and education for the children. If the income of the household derived from various entitlements is less than the poverty line (i.e.,  $I < I^0$ ), then it will be considered poor.

Poor households face a number of constraints which limit their resource use, its productivity, and income levels. First, nutritional levels can be low due to poverty and inadequate food intake. Bliss and Stern (1978a and 1978b) and Dasgupta and Ray (1986) maintain that efficiency (productivity) of labor is directly related to consumption. Several empirical papers substantiate this contention (Strauss 1986 and Deolalikar 1988 for example). Second, even if income of the poor is not low so as to jeopardize nutrition, the availability of the stock of

productive capital able to combine with labor is likely to be minimal. When little capital is used, labor's productivity will be low.

The income of the household during a given period of time should be sufficient to meet consumption and other economic needs. The expenditures on economic activity are those incurred in either trading or production. These will include expenditures on fixed capital and working capital of the economic activity. For example, in trading activity the household would need funds to buy goods to be sold later. Similarly, in production activity, there is a need for funds to purchase fixed capital and intermediate inputs used in the activity. In poor households, liquid funds to purchase intermediate inputs may be insufficient to fully utilize the available fixed capital.

### **4.3. Strategies for Poverty Alleviation**

From the above discussions, four main strategies for mitigating poverty can be deduced. The first two can be inferred from the discussion on macro perspective. At the macro level, policies that can affect poverty can be broadly divided into those affecting economic growth and those affecting the distribution of opportunity and income in favor of the poor. The remaining two approaches are based on the micro approach to examining the causes of poverty. The first of these relates to the productive households that lack the means and opportunities to earn decent income levels. The second approach is for the nonproductive households that lack in resources and entitlements. The background and various aspects of these poverty mitigation strategies are discussed next.

#### ***4.3.1. Macroeconomic Policies that Induce Growth***

The macroeconomic strategy that facilitates economic growth and reduces poverty would constitute a mixture of policies and institutional reforms. Policies will include macroeconomic policies, incentive policies, and regulatory policies that promote growth. The growth oriented macroeconomic strategy will not only include appropriate fiscal and monetary policies, but also deal with issues like sectoral policies, debt sustainability, domestic and external financing, exchange rate policy and external vulnerability. Furthermore, financial sector reforms, trade liberalization and export promotion, investment policy and private sector development, etc. also affect the growth of an economy. Provision of

supportive infrastructure like power, telecommunications, communications are important complementary factors that facilitate growth.

#### ***4.3.2. Policies of Redistribution***

Distribution of opportunity and income can be improved by policies adopted to promote opportunity, facilitate empowerment, and enhance security for the poor (World Bank 2001). While opportunities can be promoted by facilitating growth, making markets work better for the poor, and building up their assets are a key to redistribution of income in their favor. Poverty can also be reduced by policies governing human capital, financial capital, land, and environment. UNDP (2003) lists public policies that can strengthen the links between growth and poverty reduction as increasing investments in basic health, education, water and sanitation, expanding access to assets (land, credit, skills), and promoting labor intensive industrial growth for small and medium-size enterprises (p. 6). An important macroeconomic aspect that affects poverty is the government's budget allocation to various sectors. In particular, the allocation of resources to the education, health, and social services sector will be important determinants of the welfare of the poor in any country.

#### ***4.3.3. Capacity Building and Wealth Creation***

The first micro-approach relates to the productive households. Poverty reduction for this group will involve creating opportunities to enhance the entitlements of the household or the income generating capabilities so that income levels increase not just in one period but in all the future periods. In the light of micro-dimension of poverty discussed above, this can be done in the following ways:

- a). Increasing Trade-based entitlements ( $E_t$ ): Income from trading goods/assets can be increased in the household by supplying the financial capital required to buy the necessary inputs/goods.
- b). Increasing Production-based entitlement ( $E_p$ ): Income from production of a good or service can be generated if the household has the necessary skills (human capital) and can be

provided with the necessary financial capital to acquire the physical capital and/or intermediate inputs.

- c). Increasing Own-labor entitlement ( $E_l$ ): Income obtained by selling one's labor depends on the productivity of labor, which in turn depends on skills and knowledge content. The income of individuals can be increased if the human capital is increased so that the necessary skills and knowledge can be acquired to bring higher wages.

The analysis shows that the causes of poverty from the micro-perspective is the lack of resources in the form of human, physical, and financial capital. As such poverty alleviation implies a mechanism through which these resources or capital can be transferred to the poor in an efficient way. If the productive groups are given small handouts, the problem of poverty will be solved temporarily, not permanently. The remedy of the persistence of poverty among the productive groups requires some means so that they can increase their human, physical, and financial capital and generate income and wealth. Thus, the poverty alleviation programs for a vast majority of the productive poor will focus on a plan for capacity building and wealth creation.

#### ***4.3.4. Income Support***

As mentioned in the micro-level analysis, income and poverty level will depend on the resource endowments of the household. There may be households that are non-productive, in the sense that they do not own the entitlements/resources that yield an income to sustain themselves beyond the poverty line. These are cases when people are physically/mentally challenged and would include the older, sick, handicapped people, widows and other vulnerable individuals like orphans. For these groups of people, there is a need to increase the income levels beyond the poverty line through income transfer entitlement ( $E_i$ ) and non-entitlement transfers ( $E_c$ ). This can be done by either transferring of funds/assets/resources through charitable acts by members or institutions in a society, or through social security benefits from the government. The periodic stipends from these sources will sustain the nonproductive members in the society with a minimum livelihood.

#### **4.4. Poverty Reduction Strategies and Role of *Zakah* and *Awqaf***

As discussed above, various strategies can be undertaken to reduce poverty. At the macro-level, the overall growth and development of an economy and the resulting distribution of income are important determinants of the extent of poverty in a society. At the micro-level, the resources available to the households entitle them to income and determines the extent of impoverishment. Specifically, we examine the role of *zakah* and *awqaf* institutions in growth and redistribution in the macro-context, and capacity building/wealth creation and income support in the micro-perspective.

Given that most of the macroeconomic policies are adopted by the government, the role of *zakah* and *awqaf* with regard to macroeconomic policies that induce growth will be limited. These institutions can, however, play an important role related to policies of redistribution. The main objective of the institution of *zakah* is to redistribute income in favor of the poor within a community. *Zakah* and *awqaf* can contribute in the macro-context to the improving of the human capital and to the designing of specific programs for the poor and vulnerable. The latter programs may include providing education, health facilities, and social services to improve the welfare of the poor. The potentials for the use of *awqaf* in the macroeconomic framework are broader than those for the use of *zakah*, as the former is not limited to any specific heads like the latter. For example, *awqaf* proceeds can be used to provide public goods like water and establish libraries and research institutes that help develop the human capital.

*Zakah* and *awqaf* have a more significant role to play as poverty alleviation tools in micro-perspective. As pointed out earlier, the approach to tackle poverty will depend on the type of resources and entitlements a household possesses. Note that while *zakah* is an income transfer entitlement ( $E_i$ ) as a right of the poor on the wealth and income of the rich, *waqf* being a voluntary act will fall under non-entitlement transfers ( $E_c$ ). In order to understand how to use the transfer of *zakah* entitlement and the returns from voluntary *waqf* institutions to eradicate the persistent poverty affecting a large percentage of the population, we need to discuss cases of productive and unproductive households separately.

The productive households are poor because they cannot use the full potential of their resources due to some constraints. These constraints are related to the limited human, physical and financial capital needed for an economic activity that provides the household a decent income. Thus, the institutions of *zakah* and *awqaf* should be able to provide the necessary inputs like human, physical, and financial capital in order to reduce the poverty for the productive group. Specific programs have to be designed to provide support for education and skill development, provision of physical capital (like a taxi, sewing machine, etc.), and making financial capital available to start a business so that the poor can be productively employed and earn a living.

For the unproductive members of the society such as the elderly, sick, widows, handicapped, etc., the institutions of *zakah* and *awqaf* should be able to provide them with periodic stipends to afford consumption of the basic needs. Note that if the productive group is treated like an unproductive one and given periodic handouts, the problem of poverty of the former group will continue to persist.

## Poverty Alleviation through *Zakah* and *Awqaf*: Potentials and Scope

While the important role of charitable and non-government organizations or the 'third sector' is getting acknowledged recently in the overall economic growth and welfare programs of the economy, Islam had introduced these kinds of institution since its inception more than 1400 years ago.<sup>46</sup> Obligatory and voluntary charities in the form of, among others, *zakah* and *awqaf* are important instruments to enhance the welfare of the poor. In this chapter, we discuss the scope and potential of *zakah* and *awqaf* in tackling poverty in contemporary times. The chapter discusses the role of these institutions on the aggregate variables avoiding their operational and management aspects. The focus is on the aggregate potentials of *zakah* and *awqaf* and the extent to which they can meet the needs of the poor. The issues like administration costs, governance mechanism, types of programs for efficient implementation etc. are not covered here. Some issues related to operations, collection/disbursement, and implementation of successful programs for poverty elimination by these institutions are discussed in the two chapters that follow.

### 5.1. The Potential of *Zakah* in Poverty Alleviation

In assessing the potential of *zakah* in alleviating poverty, the following steps are undertaken. First, the extent of poverty in an economy is quantified in terms of the number of the poor in an economy. Then, the need for funds required to move the poor out of poverty is estimated. The next step would be to calculate the potential amount of *zakah* that can be collected in the economy. The comparative figures of the fund needs for poverty alleviation and the possible *zakah* proceeds will show the scope of *zakah* for solving poverty. We also discuss the

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<sup>46</sup> The 'third' sector is increasing becoming an important component of the economy. For example, in a sample of 22 countries, the sector contributes on the average 4.6 percent to the GDP and employs close to 5 percent of the nonagricultural employment (Salamon et.al. 1999).

government expenditure on poverty related sectors like education, health, and social security and welfare.

As cross-country analysis is done, the global measures of poverty line are used.<sup>47</sup> Specifically, poverty is measured by using \$1/day and \$2/day poverty lines. The poor under these two measures are termed as Group 1 and Group 2 respectively. A simple approach is taken to estimate the amounts needed to bring the poor above the poverty lines. We assume that transferring US\$ 1 per day to a poor person will bring him/her beyond the poverty line. As to the poor in Group 1, receiving US\$ 1 per day will bring the individuals out of poverty, according to the \$1 per day poverty line measure. Transferring US\$ 1 to individuals in Group 2 will bring people with income above \$1 out of poverty according to \$2 measure of poverty. For individuals whose income is less than \$1, transfer of US\$ 1 will move them up the \$1 poverty line but still keep them in Group 2.

The total amount needed to raise the income levels by US\$ 1 for all individuals in each group is estimated for different countries. To make the estimates comparable, the figures are expressed in terms of percentage of GDP. Thus, 'percentage of GDP required for poverty alleviation' equals funds needed to raise the income by US\$ 1 per day for all the poor in the group for the year as a percentage of GDP. The 'percentage of GDP required for poverty alleviation' ( $x$ ) is worked out using the following steps:

- a) The total number of poor people ( $N$ ) determined by multiplying the percentage of population under poverty lines in each group by the total population.
- b) The total amount needed for one year for poverty alleviation ( $X$ ) (by transferring US\$ 1 per day to each person in the group) is arrived at by multiplying the number of poor people ( $N$ ) by 365.<sup>48</sup>

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<sup>47</sup> Note that the global measure of poverty compares the poor in rich and poor countries with the same yardstick. Measuring poverty from this perspective may overstate the problem of poverty in countries with lower GDP per capita.

<sup>48</sup> The amount required daily to transfer US\$ 1 per day to each individual in the group will be equal to the number of persons in each group. To get the annual figure this number is multiplied by 365 days.

- c) The 'percentage of GDP required for poverty alleviation' ( $x$ ) is derived by finding the total annual amount needed to raise the income levels of the poor by US\$ 1 ( $X$ ) as a percentage of the GDP for each group (i.e.,  $x = X/GDP * 100$ ).

**Table 5.1: Poverty Groups and Percentage of GDP Required to Raise Income by US\$1**

Country	GDP Percapita (US\$)	Group 1 %Pop. <\$/day	Group 2 %Pop. <\$2/day	Percentage of GDP Required for Poverty Alleviation	
				Group 1	Group 2
Tunisia	2562	2	10	0.3	1.4
Turkey	2873	2.4	18	0.3	2.4
Kazakhstan	1712	2	15.3	0.4	3.3
Jordan	1639	2	7.4	0.4	1.6
Algeria	1616	2	15.1	0.5	3.4
Morocco	1436	2	7.5	0.5	1.9
Egypt	1229	3.1	52.7	0.9	15.7
Azerbaijan	460	2	9.6	1.6	7.6
Uzbekistan	512	3.3	26.5	2.4	18.9
Indonesia	1034	7.7	55.3	2.7	19.5
Turkmenistan	1587	12.1	44	2.8	10.1
Uganda	355	2.9	31	3.0	31.9
Cote d'Ivoire	715	12.3	49.4	6.3	25.2
Senegal	629	26.3	67.8	15.3	39.4
Cameroon	696	33.4	64.4	17.5	33.8
Yemen, Rep.	316	15.7	45.2	18.1	52.1
Mauritania	502	28.6	68.7	20.8	50.0
Pakistan	517	31	84.7	21.9	59.8
Bangladesh	386	29.1	77.8	27.5	73.5
Gambia, The	382	59.3	82.9	56.7	79.3
Mozambique	213	37.9	78.4	64.9	134.3
Burkina Faso	250	61.2	85.8	89.3	125.2
Mali	292	72.8	90.6	91.1	113.4
Niger	208	61.4	85.3	107.7	149.6

Source: See Appendix 1

A sample of 24 IDB member countries is used to estimate the funds needed for poverty alleviation and those available from *zakah*.<sup>49</sup> Fifteen countries in the sample are in the Low Income group and the remaining nine in the Lower Middle Income group. Table 5.1 reports the percentage of GDP required for poverty alleviation in ascending order. Specifically, these numbers indicate what percentage of the GDP needs to be transferred during the year to the poor to raise their income levels US\$ 1 per day.

We see that there is a wide variation in the results of different countries. At one extreme, Tunisia with a GDP percapita of US\$ 2562 has a low percentage of the population living under poverty lines (2 percent and 10 percent for Group 1 and 2 respectively). The percentage of GDP required to alleviate the poor from the extreme poverty line (Group 1) is only 0.3 percent. The corresponding number for Group 2 is 1.4 percent. At the other extreme, Niger with a percapita income of US\$ 208 has 61.4 percent and 85.3 percent of the population living under \$1 and \$2 a day respectively. The GDP required to raise the income of this large number of people by US\$ 1 exceeds the annual output produced in the country.

To see the scope and potential of *zakah* in reducing poverty, the total amount of *zakah* that can be collected in an economy has to be estimated. For this the *zakah* rates applicable at the GDP level is needed. Different views exist with regards to the appropriate estimates of the *zakah* collection rates at the aggregate level. These estimates vary from 2-4 percent of GDP (Salama 1982) to up to 14 percent (al-Tahir 1997).<sup>50</sup> For this study, the averages of estimates derived by Kahf (1987) for a sample of eight countries will be used. Taking three opinions on the *zakah* base, Kahf estimates different *zakah* rates as a percentage of GDP for various countries.<sup>51</sup> These are reported in Table 5.2. The averages from the strictest and the most liberal opinions are used in this analysis.

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<sup>49</sup> The countries in the sample had the relevant data on the variables used in the analysis.

<sup>50</sup> Kahf (1999) reports some other studies that find different rates. These include 6.1 percent for Egypt, 3 percent for Sudan and Syria, 2.7 percent for Saudi Arabia, and 2.1 percent for Kuwait.

<sup>51</sup> The first opinion includes *zakatable* items as agricultural output, livestock, trade inventory, and cash holdings. The second opinion adds to the *zakah* base returns on fixed assets and salary and wages and the third opinion adds the capital value of fixed assets (Kahf 1989 and Kahf 1999).

Thus, the averages of 1.8 percent and 4.3 percent are used to estimate the potential of *zakah* collections for the countries under consideration.

**Table 5.2: *Zakah* Revenue Estimates (as a percentage of GDP) according to Different Opinions**

Country	Opinion A	Opinion B	Opinion C
Egypt	2	3.9	4.9
Pakistan	1.6	3.5	4.4
Indonesia	1	1.7	2
Qatar	0.9	3.7	3.2
Saudi Arabia	1.2	3.7	3.4
Sudan	4.3	6.3	6.2
Syria	1.5	3.1	3.1
Turkey	1.9	4.9	7.5
<b>Average</b>	<b>1.8</b>	<b>3.9</b>	<b>4.3</b>

Source: Kahf (1989).

The potential of *zakah* in poverty alleviation can be analyzed in two ways. First, the *zakah* collections can be compared with the amount required to move the poor above the poverty line by transferring US\$ 1 per head per day. Table 5.1 shows the percentages of GDP required for poverty alleviation for the two poverty groups. When these percentages are compared with the *zakah* rate of 1.8 percent, only eight countries will have enough *zakah* funds to move the poor beyond the poverty line in Group 1 every year.<sup>52</sup> The remaining 16 countries will not have enough *zakah* revenues to provide for all the poor in this group. When *zakah* rate of 4.3 percent is considered, revenue increases and half of the countries in the sample would be able to bring their income beyond \$1 per day for the people in Group 1. Given that the number of poor in Group 2 is large, the number of countries that can eliminate poverty by transferring *zakah* becomes smaller. Only two countries (Tunisia and Jordan) will be able to raise the income of the poor by US\$ 1 for all the poor in Group 2 by *zakah* revenues collected at 1.8 percent. With a higher *zakah* rate of 4.3 percent, 6 countries will be able to transfer *zakah* funds to the poor in Group 2 and raise their income levels by US\$ 1.

<sup>52</sup> These countries being Tunisia, Turkey, Kazakhstan, Jordan, Algeria, Morocco, Egypt, and Azerbaijan.

Though giving similar information, the other way to see the potential of *zakah* in poverty alleviation is to see what percentage of the poor the *zakah* proceeds will be able to service. The percentages for the poor in the two poverty groups whose income can be raised by US\$ 1 by using *zakah* rates of 1.8 percent and 4.3 percent are shown in Figure 5.3. Using 1.8 percent, the *zakah* revenues collected will be sufficient in 8 countries to pay US\$ 1 per day to all individuals in Group 1. At this *zakah* rate, only 2 countries (Jordan and Tunisia) will be able to transfer US\$ 1 per day to everyone in Group 2. In the remaining countries, the *zakah* funds will not be enough to transfer US\$ 1 to all the poor people in the two groups. For example, with *zakah* rate of 1.8 percent, the revenues generated in Niger, Mali, and Burkina Faso will enable transfer of US\$ 1 per day to less than 2 percent of the poor.

**Table 5.3: Percentage of Poor whose Income Can be Increased by US\$1 per day by *Zakah* Transfers**

Country	GDP Percapita (US\$)	<i>Zakah</i> Collections by 1.8 %		<i>Zakah</i> Collections by 4.3 %	
		Group 1	Group 2	Group 1	Group 2
Niger	208	1.7	1.2	4.0	2.9
Mali	292	2.0	1.6	4.7	3.8
Burkina Faso	250	2.0	1.4	4.8	3.4
Mozambique	213	2.8	1.3	6.6	3.2
Gambia, The	382	3.2	2.3	7.6	5.4
Bangladesh	386	6.5	2.4	15.6	5.8
Pakistan	517	8.2	3.0	19.7	7.2
Mauritania	502	8.7	3.6	20.7	8.6
Yemen, Rep.	316	9.9	3.5	23.7	8.2
Cameroon	696	10.3	5.3	24.5	12.7
Senegal	629	11.8	4.6	28.2	10.9
Cote d'Ivoire	715	28.7	7.1	68.4	17.0
Uganda	355	60.3	5.6	100	13.5
Turkmenistan	1587	64.7	17.8	100	42.5
Indonesia	1034	66.3	9.2	100	22.0
Uzbekistan	512	76.5	9.5	100	22.8
Azerbaijan	460	100	23.6	100	56.5
Egypt	1229	100	11.5	100	27.5
Morocco	1436	100	94.4	100	100
Algeria	1616	100	52.8	100	100
Jordan	1639	100	100	100	100
Kazakhstan	1712	100	55.2	100	100
Turkey	2873	100	76.1	100	100
Tunisia	2562	100	100	100	100

When the *zakah* rate is increased to 4.3 percent, half of the countries will be able to transfer US\$ 1 per day to all individuals in Group 1. The corresponding number of countries that will be able to give US\$ 1 per day to all individuals in Group 2 from *zakah* proceedings will be 6.

While results from the potential *zakah* collections to alleviate poverty do not appear to be very promising, the actual collection figures of *zakah* are even more discouraging. As Table 5.4 shows, *zakah* collection as a percentage of GDP in a sample of countries has been very small compared to the percentages discussed above. *Zakah* collected in Egypt and Jordan during 1985 was only 0.02 percent of GDP. The corresponding figures for Pakistan and Kuwait are 0.08 and 0.3 percent respectively. In Saudi Arabia, *zakah* collection dropped from an average of 0.04 percent of GDP during the late 1960s to 0.01 percent during mid-1970s (Salama, 1982). Even with a good *zakah* collection system in Malaysia, *zakah* proceeds account to only 0.08 percent of the GDP.

**Table 5.4: *Zakah* Collections as a Percentage of GDP**

Country	<i>Zakah</i> Collections (as percentage of GDP)
Egypt <sup>a</sup>	0.02
Jordan <sup>a</sup>	0.02
Kuwait <sup>a</sup>	0.08
Pakistan <sup>a</sup>	0.30
Saudi Arabia <sup>b</sup>	0.01
Malaysia <sup>c</sup>	0.08

a- Kahf (1993) for the year 1985

b- Salama (1982) for the year 1975/76

c- Estimated from 2001 data on *zakah* collections and GDP.

The above discussion shows couple of issues related to poverty and its mitigation by using *zakah*. First, Table 5.1 highlights trends that make it difficult to mitigate poverty in some countries. The amount needed for poverty alleviation in terms of percentage of GDP decreases as the GDP percapita increases and increases with the increase in the percentage of people living under poverty lines. Thus, while the magnitude of poverty in an economy is correlated with the level of percapita income, the

eradication of it becomes more difficult in countries that have lower income levels. In other words, the burden of poverty alleviation in terms of percentage of GDP that has to be transferred is more in relatively poor countries and these countries are the ones that have a smaller GDP for distribution.

We have seen that for countries with low percapita income and higher concentration of poverty, the *zakah* collections may not be enough to provide income support to all the poor in the country. This calls for a strategy to use *zakah* in an efficient way. In the previous chapter, the strategies of using *zakah* and *awqaf* were discussed. Instead of giving out income support in the form of handouts, the focus should be to use funds to increase the productive capacity of the poor. This approach will effect poverty alleviation scheme positively in the long run. Being productive and capable to generate income, the household will not only get rid of poverty, but will eventually be able to pay *zakah*. This will, on the one hand, release *zakah* funds that can be used on other households, and on the other hand, increase the *zakah* revenue pool so that a larger percentage of the poor can be included in subsequent years.

## **5.2. The Potential of *Awqaf* in Poverty Alleviation**

It is more difficult to assess the potential of *awqaf* in alleviating poverty due to couple of reasons. First, there is a lack of relevant aggregate data on these institutions. While many countries have vast number of institutions, specific information on the ones that can be used for poverty eradication and social welfare is lacking. Many of the *awqaf* institutions are managed privately and their economic status in terms of their value and revenue earned (in any) are not available.

The second difficulty for its assessment is identifying the *awqaf* institutions that can be used to mitigate poverty. The social welfare role of a *waqf* institution will depend on their type and size. *Awqaf* institutions are classified into two main categories. First, *awqaf* institutions can be distinguished as religious and philanthropic. The former would be religious places like mosques, graveyards, shrines/tombs, etc. and the latter would be asset/property given away for the use of a defined group of beneficiaries. The second classification of *waqf* institutions is based on the type of beneficiaries. The beneficiaries can be either family members

or the general community. These classifications are shown in Table 5.5 below.

**Table 5.5: Types of *Awqaf* Institutions**

<b>Beneficiaries↓</b>	<b>Type</b> →	<b>Religious</b>	<b>Philanthropic</b>
<b>Family</b>		A	B
<b>General Public</b>		C	D

From the perspective of poverty alleviation, *waqf* types A, B, and C are not very relevant. Type A *waqf* are not common as family members cannot usually be the sole beneficiaries from religious *waqf*.<sup>53</sup> Types B and C *awqaf* cannot benefit the poor in economic terms, as the former is meant for family members and the latter are places of worship. Only type D *waqf* are the relevant institutions for poverty alleviation. The income from philanthropic *waqf* for the general public can provide services to the poor directly and/or indirectly.

To have some indication of the different *awqaf* type and their potential for mitigating poverty, information from IRTI (2000) on *awqaf* institutions in two countries, Kuwait and India, are reported. While Kuwait is a pioneering country in terms of developing and managing of *awqaf* institutions, most of the *awqaf* institutions in India are more traditional.

*Waqf* in Kuwait dates back to 1695 when a mosque was built on a donated land. With the independence of the country in 1962, a Ministry of *Awqaf* (later renamed as Ministry of *Awqaf* and Islamic Affairs in 1965) was established, among others, to manage *awqaf* resources in the country. In 1993, Kuwait *Awqaf* Public Foundation (KAPF) was established to strengthen the status of *awqaf* as a third sector and contribute to the development policies of the state. One of the objectives of KAPF is to activate the role of *awqaf* as an effective institution in enhancing socio-economic development and managing community

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<sup>53</sup> Though rare, religious *awqaf* where family members are beneficiaries do exist. For example, income from shrines/tombs in countries like Pakistan is collected by the family members of the deceased saint and spend the funds at their discretion.

affairs. To achieve this objective, KAPF took concrete steps towards promoting and developing *awqaf* assets of the country. In 1994, KAPF managed 611 *awqaf* institutions that account to more than 40 percent of the total in Kuwait. The estimated value of these properties was estimated at US\$ 211.5 million (in 1997). The types of *awqaf* properties under the management of KAPF are shown in Table 5.6. As Table 5.6 shows, a large percentage (70.4 percent) of the *awqaf* institutions managed by KAPF in Kuwait have income generating potential.

**Table 5.6: Types of *Awqaf* Properties Managed by KAPF, Kuwait**

Type	Number	Percentage
Mosques	14	2.3
Potential Income Generating	430	70.4
Other types (family, privately managed, invalid cases)	167	27.3
<b>Total</b>	<b>611</b>	

Source: IRTI (2000) and Annual Report 1994, Kuwait *Awqaf* Public Foundation

Though a minority in India, the Muslim community is one of the largest in the world. The country also has one of the largest *awqaf* institutions spread all over the country. Most of these institutions are inherited from past endowments. The *Waqf* Act of 1995 governs the operations and management of *waqf* properties in India. While most of the *awqaf* institutions in India are managed privately, the State *Waqf* Boards in many states are managing a small percentage of these institutions.<sup>54</sup>

**Table 5.7: Type of *Waqf* Institutions in Karnataka State, India**

Type	Number	Percentage
Mosques	7315	32.9
Graveyards	5419	24.3
<i>Ashoor Khanas</i> <sup>a</sup>	2907	13.0
Tombs	6626	29.8
<b>Total</b>	<b>22267</b>	

Source: IRTI (2000).

a- *Ashoor Khanas* are Shia *Waqf* properties used for, among others, celebration of *Ashurah*.

<sup>54</sup> IRTI (2000) reports that around 2 percent of the *awqaf* properties are publicly managed in the State of Karnataka and 1 percent in Andhra Pradesh.

Haque (2003) reports 297,970 registered *waqf* properties in the country, but indicates that the actual number may be more than 300,000. IRTI (2000) estimates the value of these *waqf* properties at about US\$ 2,690 million. As regards the potential of the *waqf* properties, the types of *awqaf* in the State of Karnataka are given in Table 5.7. The table shows that all the *awqaf* institutions in the state are of types A and C (according to classifications in Table 5.5). While there are no *awqaf* institutions that are categorized as type D (i.e., potentially income-generating for general welfare), many of the institutions that fall under mosques, graveyards, or tombs have extended areas that can be used ( and are being used) for commercial purposes.



## ***Zakah and Awqaf Institutions: Experiences from Selected Countries***

In order for *zakah* and *awqaf* institutions to alleviate poverty, there is a need for effective institutional framework. The institutions should be able to generate sufficient revenue that can effectively be used for poverty reduction and welfare enhancement schemes. In this chapter, we examine the operations of these institutions in two IDB member countries of Malaysia and Pakistan and one nonmember country with Muslim minorities, South Africa. Information and data on *zakah* and *awqaf* institutions and various aspects of their operations are collected from interviews and meetings with the officials of these institutions during field trips to these countries by the author and secondary sources. To have a broader understanding of the operations on these institutions, the laws/acts/ordinances under which these institutions are established and operate, the governance structures, along with the details of the sources and uses of funds are discussed. Whenever available, the expenditures of *zakah* and *awqaf* funds among various beneficiary categories for welfare oriented activities in general and poverty alleviation programs in particular are also reported.

### **6.1. *Zakah and Awqaf Institutions in Malaysia***

Malaysia is a federated constitutional monarchy, consisting of 13 states and the federal territories of Kuala Lumpur, Putrajaya, and Labuan. In 2001, Malaysia has a population of close to 24 million people with GDP percapita of US\$ 4707 (WDI 2003). According to the Malaysian constitution, issues related to Islamic laws and customs are under the jurisdiction of individual states.<sup>55</sup> At the federal government level, Department of Islamic Development Malaysia plays a coordinating role. *Zakah* payment by individuals can be deducted from actual tax

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<sup>55</sup> The Article 74 (2) of the Federal Constitution indicates that authority regarding religious matters pertains to the states.

liabilities.<sup>56</sup> There are, however, no such tax rebates for businesses and companies paying *zakah*.

State Islamic Religious Administration Enactments regulate the *zakah* and *awqaf* issues in different states.<sup>57</sup> In most states, the State Council of Religion or Islamic Religious Council deals with Islamic affairs. Under the purview of the head of state (sultan/king), most of the state Islamic Religious Councils deal with, among others, *zakah* and *awqaf* related issues.<sup>58</sup> *Zakah* management is done by the State Religious Councils under offices called *Baitulmal*, *Zakah* Department, *Zakah* Committee, etc. In this section, we examine the experiences of *zakah* and *awqaf* of the Federal Territory of Kuala Lumpur (FDKL) and two states, Negeri Sembilan and Selangor. As *zakah* and *awqaf* institutions are governed by different laws at the state level, the nature and administration of these institutions may differ from one state to another. For example, FDKL and Negeri Sembilan which are included in the sample surveyed, *zakah* is collected by a corporation and the proceeds are disbursed by the *Baitulmal* Department of the Islamic Religious Council. In the State of Selangor, both the collection and disbursement of *zakah* are managed by a corporation. Before going over the operations of the *zakah* and *awqaf* institutions in two states and FDKL, we briefly outline the main activities of the federal coordinating institution, Department of Islamic Development Malaysia (JAKIM).

Department of Islamic Development Malaysia (JAKIM) is a federal agency under the purview of the Prime Minister's Office. JAKIM is responsible for formulating policies concerning the development and advancement of Islamic affairs in Malaysia. As states deal with all the religious activities, the rules and regulations related to various issues sometimes differ from state to state. One important role of JAKIM is to coordinate the activities and give general direction to the state level institutions. One of the 19 divisions of JAKIM is the *Baitulmal*

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<sup>56</sup> There is a difference between tax deduction and tax credit. While in the former the amount donated can be deducted from the income before calculating taxes, the latter is deducted from actual tax liabilities (see Chapter 7 for more discussion).

<sup>57</sup> For example the Administration of Muslim Law Enactment 1960 and Negeri Sembilan *Fitrah* Procedure 1962, Negeri Sembilan *Shariah* Administration Enactment 1991 are the laws related to religious affairs in Negeri Sembilan. In Selangor State, the laws are Administration of the Muslim Law Enactment 1952 and *Shariah* Criminal (Selangor Enactment 1995).

<sup>58</sup> For a discussion on the *Zakah* system in Malaysia see Abdul-Wahab et.al. (1995).

Coordination Division. This division is responsible for coordinating the activities of *Baitulmal* Departments at state levels. In this respect, JAKIM encourages enacting standardized laws and procedures related to *zakah* and *awqaf* institutions and coordinates their implementation in all the states. This is done by standardizing procedures of *zakah* collection and disbursement and developing operational strategies for managing funds from the treasury perspectives for the State Religious Councils. The operational guidelines include consolidated reporting, publishing monthly and annual reports, etc. This is done in collaboration with other governmental offices like the Auditor General Office, Malaysia.

JAKIM also prepares manuals and offer training on issues related to *zakah/awqaf*. They also set criteria to identify beneficiaries under different criteria (like *fakir*, *miskin*, etc.). JAKIM is in the process of collecting information on *zakah* and *waqf* in different states. E-*zakah* and E-*waqf* is being used to bring all the states together through the internet. For those states that do not have computer based systems, a standardized computer system is being developed by the *Baitulmal* Division of JAKIM for collection and disbursement of *zakah*.

#### **6.1.1. *Zakah* Institutions in Federal Territory Kuala Lumpur**

Kuala Lumpur, the capital of the country, is one of the three federal territories in Malaysia. With an area of 243 sq. km., Federal Territory of Kuala Lumpur (FTKL) has a population of close to 1.4 million. The Islamic Religious Council of the Federal Territory is responsible for the religious matters. The Council's policies and activities related to *zakah* and *awqaf* are managed by the Federal Territory Islamic Department. *Baitulmal* is a division under the FT Islamic Department. The functions of collection and disbursement of *zakah* funds are separated in the FTKL. While *zakah* is collected by a corporation (*Zakah* Collection Office), the distribution is done by the *Baitulmal* Federal Territory. The operations of these entities are discussed below.

*Zakat Collection Centre-Islamic Religious Council of Federal Territory*<sup>59</sup>

In 1991, the Islamic Religious Council of Federal Territory established a subsidiary corporation, Hartasici Private Limited to manage

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<sup>59</sup> Information taken of *Zakat* Collection Centre of the Federal Territory is taken from Alias (2004).

the *Zakat* Collection Centre (ZCC). A board of directors selected by the Council oversees the operations of the ZCC.<sup>60</sup> Set up with an initial capital of RM 1.2 million, the objective of establishing ZCC was to create an independent institution to collect *zakah* revenue efficiently by using modern technologies and methods. The corporation replaced bureaucracy with a professional management team. Employing 52 people from various backgrounds, ZCC introduced a proactive and customer-oriented approach to collecting *zakah*. To have transparency, ZCC provides daily, weekly, monthly, and annual reports directly to the collectors and through the media. Using modern computerized systems, ZCC employs contemporary management techniques related to work, finance, audit, and reporting systems. Though not responsible for disbursement of *zakah*, ZCC has helped develop a *zakah* recipient database. In recognition of the quality of management of the organization, ZCC of Federal Territory received MS ISO 1994 certification

While ZCC has devised facilities for the payment of *zakah* by donors, it also raises awareness of various aspects of *zakah* among the public with a marketing strategy. Various aspects of *zakah*, including its assessment, are advertised on TV, radio, newspapers, magazines, sermons in mosques, newsletters. An online computerized *zakah* assessment system is provided by ZCC. Payment of *zakah* is made easier and can be paid through different channels. *Zakah* can be paid in cash, by checks and money orders at bank counters/post offices, and through salary deductions and internet and phone banking. Furthermore, special collection counters are opened at different shopping centers and malls to collect *zakah* during the month of *Ramadan*.

The income statement of ZCC FTKL for the year 2002 shown in Table 6.1. ZCC gets 1/12<sup>th</sup> (or 8.3 percent) of the total collections as fees for collecting *zakah*. This amounted to RM 6.7 million in 2002. In the same year ZCC incurred losses of RM 0.274 million from other sources (investments) reducing the total income to RM 6.445. The total operating expenditures were RM 3.599 million. After paying for financial costs and taxes, the net profit of ZCC equaled RM 1.972 million in 2002.

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<sup>60</sup> The directors get a token annual allowance for their services to the board, and a small allowance for attending each board meeting.

**Table 6.1: Income Statement of ZCC FTKL (2002)**

<i>Item</i>	<i>Amount (in Millions RM)</i>
Revenue from <i>Zakah</i> Collection Fees	6.719
Income from other Sources	-0.274
<b><i>Total Income</i></b>	<b>6.445</b>
Total Operating Costs	3.599
Operational Profit	2.846
Financial Costs	.039
Taxes	0.835
<b><i>Net Profit</i></b>	<b>1.972</b>

Source: *Zakat* Collection Centre, FTKL documents.

#### *Zakah Disbursement in FTKL*

Federal Territory Islamic Council is the policy making body related to Islamic issues and these policies are implemented by the Federal Territory Islamic Department. *Baitulmal* Federal Territory, one of the divisions of the Islamic Department, is responsible, among others, to solve the social and economic problems and enhancing the welfare of the Muslims. The director of *Baitulmal* implements the policies of the Council with the help of 42 employees. *Baitulmal* uses *zakah*, charities, donations, income from *waqf*, wills, trusts, etc. for the welfare of the people. To disburse the funds, a budget is prepared and cleared by the *Fatwa* Committee, approved by the Islamic Council, and finally by H.H. the King. The annual report presented to the Parliament at the end of every fiscal year shows various details of disbursement of *zakah* funds by *Baitulmal*.

The *zakah* funds disbursed by *Baitulmal* are categorized as direct and indirect. The direct disbursements are payments made to the eight categories of beneficiaries suggested in *Shari'ah*. Note that one head of disbursement includes administrator (*amil*) or the funds given to ZCC as fees for the collection of *zakah*. To identify the needy and the poor, a well defined formula is used to estimate the poverty line, which is then used to determine the extent of impoverishment of the households. Usually deserving people come to the office of *Baitulmal* and fill up an application form requesting assistance. The information provided is

scrutinized by investigators to determine the eligibility of the applicant. The time taken to disburse funds from the day of application is around three weeks. The investigators also go to various poor areas in Kuala Lumpur to conduct surveys to locate the deserving people. Deserving people are also identified by imams of mosques. The beneficiaries are given income support in the form of monthly financial aid, emergency aid, medical aid, marriage aid, rental aid, emergency aid, natural disaster aid, aid for settling debt and aid to travelers. Other capacity building for earning an income is also given in the form of scholarships at various levels of education, entrepreneurial aid, and taxi hire-purchase deposit, house purchase deposit, etc.

Table 6.2 shows the direct disbursements expenditure on the different heads of beneficiaries in 2003. The amount spent for the poor and needy is 37 percent of the total disbursements. Other heads on which a large amount was spent in the 'Way of Allah' and 'Administration' on which 29.9 percent and 29 percent of the total expenditures were spent respectively. Note that the figure for administrator appears to be high (at 29 percent) as this is a percentage of the disbursements. When estimated as a percentage of collections, the figure will be much smaller as the collections are much higher than the disbursements.

**Table 6.2: Disbursement of *Zakah* According to Beneficiary Type in the Federal Territory of Kuala Lumpur (2003) (In Millions of RM)**

Beneficiary Type	Amount of <i>Zakah</i> Disbursed	Percentage of <i>Zakah</i> Disbursement
Poor ( <i>Fakir</i> )	9.176	17.6
Needy ( <i>Miskin</i> )	10.061	19.4
Administration ( <i>Amil</i> )	15.053	29.0
New Converts ( <i>Muallaf</i> )	1.62	3.1
Bonded Persons ( <i>Riqab</i> )	0.002	0.0
Indebted Persons ( <i>Gharim</i> )	0.401	0.8
In the Path of Allah ( <i>Fisabilillah</i> )	15.562	29.9
Wayfarer ( <i>Ibnu Sabil</i> )	0.115	0.2
<b>Total</b>	51.99	100

Source: *Baitulmal*, FTKL Documents

The indirect distribution takes place through financing and building projects for the beneficiaries. After direct payments are made to the

beneficiaries, the surplus is put aside in a special fund (see Table 6.2). These accumulated amounts from the surpluses are spent on large projects like hospitals, educational institutions, orphanages, etc. after intervals of few years. From these funds *Baitulmal* has built a Vocational Training Institute, Professional Institute, a Shelter Complex for widows, and Orphanage Centre to serve the poor. A 285-bed Pusrawi Hospital is under construction at the cost of RM 100 million to serve the poor at subsidized rates.

**Table 6.3: Zakah Collection and Expenditure of *Baitulmal* of Federal Territory of Kuala Lumpur**

Year	Zakah Revenue	Zakah Expenditure	Surplus
1998	45.254	31.593	13.661
1999	36.013	32.819	3.194
2000	61.165	37.417	23.748
2001	78.971	71.741	7.23
2002	94.172	47.965	46.207
2003	106.720	51.990	54.73

Source: *Baitulmal*, FTKL Documents

### 6.1.2. Zakah Institutions in the State of Negeri Sembilan

Negeri Sembilan, located in central region of Peninsular Malaysia south of Kuala Lumpur, covers a total area of 664,591 hectares with a population of 832,400. The state is agri-based, with rubber and palm oil plantations, livestock and vegetable farming as main activities. Manufacturing activity is becoming an increasingly important sector of the state with major growth in the electrical and electronics, textiles, furniture, machinery and rubber product sectors.

The Islamic Religious Council of the state government deals with *zakah* and *awqaf* related issues. The Sultan of the State of Negeri Sembilan is the Chairman of the Council and Chief Minister acts as the Executive Chairman. The Council has several departments/divisions including the *Shari'ah* Court, the *Fatwa* Committee, Islamic Administrative Offices, Affiliated Corporations, Committees, and the *Baitulmal*. Affiliated corporations include, Property Development

Agency, Hospitals, Plantations, and Counseling Centers, and *Zakah* Office.

*Zakat* Office (ZO) in Negeri Sembilan, established as a corporation in 1997, is responsible for collection of *zakah*. *Zakah* is collected in various ways. Donors can pay their dues at counters of *Zakah* Office and different banks. Furthermore, for agricultural produces, the *imams* of mosques identify the *zakah* payers locally. The information is then forwarded to the district ZO for assessment and *zakah* collection. The ZO gets 1/8<sup>th</sup> (12.5 percent) fees for collecting *zakah*.<sup>61</sup>

While *Zakat* Office is responsible for the collection of *zakah*, the proceeds are disbursed by the *Zakat* Department of *Baitulmal*. The *Baitulmal* of Negeri Sembilan has a total of 30 employees, of which only two are officers. *Baitulmal* coordinates its activities with other government bodies in a Committee for Development when planning on spending heads to avoid overlap of activities. It also funds some activities of NGOs mainly related to preaching activities (under those whose hearts are reconciled). Officials of *Baitulmal* have been trained by JAKIM on various topics including *Fiqh* and financial and administrative matters.

The *zakah* related activities are implemented at the district level by Islamic Administrative Offices. The income of *Baitulmal* comes from *zakah* and other sources, including income from affiliate corporations. Other than the disbursement of *zakah*, the other expenses of *Baitulmal* include administration, finance, investment and development, and managing district offices. The summary of the breakdown of the income and disbursement/expenditures for *Baitulmal* of Negeri Sembilan is given in Table 6.4 below. The total revenue of *Baitulmal* in 2002 was RM 20.278 million, of which RM 15.671 million (77.3 percent) came from *zakah* and the remaining from other sources like investments, rent, and returns from various projects. The total *zakah* disbursements during the year amounted to RM 12.082 million (59.6 percent of the total income). Operational expenditures were RM 4.585 million (22.6 percent of the total income), of which RM 1.583 million were spent on salaries and allowances. The total disbursements and expenditure amounted to RM 16.668 million giving a surplus of RM 3.611 million (or 17.8 percent of the total income). Note that *Baitulmal* of Negeri Sembilan maintains a

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<sup>61</sup> The imams of mosques get 1/16<sup>th</sup> of *zakah* collections sources of *zakah* they identify.

separate account for *zakah* collections and disbursements. The operational costs of *Baitulmal* are covered by income from sources other than *zakah*.

**Table 6.4: Income/Expenditure of *Baitulmal* Negeri Sembilan (2002)**

<b>Item</b>	<b>Amount (in Millions RM)</b>	<b>Percentage (of Total Income)</b>
<b><i>Total Revenue</i></b>	<b>20.278</b>	
Total <i>Zakah</i> Collections	15.671	77.3
Income from other Sources	4.607	22.7
<b><i>Total Disbursements and Expenditure</i></b>	<b>16.668</b>	<b>82.2</b>
Total <i>Zakah</i> Disbursements	12.082	59.6
Total Expenditure for Operations	4.585	22.6
Expenditure on Salary & Allowances	1.583	7.8
<b>Surplus</b>	<b>3.611</b>	<b>17.8</b>

Source: *Baitulmal*, Negeri Sembilan Documents

The *zakah* proceeds are spent on the eight kinds of beneficiaries including the fees paid to ZO as administrator (*amil*). There are two main ways in which beneficiaries are identified. First, the prospective beneficiaries come to the *zakah* counters and seek support. *Baitulmal* also uses the services of the local community leaders like the imams of mosques to identify beneficiaries. The imams suggest names of beneficiaries (who have to fill up forms) and an officer at the district level verifies the information. After assessing the needs, a decision on the type of support is made. For example, if the beneficiary is classified as *fakir*, he/she gets 4 installments of payoffs per year and a *miskin* gets 2 installments of payoff per year. The whole process (from the application to disbursement of funds) may take 2-4 weeks.

The amounts disbursed to different beneficiaries in the State of Negeri Sembilan are reported in Table 6.5. The four main disbursement heads in descending order are bonded persons, administration, the poor and the needy, and in the path of Allah. In case of bonded persons, most of the expenditure goes for the education of the households trapped in

poverty. The expenditure for administration appears to be high as the percentage is calculated as a percentage of disbursement, which is less than the collections. As the fees paid to ZO are as a percentage of collections, the figure in Table 6.5 for administration is more than 20 percent. The surpluses from the *zakah* funds not spent on the eight categories are accumulated and invested in welfare projects like hospitals and institutions like counseling centers.

**Table 6.5: Disbursement of *Zakah* According to Beneficiary Type in the State of Negeri Sembilan (2002) (In Millions of RM)**

Beneficiary Type	Amount of <i>Zakah</i> Disbursed	Percentage of <i>Zakah</i> Disbursement
Poor and Needy ( <i>Fakir &amp; Miskin</i> )	2.573	21.3
Administration ( <i>Amil</i> )	2.709	22.4
New Converts ( <i>Muallaf</i> )	0.902	7.5
Bonded Persons ( <i>Riqab</i> )	3.424	28.3
Indebted Persons ( <i>Gharim</i> )	0.018	0.1
In the Path of Allah ( <i>Fisabilillah</i> )	2.313	19.1
Wayfarer ( <i>Ibnu Sabil</i> )	0.141	1.2
<b>Total</b>	<b>12.082</b>	<b>100</b>

Source: *Baitulmal*, Negeri Sembilan Documents

### 6.1.3. *Zakah* Institution in the State of Selangor

The state of Selangor, with an area of 7,960 sq. km, surrounds the Federal Territories of Kuala Lumpur and Putrajaya. With a total population of 3.9 million, the state is an industrial center with second highest percapita income after the Federal Territories. Selangor Islamic Religious Council established *Zakah* Office Selangor (Pusat *Zakah* Selangor, MAIS) in 1994. Incorporated under the Companies Act of 1965 with a capital of RM700,000, *Zakah* Office Selangor (ZOS) is 100 percent owned by the Council. At the inception, the objective of ZOS was only to collect all kinds of *zakah* in the state. Since January 1, 1998,

ZOS was given additional responsibility of disbursing the *zakah* proceedings. As such, ZOS became one of the first corporation created with the objective of dealing both collection and disbursement of different kinds of *zakah* in the State of Selangor.

**Table 6.6: Income Statement of ZOS (2001)**

<i>Item</i>	<i>Amount (in Millions RM)</i>
Revenue from <i>Zakah</i> Collection Fees	6.071
Income from other Sources	0.057
<b><i>Total Income</i></b>	<b><i>6.128</i></b>
Total Operational Costs	5.482
Operational Profit	0.646
Taxes	0.048
<b><i>Net Profit</i></b>	<b><i>0.598</i></b>

Source: Selangor *Zakat* Office, Annual Report, 2001

Corporatization of *zakah* management has led to more facilities for its employees and as a result ZOS can attract good quality employees and professionals. Currently, ZOS operates 18 service counters and employs 50 personnel. In 2000, ZOS was awarded international certificate of MS ISO 9002 for its quality and excellence in operations. The financial status of ZOS is given in Table 6.6. The main source of revenue for ZOS is the fees collected for managing *zakah* funds. As administrator (*amil*), ZOS keeps 1/8<sup>th</sup> (12.5 percent) of the collections as fees for its work. In 2001, this amounted to RM 6.071 million. The costs of operation are RM.5.482 million. After paying taxes, the net profit of ZOS was RM 0.598 million.

*Zakah* is collected on income, trading, savings, shares, and crops. In 2001 there were 37,673 payers paying on the average RM 1,464.20. *Zakah* payments can be made at the ZOS counters and other means like banks, internet, post office, or deductions of salary. In the same year, a total of 423 branches of seven banks in the state were accepting *zakah* payments on behalf ZOS. Various activities like preaching at conventions, workshops, get-togethers, sermons, printing billboards and information material, and maintaining a well-managed website are undertaken to raise awareness of *zakah* among the Muslims. Estimates of *zakah* collections indicate that most of the *zakah* collected (60 percent)

comes from salaries of individuals, 25-30 percent from the corporate sector, and the rest from other sources. The total *zakah* collections and disbursements for the year 2001 are shown in Table 6.7

**Table 6.7: Collection, Disbursement, and Expenditure of *Zakah* Operations for ZOS (2001)**

Item	Amount (in Millions RM)	Percentage (of Total <i>Zakah</i> Collected)
<b>Total <i>Zakah</i> Collected</b>	<b>55.161</b>	
Total Disbursement for Welfare Projects	47.061	83.3
Total Expenditure for Amil Operations	5.469	9.9
Surplus	2.631	4.8

Source: *Zakah* Office Selangor, Annual Report, 2001

For disbursements purposes, the beneficiaries are distinguished as productive and nonproductive ones. Nonproductive beneficiaries are the elderly, handicapped, etc. who need permanent income support. This group would be around 20-25 percent of the total beneficiaries. While the nonproductive members receive income payments on a permanent basis, the productive beneficiaries' applications are renewed on a year-to-year basis for necessary evaluations. The focus of the *zakah* expenditures on productive beneficiaries is on human capital development, providing capital to entrepreneurs.

Identification of the beneficiaries is done by 2200 volunteers at the local levels (usually including the *imams* of mosques). They get all the relevant information on the deserving beneficiaries. At each mosque there is a committee in which an employee from ZOS is also a member. The committee meets once a year (usually 2 months before Ramadan) to discuss new nominations of the beneficiaries in the locality. A total of about 30,000 nominations are received for support. The nominations are screened and cleared in these meetings. Participation of the local people makes the identification of applicants easier. The volunteers collect *zakatul fitr* and keep 1/8<sup>th</sup> of the collection as fees for *amil*. Furthermore, for each accepted nomination a volunteer gets an amount of RM 250.

This along with fees collected from *zakatul fitr* gives the local volunteers the incentive to screen and identify the poor.

*Zakah* receipts are distributed among the eight categories of the beneficiaries. The amounts disbursed by ZOS to different beneficiaries in the State of Selangor in 2003 is reported in Table 6.8. Most of the disbursements were to the head of 'Path of Allah' (42 percent) followed by the 'Needy' (31.2 percent). Expenditures in the former category include assistance to mosques, Islamic welfare bodies and associations, religious institutions, courses on religious topics, and scholarships for religious studies. The administrative expenditures (for *amil*) are 14 percent of the total disbursements.

**Table 6.8: Disbursement of *Zakah* According to Beneficiary Type in the State of Selangor (2003) (In Millions of RM)**

Beneficiary Type	Amount of <i>Zakah</i> Disbursed	Percentage of <i>Zakah</i> Disbursement
Poor ( <i>Fakir</i> )	2.687	3.2
Needy ( <i>Miskin</i> )	26.574	31.2
Administration ( <i>Amil</i> )	11.893	14.0
New Converts ( <i>Muallaf</i> )	4.953	5.8
Bonded Persons ( <i>Riqab</i> )	0.299	0.4
Indebted Persons ( <i>Gharim</i> )	2.751	3.2
In the Path of Allah ( <i>Fisabilillah</i> )	35.779	42.0
Wayfarer ( <i>Ibnu Sabil</i> )	0.304	0.4
<b>Total</b>	85.241	100

Source: *Zakat* Office Selangor Publications

ZOS plans to improve the efficiency by training of the employees and have counters as one-stop centers. ZOS has two approaches to have zero poverty for an estimate of 10,000 poor and needy people in the state. The first approach is to eliminate poverty among the productive recipients and the second is to increase the collection to service the non-productive section. In the latter type of recipients, the target is to make

their future generation productive by providing them among others, education and training, so that they can themselves pay *zakah* themselves. To achieve their targets, ZOS targets to capture 20 percent of the potential payers and increase the collections to RM 500 million by the end of year 2005 from the current estimate of 5 percent of the people (around 50,000 individuals) paying *zakah* in the state.

#### **6.1.4. *Awqaf* Institutions in Malaysia**

As mentioned above, the Islamic Religious Council at the state level deals with various religious issues. In this regard, the state statutes and laws govern Islamic matters including *waqf*. The first law related to *waqf* was enacted in the state of Selangor in 1952 followed by Kelantan (1953), Trengganu (1955), Bhang (1956), Melaka (1959), Perak (1965) and Johor (1978). The law gave the responsibility and supervision of endowments to the Religious Council. The state *Mufti* plays an important role in supporting and managing religious endowment projects in respective states. Salamat (2003) outlines some of the provisions in the *waqf* laws. In addition to being responsible for income/expenditure of *awqaf*, the Council also preserves and develops these endowments. The *awqaf* institutions are distinguished as private and public (*wakf khas* and *wakf am* respectively). The Council is responsible to spend the income from the *waqf khas* as specified in the *waqf* deed and the proceeds from the latter are put aside and used for suitable projects.

Salamat (2003) mentions couple of constraints faced by *waqf* institutions for social development purposes in Malaysia. First, most of the *awqaf* in Malaysia are mosques and religious places and Islamic schools. Very few *waqf* properties are income generating. The properties that generate rent are not getting good returns. The Rental Law of 1967 makes it difficult to raise rent on old buildings and real estate. Many real estates receive rents that were fixed 50 years ago.

According to official sources, the total *awqaf* land in Malaysia is estimated to be only 20,735.61 acres.<sup>62</sup> *Awqaf* properties in Malaysia are mainly religious in nature with a large number of them established for cemeteries. For example, about 926.6 acres or 71% of the total of 1,307 acres of *Waqf* land in state of Johor are reserved for cemetery. Another

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<sup>62</sup> See JAKIM webpage  
[http://www.islam.gov.my/ppi/fatwa/jumlah\\_keluasan\\_tanah\\_wakaf\\_neg.htm](http://www.islam.gov.my/ppi/fatwa/jumlah_keluasan_tanah_wakaf_neg.htm)

246.8 acres or 19% are for mosques, 90 acres or 6.9% for *suraus*, and only slightly more than one acre for other purposes (Khan 2003). Similarly, in the state of Perak, out of a total of 2,869 acres of *Waqf* land, 2,250 acres or 78% are reserved for cemetery.

*Waqf* managed by Islamic Council of Federal Territory is only 313,976 sq. ft.. As most of these *waqf* are mosques, the income derived from these are very small, deriving a total of RM 15,745 as monthly rent. There is no data on the total *waqf* properties in Negeri Sembilan. The state, however, has given Islamic Religious Council large quantities of land (approximately 20,000 acres of land). This land in the form of plantations and real estate is vested to *Baitulmal*. Some of these plots of land has been developed for commercial purposes.

An affiliated Corporation for Development of Properties of *Baitulmal* operates on a commercial basis. Due to lack of funds, however, large scale investments cannot be undertaken.<sup>63</sup> As the *Baitulmal* of Negeri Sembilan does not have any funds for investment, they collaborate with other institutions to develop the land. Two of the real estate success stories are ones in which the *Baitulmal* has collaborated with Tabung Haji and Takaful Malaysia to build real estate on commercial basis. One of the projects of *Baitulmal* in Negeri Sembilan (Investment & Development Department) is to give *qard hasan* to private *waqf*.

## **6.2. Zakah and Awqaf Institutions in Pakistan**

Pakistan is a federal republic with four provinces (Balochistan, Punjab, Sindh, and North-West Frontier Province), two federally administered territories (Islamabad Capital Territory and Federally Administered Territory) and Pakistani-administered Azad Kashmir and the Northern Areas. With a GDP percapita of US\$ 517 and population of 141 million, 34 percent of the population in the country live under the poverty line (WDI 2003). In Pakistan, *zakah* and *awqaf* institutions are managed by the government, individuals, and private voluntary organizations. The results reported here are on the operations at the government institutions. While *zakah* institutions are administered at all

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<sup>63</sup> According to the Administrative Officer of *Baitulmal* of Negeri Sembilan, an investment of an estimated RM 15 million on its various land and property managed by the state can double its income from its current level of RM 4.6 million.

levels of government, the *awqaf* institutions are managed by the provincial governments. To examine *zakah* operations, we discuss the role of the federal government, Capital Territory of Islamabad and Punjab at the provincial level.<sup>64</sup> For *awqaf*, the experiences of Islamabad and Punjab are reported.

### **6.2.1. *Zakah Institutions in Pakistan***

The *Zakat* and [*Ushr* Ordinance of 1980 outlines the role of the government in Pakistan in collection and distribution of *zakah*. Under the ordinance, the federal government deducts mandatory *zakah* on certain categories of assets. In particular, *zakah* is deducted on bank accounts on the first day of *Ramadam* every year and directly deposited in the Central *Zakat* Fund (CZF) maintained by the State Bank of Pakistan. While *zakah* can be collected by the government on other assets, these are given by individuals/institutions on a voluntary basis. *Zakah* collected by the federal government is distributed to the different provinces in proportion to the distribution of the population. The provincial *zakah* offices are responsible for the disbursement of the *zakah* in their respective jurisdictions. The organizational structure of the *zakah* disbursement system in Pakistan is briefly discussed.

At the federal level, the Central *Zakat* Council (CZC) is the prime body responsible for making the overall policies of the *zakah* and [*ushr* related issues. CZC consists of 19 members and headed by a judge of the Supreme Court of Pakistan. Among others, the CZC policies address the *nisab* for each *zakah* year, the annual budget, and total amount to be disbursed, and the heads of distribution. The *Zakah* and [*Ushr* Wing of the Ministry of Religious Affairs, Government of Pakistan acts as the secretariat of the CZC. Under a Joint Secretary who acts as the Secretary/Administrator, the *Zakah* and [*Ushr* Wing is responsible for implementing the policies set out by CZC. The government of Pakistan provides for the expenditures for the CZC Secretariat and overall administration of *zakah* operations.

The Provincial *Zakat* Councils and Provincial *Zakat* Administrators are responsible for setting policies and implementing them in respective provinces. Under the general policy guidelines given by the CZC, the Provincial *Zakat* Council manages the *zakah* funds, maintains the

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<sup>64</sup> For an indepth study on *zakah* administration in Pakistan see Shirazi (1996).

accounts, and exercises control over the *zakah* matters in the province. The disbursement of *zakah* funds in the provinces is done through committees formed at different tiers of administrative divisions.

District *Zakat* Committees are formed under the Provincial *Zakat* Department to oversee the *zakah* related issues in the district. Similarly, the Tehsil (sub-division) *Zakat* Committees are formed under the District *Zakat* Committee, and Local *Zakat* Committees under the District *Zakah* Committees.<sup>65</sup> It is the Local *Zakat* Committees, consisting of nine elected members who identify the beneficiaries. They are also responsible to maintain the accounts locally. These accounts along with the beneficiary list are forwarded to *Tehsil Zakat* Committee, who compile these and send these to their district committees. The district committees assemble the accounts of the *tehsil* and after approval of the Provincial *Zakat* Department releases funds. After approval, Local *Zakat* Committees transfer the funds to the beneficiaries' bank accounts through crossed-checks.

### **6.2.2. *Zakah Operations at the Federal Government Level***

As mentioned, the CZC is the main policy making body at the federal government level. Among others, the CZC prepares the budget and approves the heads under which the *zakah* funds are disbursed. Before 2001, *zakah* funds were disbursed under the Regular Category and Other *Zakah* heads. Under the Regular Category, the CZC determines the percentages for the allocation of budget for different heads. Table 6.9 shows the amounts given to beneficiaries on different heads under the Regular Disbursement category. These figures serve as guidelines for disbursements for the Provincial *Zakah* Departments. Table 6.9 shows that most of the funds given out in the regular category can be classified as income support followed by educational allowances. Social welfare meant to rehabilitate the poor by providing them with one time lump-sum grant of Rs 5000 to start a productive economic activity is only 4 percent of the disbursements. Other *zakah* heads include

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<sup>65</sup> Note that in the province of Punjab the *Tehsil Zakah* Council do not exist. The Local *Zakah* Committees are under the purview of the District *Zakah* Committees.

administrative expenditures and disbursements for special cases like emergency, natural calamities, leprosy patients, *Eid* grants, etc.<sup>66</sup>

**Table 6.9: Budget Allocation and Amount Given from *Zakah* Funds for Regular Disbursements**

Category (Regular)	Percentage of Regular Budget	Amount Distributed (in Rs.)
Subsistence Allowance	60	Rs. 500/month
Educational Stipends (General)	18	Rs. 75 to Rs 874/month
Educational Stipends (Religious)	8	Rs. 150 to Rs. 750/month
Health Care (Provincial)	6	Paid to Hospitals/Rural Health Centers/Basic Health Units
Social Welfare (Rehabilitation)	4	Rs. 5,000 (one time grant)
Marriage Allowance	4	Rs. 10,000 (one time grant)

Source: *Zakah* and [*Ushr*] Wing, Ministry of Religious Affairs, Government of Pakistan

There was a major policy shift regarding disbursement of funds in the year 2001. Over the years, the *zakah* disbursements has usually been less than the *zakah* collections. This resulted in accumulation of a fund in excess of Rs. 20 billion. In 2001, the CZC decided to spend this excess amount on some special programs. As a result, the Permanent Rehabilitation Scheme of *Zakah* (PRSZ) and Educational Stipends (Technical) were initiated in 2001. The PRSZ was launched to enable the beneficiaries acquire tangible assets for self-sustaining economic activity.

<sup>66</sup> Note that the salaries and administrative expenditures at the Federal and Provincial government levels are paid for from the government budgets and not from the *zakah* funds. The administrative expenditures incurred relate to those at the district, *tehsil* and local levels, and includes salaries of clerks and other items like stationary and postage. In the year 2003-2004 budget a total of Rs. 326.173 million is earmarked for administrative expenditures and Rs. 7.76 million for non-administrative expenditures.

Under this program, one-time lump-sum financial grant of Rs. 10,000 to Rs. 35,000 is given to the deserving beneficiaries.

Table 6.10 shows the disbursements of *zakah* funds under the various categories for the year 2002-2003. The table shows that the amount spent on permanent rehabilitation scheme (PRSZ) is larger than the Regular category. Note that the total *zakah* collected in 2002-2003 (1423-24H) by the federal government was Rs. 3,784.02 million. The total disbursements for the year on different heads of Regular Category, PRSZ (stage II), and Educational Stipends (technical) for the year amounting to Rs. 8,299.363 million is more than double the collections as funds from previous accumulations were used for the latter two programs.

**Table 6.10: Utilization of *Zakah* Funds at the Federal Government Level 2002-2003**

Category	Amount Disbursed (Rs. In Million)	No. of Beneficiaries
<b>Regular</b>	<b>3,146.140</b>	<b>1,468,073</b>
Living Allowance	2,083.72	859,017
Educational Stipends (General)	455.558	331,470
Educational Stipends (Religious)	154.423	61,915
Health Care (Provincial)	179.064	156,630
Social Welfare (Rehabilitation)	133.455	30,478
Marriage Allowance	140.568	28,563
<b>PRSZ-II</b>	<b>4862.864</b>	<b>257,671</b>
<b>Educational Stipends (Technical)</b>	<b>290.359</b>	<b>13,708</b>
<b>Total</b>	<b>8299.363</b>	<b>1,739,452</b>

Source: *Zakat* and *[Ushr]* Wing, Ministry of Religious Affairs, Government of Pakistan

### 6.2.3. *Zakah* in Islamabad Capital Territory

The *zakah* operations of Islamabad Capital Territory (ICT) are overseen by a nine member *Zakat* and *[Ushr]* Committee. A District *Zakat* Officer along with 8 government paid employees and 4 staff paid

from *zakah* funds are responsible for the day-to-day operations of *zakah*. There are 150 Local *Zakat* Committees in ICT. The Committees are responsible for identifying the beneficiaries and disbursement of *zakah* funds on bi-annual basis. ICT receives 0.63 percent of the total *zakah* collected at the federal level and this is spent according to the ratios specified by the Central *Zakat* Council (see Table 6.9). Other than the regular disbursements, ICT also received and disbursed *zakah* funds under the Permanent Rehabilitation Scheme of *Zakat* in the year 2002-2003. The funds received from Central *Zakat* Fund (CZF) and the amounts spent on different heads in ICT are shown in Table 6.11 below.

**Table 6.11: Receipt and Utilization of *Zakah* Funds in ICT 2002-2003**

Category	Funds Received from CZF	Amount Disbursed (Rs. In Million)	No. of Beneficiaries
<b>Regular</b>	<b>22.304</b>	<b>21.866</b>	<b>8,460</b>
Living Allowance	13.382	13.382	4,460
Educational Stipends (General)	4.015	3.577	2,318
Educational Stipends (Religious)	1.785	1.785	307
Health Care (Provincial)	1.338	1.338	924
Social Welfare (Rehabilitation)	0.892	0.892	362
Marriage Allowance	0.892	0.892	89
<b>PRSZ-II</b>	<b>23.411</b>	<b>23.411</b>	<b>1,730</b>
<b>Total</b>	<b>45.715</b>	<b>45.277</b>	<b>10,190</b>

Source: Office of the Chief Commissioner, Capital Territory of Islamabad.

#### **6.2.4. *Zakah* in the Province of Punjab**

Punjab is the most populous province of Pakistan with 57.4 percent of the country's population. The overall *zakah* supervision in the province is done by the 12 member Provincial *Zakat* Council, headed by a Judge of the High Court. The *Zakat* and [Ushr Department of the Government of Punjab is responsible for the day-to-day *zakah* operations. The Secretary of the Department acts as the Chief Administrator and manages

the operations in the province. At mentioned above, the District *Zakat* Committee and the Local *Zakat* Committees manages the operations at the respective administrative levels.

Other than disbursement of *zakah* funds in the Regular category in accordance with the shares for different heads provided by CZC, Punjab has also implemented the rehabilitation schemes of PRSZ and Educational Stipends (Technical). The amounts disbursed under the Regular Disbursement Scheme and PRSZ in the province of Punjab for the year 2002-03 is shown in Table 6.12.

**Table 6.12: Receipt and Utilization of *Zakah* Funds in Province of Punjab 2002-2003**

<b>Category</b>	<b>Funds Received from CZF</b>	<b>Amount Disbursed (Rs. In Million)</b>	<b>No. of Beneficiaries</b>
<b>Regular</b>	<b>2016.180</b>	<b>1705.833</b>	<b>770253</b>
Living Allowance	1209.708	1149.666	488661
Educational Stipends (General)	362.913	230.246	126883
Educational Stipends (Religious)	161.295	84.648	31616
Health Care (Provincial)	120.97	88.046	100400
Social Welfare (Rehabilitation)	80.647	73.703	14741
Marriage Allowance	80.647	79.524	7952
<b>PRSZ-II<sup>a</sup></b>	<b>2826.143</b>	<b>2815.671</b>	<b>162194</b>
<b>Total</b>	<b>4842.323</b>	<b>2837.537</b>	<b>932447</b>

a- PRSZ-II indicates the second phase of the PRSZ.

Source: *Zakah* and *[Ushr]* Department, Government of Punjab

Rehabilitation under Educational Stipends in Punjab is done in coordination with the Punjab Vocational Training Council (PVTC). According to the *Zakah* and *[Ushr]* Ordinance 1980, *zakah* funds can be directly or indirectly used through vocational institutions for rehabilitation of the beneficiaries. PVTC was established to provide demand oriented employable skills to the poor. The sectors in which training is provided is very broad and include agriculture and livestock

sectors and various cottage industries. PVTC also provides on the job training and placement of those who pass out from the institutes. PVTC has established 58 Vocational Training Institutes in the province with a capacity to train 14,000 students annually. By the end of 2008, PVTC plans to open up 500 such institutes to train 100,000 poor students.

To be able to benefit from the educational stipends, unemployed Muslim youth in the age group of 15 to 35 years are required to get a certificate of eligibility from the Local *Zakat* Committee. Once selected a monthly scholarship is provided from the Educational Stipend *zakah* funds. The scholarship is enough to pay for the fees and leaves a small amount for pocket money. After the completion of the course, the graduate is entitled to a one-time grant of Rs. 5000 to start his/her own business. The CZC has allocated Rs. 1 billion annually for the vocational training scheme, out of which Punjab has received Rs. 569.500 million.

#### **6.2.5. *Awqaf* Institutions in Pakistan**

*Awqaf* has a long history in Pakistan. Traditionally, the *waqf* properties were managed by local voluntary organizations and descendants of the saints. As many *waqf* properties were mismanaged and income used for personal benefits, the Government of Pakistan stepped in and passed the *Waqf* Properties Ordinance of 1959, (Rizvi 2003). The Ordinance of 1959 was later enforced as the West Pakistan *Waqf* Properties Ordinance of 1961 to consolidate the *awqaf* acts of different provinces of Pakistan. *Awqaf* was made again a provincial subject in 1979 as *Waqf* Properties Ordinances in four provinces of Baluchistan, NWFP, Punjab and Sind were enacted and enforced. Under the ordinance, *Auqaf* Department was established at the provincial levels and the respective governments were given the authority of taking over the administration of *waqf* properties it deemed were mismanaged. A brief description of the nature of *awqaf* institutions managed by government agencies and their sources of revenue and expenditures is given below.

In Islamabad Capital Territory, while the Chief Commissioner is the Administrator General *Auqaf* and Deputy Commissioner acts as the Director *Auqaf*, a Deputy Director oversees the management of *waqf* properties. The *Auqaf* Department of Islamabad manages its properties by its two wings, the mosque wing and the shrine wing. There are a total

of 251 mosques in Islamabad, of which 90 are managed by *Auqaf* Wing. The Shrine Wing manages five shrines and one 'baithak' (place of meditation) in Islamabad. Most of the income of *waqf* properties comes from donations of devotees who come to the shrines to pay homage. The income from the two major shrines in Islamabad in the year 2002-2003 was Rs. 9.873 million. Most of the expenditures of the *Awqaf* Department are paying the employees of the mosques (*khateeb* and *muezzin*) and shrines, celebrating certain festivals, organizing competitions in *Qur'an* recitations, feeding the poor, and doing development work to maintain the mosques and shrines. The *Awqaf* Department has accumulated a surplus of Rs. 156.436 million since its inception in early 1980s.

In the province of Punjab, *awqaf* properties are under the purview of the Religious Affairs and *Auqaf* Department. The Secretary of the Department is also the chief administrator. The *awqaf* institutions are administered by 11 zonal administrators and 36 managers at the district level, with a total of 2550 employees. The total number of *awqaf* properties managed by *Auqaf* Department of Punjab is 1269 covering 76,130 acres. The income and expenditures of the *waqf* related activities for the year 2002-2003 are reported in Tables 6.13-6.15.

**Table 6.13: Income-Expenditure Statement of Punjab *Auqaf* Department (2002-2003)**

Item	Amount (Rs. in Millions)
Opening Balance	0.193
Income	356.665
<i>Total Available Funds</i>	<i>356.858</i>
Revenue Expenditure	274.541
Development Budget	69.213
<b><i>Closing Balance</i></b>	<b><i>13.104</i></b>

Source: *Auqaf* Department, Government of Punjab.

Table 6.13 shows that the total income from *awqaf* institutions managed by the *Auqaf* Department of Punjab is Rs. 356.665 million in the year 2002-2003. After spending Rs. 274.541 million on revenue

expenditure and Rs. 69.213 million for development and upkeep of the *awqaf* assets, a surplus of Rs. 13.104 was reported.

Tables 6.14 and 6.15 gives the breakdown of the income and expenditures respectively. On the income side, Table 6.14 shows that only 30 percent of the income from *awqaf* properties come from leasing and rents. This income is from agricultural land leased out and urban properties rented out. More than half of the income is collected from cash boxes donated by devotees who come to shrines. Another 8 percent of the income also comes from shrines/tombs by giving out contracts for shoe-keeping and selling flowers.

**Table 6.14: Major Sources of Income from *Waqf* Institutions in Punjab (2002-2003)**

Sources	Amount (Rs. In Millions)	Percentage of Total
Rents	58.641	16.4
Lease Money	48.986	13.7
Cash Boxes	194.513	54.5
Shoe Keeping	26.224	7.4
Flowers Contract	2.245	0.6
Hospital & Dispensaries	1.9	0.5
Misc. Sources	24.156	6.8
<b>Total</b>	<b>356.665</b>	<b>100</b>

Source: *Auqaf* Department, Government of Punjab.

**Table 6.15: Expenditure Heads for *Awqaf* Institutions in Punjab (2002-2003)**

Expenditure Heads	Amount	Percentage of Total
Administration	122.937	35.8
Religious Affairs	108.386	31.5
Social Welfare	6.992	2.0
Health	36.226	10.5
<i>Total Exp. Revenue</i>	<i>274.541</i>	<i>79.9</i>
Development Budget	69.213	20.1
<b>Grand Total</b>	<b>343.754</b>	<b>100.0</b>

Source: *Auqaf* Department, Government of Punjab.

On the expenditure side, Table 6.15 shows that more than a third of the total expenditure is for administrative purposes. Note that the administrative expenditures of the *Auqaf* Department are paid from the income of *awqaf* properties. Expenditures on religious affairs take another third of the total (31.5 percent). The expenditure on this head includes the amounts spent for operations of religious academies, institutes, research centers, libraries, special purpose committees, and preservation of religious texts. The *Auqaf* Department spent Rs. 36.226 million (10.5 percent) on health and Rs. 6.992 million (2 percent) on social welfare. While the former is spent on operating a hospital and 16 dispensaries, the amount spent for social welfare includes funds provided for vocational training, scholarships, marriage grants, and providing food and shelter to the poor.<sup>67</sup>

### **6.3. Zakah and Awqaf Institutions in South Africa**

Though there are no official figures of the number of Muslims in South Africa, estimates indicate it to be about 1 million, forming about two percent of the population. The Muslim communities are concentrated in the major cities like Durban, Cape Town, and Johannesburg. Being categorized in the non-white communities, the Muslims had suffered under the apartheid regime. One of the legacies of apartheid is that an estimated 20 percent of the Muslim population live in extreme poverty. Freedom and democracy achieved in South Africa in 1994 has given the Muslims opportunities to achieve economic growth and social emancipation.

Being a non-Muslim country, South Africa does not have any law catering specifically to the needs of *zakah* and *awqaf* institutions. *Zakah* and *Awqaf* organizations are established as nonprofit organizations (NPOs) under the Nonprofit Organizations Act of 1997.<sup>68</sup> The act provides an administrative and regulatory framework for NPOs. According to the act, NPOs must have a constitution that outlines the objectives and the various issues related to the membership and operations of the organization. NPOs must also specify the organizational

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<sup>67</sup> For details of various religious activities undertaken by the *Auqaf* Department of Punjab see Rizvi (2003).

<sup>68</sup> Information on regulatory and legal aspects of nonprofit organizations is taken from Agjee (2002).

structures and mechanisms for its governance, keep accounting records of its income, expenditure, assets and liabilities in accordance with generally accepted accounting practices, prepare annual financial statements. The act encourages the NPOs to maintain adequate standards of governance, transparency, and accountability.

The Income Tax Act of 2001 gives tax exempt status to various Public Benefit Organizations, provided certain conditions are met. To qualify for tax exemption the activities of the organization has to be predominantly in South Africa. Furthermore, it must not undertake any business activities and utilize 75 percent of income within a financial year. Prior to the Act of 2001, donations to educational institutions could be claimed for income tax deduction only. However, the new act gives the tax deduction status for donations to various public benefit organizations related to education and development, welfare and humanitarian, and health care.

### **6.3.1. Zakah Institutions in South Africa**

Most of the institutions that collect *zakah* in South Africa have varied functions and activities. Other than engaged in a variety of charitable activities, the institutions are involved in raising awareness and consciousness of community work in general and *zakah* institutions in particular. The welfare agencies, among others, operate religious schools, child-care centers, training centers, drug rehabilitation and counseling centers, orphanages, *jamaat khanas* (multipurpose meeting and praying centers). They also have special schemes like water projects, feeding schemes, burial services, distribution of sacrificial meat, *dawah* activities, clean-up operations etc. Some of the organizations are involved in social activities in collaboration with government welfare programs. Under such schemes, the government subsidizes parts of these programs. Various operational features of these institutions are discussed below.

Being NPOs, the *zakah* and *awqaf* institutions in South Africa have a board of trustees to oversee the operations and frame the broad policy outlines. The trustees are usually elected members and serve voluntarily. In most of the organizations, the next level of management is the executive committee. This body is responsible for making the major management decisions of the organization. The members of the executive

committee are usually members of the board of trustees and serve voluntarily. The manager/administrator responsible for the day to day running of the organization is a paid employee.

The summary of the income/expenditure of nine regional institutions that collect *zakah* is given in Table 6.16.<sup>69</sup> For the years 2002-2003, the total amount collected by nine *zakah* institutions was ZAR 35.408 million. The total disbursements made by these institutions were ZAR 28.981 million accounting to 81.8 percent of the total collections. Total expenditures on operations were ZAR 5.929 million or 16.7 percent of the total collections. The nine institutions had a small surplus of ZAR 0.497 million (1.4 percent of the total collections). The details of revenue and expenditures are given in Tables below.

**Table 6.16: Income/Expenditure of Nine *Zakah* Institutions in South Africa**

<b>Item</b>	<b>Amount (in Millions ZAR)</b>	<b>Percentage (of Total Income)</b>
<b>Total Amount Collected</b>	35.408	
Total Disbursement for Welfare Projects	28.981	81.8
Total Expenditure for Operations	5.929	16.7
Surplus	0.497	1.4

Source: Documents Provided of the Institutions

The sources of funds of *zakah* institutions can be broadly classified as those received from *zakah*, *sadaqah*, and other sources. While the former two types of funds are received from individuals and businesses, the latter kind would include donations for special schemes, returns from investment, and income from special projects. Donations received can be in cash and in kind. *Zakah* funds are collected in different ways. Most of the *zakah* and other forms of charities are collected by field workers or fund-raisers employed by the institutions. Donations are also received at the offices and through the debit-order system arrangement with banks. In the latter system, bank debits the account of the donor by a specified amount monthly in favor of the institution. The institutions also organize fund-raising events for specific projects like feeding schemes, cemetery,

<sup>69</sup> Though South African National *Zakah* Fund (SANZAF) is one organization, it operates in the regions as independent units. The nine institutions include five regional institutions of SANZAF.

education, etc. To raise awareness and attract funds, many institutions advertise in media, newsletters, fund-raising campaigns that includes holding dinners, tea-parties, and sports events.

Table 6.17 shows the aggregate and average figures for the revenues collected by nine *zakah* institutions. The average income of the *zakah* institution is ZAR 3.934 million per year with a standard deviation of ZAR 4.019 million. A large standard deviation indicates a wide dispersion in the size of the institutions. We note that out of the total of ZAR 35.408 collected by nine institutions, only ZAR 15.121 (42.7 percent of the total) million is collected as *zakah*. The average amount of *zakah* collected by each institution is ZAR 1.680 million. A larger standard deviation of 2.064 indicates great variation in the *zakah* collected by the nine institutions.

**Table 6.17: Sources of Revenue: Aggregate Figures and Averages Per Institution (in Millions ZAR)**

<i>Item</i>	<i>Amount (Percentage of Total)</i>	<i>Averages Per Institution</i>	
		<i>Amount</i>	<i>St. Dev.</i>
<b>Revenue &amp; Funds Collected</b>	35.408	3.934	4.019
<i>Zakah</i> Income	15.121 (42.7%)	1.680	2.064
<i>Sadaqah</i>	9.882 (27.9%)	1.098	1.883
Income from Other Sources	10.405 (29.4%)	1.156	1.941

Source: Documents Provided of the Institutions

Table 6.17 shows that more than half of the funds collected come from non-*zakah* sources. The collections from *sadaqah* during the period for the nine institutions is ZAR 9.882. million (27.9 percent) and the remaining ZAR 10.405 million (or 29.4 percent) is raised from other sources. The average for these heads per institution is just over a million ZAR. Again, larger standard deviations indicate dispersion in collections from these income sources.

On the use of funds side, two broad categories are disbursements and expenditures. While *zakah* funds are disbursed under specific heads, the funds raised from non-*zakah* sources can be spent on various

activities. *Zakah* funds are usually given as monthly stipend to the poor, paying fees for schools, colleges, and universities, providing support for food, rent, and utility bills. Most of the beneficiaries come to the offices and apply for assistance. Case workers investigate the information and after scrutiny decisions are made with regards to the type of intervention. Other major areas of disbursement is general welfare assistance (in cash and in kind) includes feeding schemes, skills training, pre-school centers, disaster relief and rehabilitation, counseling, distribution of books, and aid to other organizations.

The heads of expenditure are classified broadly as amounts spent on salaries, other operational expenditures, media and advertisements. While the latter expenditures are incurred to raise awareness and attract funds by advertising in media and newsletters, the operational expenditures include paying for rent, transport, utilities, accountant and legal fees, insurance premium, telecommunications and postage, and other office expenditures.

The total and average figures of disbursements and expenditures of nine regional *zakah* institutions for the year 2002 are given in Table 6.18. We see that *zakah* institutions spent an average of ZAR 3.879 million for disbursements and expenditures giving a total of ZAR 34.911 million for nine institutions. Of this, more than four-fifths (ZAR 28.982 million or 83 percent of the total) were spent on welfare activities. The average amount disbursed on welfare projects and programs was ZAR 3.220 million per institution. A large standard deviation of ZAR 3.691 million indicates the wide variation among the institutions in the size of operations. The amounts spent on salaries and other operational expenditure is around ZAR 3 million for each of the nine institutions. Thus, the total operational expenditures of running these institutions is close to 17 percent of the total disbursements and expenditures. On the average, a *zakah* institution spends ZAR 0.335 million and ZAR 0.318 million per year on salaries and other operational expenditures respectively. A very small amount of ZAR 0.052 million is spent on media and advertisement, given an average of ZAR 0.006 million per institution.

**Table 6.18: Disbursement and Expenditures of *Zakah* Institutions: Aggregate Figures and Averages Per Institution (in Millions ZAR)**

<i>Item</i>	<i>Amount (Percentage of Total)</i>	<i>Averages Per Institution</i>	
		<i>Amount</i>	<i>St. Dev.</i>
<b>Disbursements and Expenditures (Total)</b>	34.911	3.879	4.127
Disbursements on Welfare Projects/Programs	28.982 (83%)	3.220	3.691
Expenditure on Salaries	3.012 (8.6%)	0.335	0.320
Other Operational Expenditures	2.866 (8.2%)	0.318	0.218
Media and Advertisements	0.052 (0.1%)	0.006	0.009

Table 6.19 gives the breakdown of how the *zakah* funds were distributed among different types of beneficiaries for SANZAF (Southern and Western Cape Region) for 2003. A large percentage (76.8 percent) of the disbursements went to the poor and needy and 13.2 percent were used for administration purposes. Note that the percentages do not add up to 100 percent as an amount of ZAR 38,000 was transferred to other regions in the country.

**Table 6.19: Disbursement of *Zakah* According to Beneficiary Type for SANZAF (Southern and Western Cape Region), South Africa (2003) (In Millions of ZAR)**

<b>Beneficiary Type</b>	<b>Amount of <i>Zakah</i> Disbursed</b>	<b>Percentage of <i>Zakah</i> Disbursement</b>
Poor ( <i>Fakir</i> )	2.42	66.3
Needy ( <i>Miskin</i> )	0.384	10.5
Administration ( <i>Amil</i> )	0.482	13.2
New Converts ( <i>Muallaf</i> )	0.084	2.3
Bonded Persons ( <i>Riqab</i> )		0.0
Indebted Persons ( <i>Gharim</i> )	0.203	5.6
In the Path of Allah ( <i>Fisabilillah</i> )		0.0
Wayfarer ( <i>Ibnu Sabil</i> )	0.005	0.1
<b>Total</b>	<b>3.65</b>	<b>98.0</b>

Source: Muslims Views, February 2004.

### **6.3.2. *Awqaf Institutions in South Africa***

With the exception of few, most of the *awqaf* institutions in South Africa are related to mosques and religious educational institutions. One of the few income generating *waqf* institutions in South Africa is the Hajee Ahmed Mahomed Lockhat Wakuff established in Durban in 1933. This *waqf* initiated the Islamic Educational Organization of Southern Africa (IEOSA) in 1985 to advance quality Islamic education to the community. The activities of IEOSA includes operating teacher education institute, religious schools (*madaris*), secondary school, and pre-school academies. IEOSA publishes Islamic books and teacher and learner support material. The organization is also involved in *dawah* work and administration of mosques. In 2003, IEOSA managed 76 schools, pre-schools, and *dawah* centers serving 4666 learners. These institutions employed a total of 204 teachers

Another recent initiative undertaken by in South Africa is the National *Awqaf* Foundation of South Africa (AWQAF SA). Established in 2001, AWQAF SA's mission is to mobilize community's capital and re-invest it in its development. The vision of the organization includes empowering Muslims, poor and disadvantaged communities. The community development function targeted towards the development sectors and beneficiaries will be implemented by a subsidiary organization called South African Islamic Development Agency (SAIDA). While AWQAF SA will be the income generating unit, SAIDA will implement the community and social development programs. These institutions together will be two arms of an empowerment program taking care of the development needs of the community at the grassroots level.

### **6.4. Summary of the Findings**

Experiences in countries surveyed shows a variety of organizational structures to manage *zakah* and *awqaf*. In Pakistan, *zakah* is collected and disbursed by the government agencies. In Malaysia, *zakah* is administered at the state level and institutional arrangements differ from state to state. The survey revealed that in Federal Territory of Kuala Lumpur and state of Negeri Sembilan corporations collect *zakah* and the government agency disburses the proceeds. In the state of

Selangor, a corporation manages all the *zakah* operations. In South Africa, *zakah* operations are undertaken by nonprofit organizations.

With regards to disbursement of *zakah* funds, in all cases there appears to be a shift of emphasis from giving handouts to transfers that enhances production capabilities and capacity building. The latter is done by providing financial and physical capital for productive activities and enhancing human capital and skills for productive employment. *Zakah* is paid directly and indirectly to provide services like health and education to the poor. *Zakah* proceeds are also being spent indirectly on specialized institutions to enhance skills of the poor. While in Pakistan and South Africa, this is done by paying *zakah* funds for paying the fees of the beneficiaries getting training at specialized institutions, in case of Malaysia the skills are provided by institutes established by *zakah* agencies. In the state of Negeri Sembilan and FTKL in Malaysia, *zakah* funds are used to establish institutions that provide various services to the poor.

*Awqaf* institutions can be identified according to their types and management. Most *awqaf* properties in Pakistan and Malaysia are of religious nature. In Pakistan, while most of the *awqaf* properties are controlled by the government, a few are controlled by the individuals. The majority of *awqaf* properties managed by the Islamabad Capital Territory and province of Punjab are religious in nature consisting of mosques and shrines/tombs. In Malaysia, *awqaf* properties are managed by the State Religious Councils in Malaysia, and like Pakistan, most are religious. In South Africa, while the mosques are *awqaf* properties, there are a few philanthropic *awqaf* for social welfare purposes that are managed by the family members of the creator (*waqif*) and nonprofit organizations.

***Zakah, Awqaf, and Poverty Alleviation:  
Assessments, Policies, and Institutional Development***

The potential of *zakah* and *awqaf* institutions to alleviate poverty depends on various factors. It is obvious that a larger *zakah* and *awqaf* sector in terms of revenue generated would enable to service a larger section of the poor. Revenues can be increased by enlarging the base of operations of these institutions. Specifically, increasing the *zakah* revenues would involve not only increasing the collection of *zakah* but also enlarging the *zakatable* items. For *awqaf*, the revenues would increase if the existing *awqaf* properties can be made more productive and newer *awqaf* institutions can be created. The expansion of these institutions and their revenues, however, will depend on several factors including operational and organizational factors. On the disbursement side, the impact on the poor will depend on the quality of intervention.

In this chapter, we will focus on the various institutional factors that need to be addressed to enhance the operational aspects of *zakah* and *awqaf* institutions with reference to poverty alleviation. This assessment will be done based on the theoretical discussions and experiences of *zakah* and *awqaf* institutions reported in the previous chapters. The chapter will cover the following broad aspects: integrating the institutions of *zakah* and *awqaf* in the overall development strategy, legal and regulatory, effective organizational structures, and institutional development and diversity. In each of these cases, policies/recommendations to use the *zakah* and *awqaf* institutions effectively to alleviate poverty will be highlighted. It should be noted that some of the recommendations are based on the survey results from three countries. The sample of three countries is very small and is not representative of all countries. As such, the recommendations outlined in this section can not be generalized and should be adapted to the exiting situation in specific countries.

### **7.1. Integrating *Zakah* and *Awqaf* in the Overall Development Strategy**

To use *zakah* and *awqaf* in the overall development scheme in general and poverty reduction in particular requires a qualitative change in the operations and management of these institutions. While the operational issues will be discussed in details in Section 7.3, here we focus on broader issues related to the overall development scheme of the economy. While discussing the micro- and macro-determinants of deprivation, the role of *zakah* and *awqaf* in poverty mitigation was outlined. Specifically, these institutions can play an important role in distribution related policies by providing public goods like education, health, and social services to the poor. Furthermore, these institutions can facilitate capacity building and wealth creation among the productive members in the society by providing human, physical, and financial capital. Poverty among the nonproductive individuals can be handled by providing periodic income support.

For many developing countries, strategies for poverty alleviation is entailed in their respective comprehensive Poverty Reduction Strategy Papers (PRSPs). These papers outline a comprehensive country-based strategy that specifies the public actions that would be undertaken to achieve the overall development goals in general and poverty reduction in particular. One of the core principles in the implementation of PRSPs is the coordinated participation of various development partners. In this respect, it is increasingly being recognized that the 'third sector' consisting the charitable and non-government organizations, can play an important role in the overall economic growth and welfare programs in an economy.

The role of *zakah* and *awqaf* in poverty alleviation has, therefore, to be studied in the perspective of PRSP. To see how these institutions can be made a part of poverty reduction scheme under PRSP, consider the case of Pakistan. The PRSP of Pakistan is based on four main pillars (GOP 2003). The first pillar is accelerating economic growth and maintaining macroeconomic stability. The specific policies under this pillar includes among others, fiscal and monetary policies, regulatory framework, capital market and financial sector reforms, private sector development, rural development strategy, and creating a supportive infrastructure. The second pillar relates to improving governance and entails reduction of corruption, freedom of information, and the rule of

law. The third pillar is to invest in human capital by providing education and health services. Finally, the fourth pillar of targeting the poor and the vulnerable groups entails specific programs for improving the conditions of the downtrodden. The role of *zakah* in the PRSP of Pakistan is specified under the fourth pillar as one of the programs of Social Safety Nets.

The theoretical discussions and experiences from the field, however, indicate that the institutions of *zakah* and *awqaf* can play a more significant role in both the third and fourth pillars of the PRSP of Pakistan and contribute to poverty alleviation and the overall development strategy. The ways in which *zakah* and *awqaf* institutions can help in poverty eradication within the broader development scheme are given below.

#### ***7.1.1. Zakah and the Overall Development Scheme***

The various aspects of *zakah's* role in poverty alleviation in the development strategy of an economy are discussed below:

- i) The potential of *zakah* to tackle poverty will depend on the percapita income level and the extent of poverty. It becomes more difficult to reduce poverty using *zakah* when the GDP percapita is small and the number of people living in poverty large. Thus, in countries like Pakistan, where the GDP per capita is relatively lower and the poverty rates higher compared to Malaysia, there is a need for using the *zakah* institutions in an effective way to eradicate poverty. The strategy of poverty alleviation program using *zakah* should focus on decreasing the number of productive poor by building their capacity and increasing the *zakah* revenues to provide decent income-support to all the unproductive segments of the population.
- ii) As poverty results from a complex interrelated causes, its eradication requires a concerted effort from various angles. It should be noted that the amount of *zakah* collected in most countries is very small and it may be able to make a small impact on poverty eradication. For example, while total *zakah* collection in Malaysia is RM 430 million (US\$ 98.4 million), the total tax collected is estimated at RM 50 billion (US\$

13.2 billion) in 2003 (Alias 2004). To make an impact on poverty, there is a need for *zakah* institutions to work with other similar agencies and coordinate their activities. As different organizations specialize in various aspects of poverty eradication, this would create synergies that could be used to uplift the condition of the poor.

Experience from the field survey indicates that while a few *zakah* institutions have already adopted this approach, there is still scope of increasing cooperation with other institutions. For example, Central *Zakat* Council in Pakistan allocated large amount of funds (Rs. 1 billion) for the rehabilitation of the poor by their enhancing technical skills. The *zakah* institutions, however, lack the facilities through which the right kind of training can be provided to the poor. In this regard, special vocational training institutes for the poor operated by a public agency, Punjab Vocational Training Council, offers necessary facilities for the provision of training in different activities. Students are paid from *zakah* funds that cover the tuition in these vocational training institutes and also leaves them with a small stipend. Furthermore, after graduating a lump-sum amount of Rs. 5000 is paid to enable him/her to start a business.

Similarly, Pakistan *Bait-ul-Mal* under the Ministry of Women Development, Social Welfare, and Special Education runs an extensive Food Support Programme for the poor households. While the cash subsidy given to the 1.215 million poor households under this program gives relief to them, these handouts do not solve the problem of poverty in the long-run. The *zakah* institution can coordinate the activities with *Bait-ul-Mal* and give financial support for capacity building and wealth creation activities along with the food assistance given by *Bait-ul-Mal*. The collective efforts of *Bait-ul-Mal*, *zakah* institution, and other institutions like microfinance can have a bigger impact on reducing poverty, as they together can give the income support needed not only for consumption purposes but also make available the required capital needed to increase the productive capacity of the household.

The same principle applies to non-Muslim countries with Muslim minorities like South Africa. There is a need for coordination among various organizations doing charitable work. On the use of funds side, there may be duplications in the work being done. As such, there is a need for coordination and cooperation among the various organizations. For example, an organization may be specialized in giving food, another in imparting education and training, while a third one in providing social counseling. When the organizations do these separately, the impact on the poor may be insignificant. If, however, the organizations get together and target a certain segment of the poor with their respective programs, the effect on poverty alleviation is expected to be positive.

- iii) Another aspect of coordination among various organizations involved in poverty eradication is the establishment of national database of the target group. One of the key problems in poverty eradication program is to identify the poor and monitoring the progress made after appropriate interventions are made. Furthermore, there is a need for information on the beneficiaries to examine not only the impact of assistance provided, but also to avoid duplication of efforts and frame plans, policies, and strategies to solve the problem of poverty. For this, an extensive database of the poor is needed. But this work will be a big burden on one institution. Instead, a coordinated effort by various institutions would be more feasible. For example, *Bait-ul-Mal* in Pakistan has developed an extensive database of their beneficiaries. Most of these households are also eligible for *zakah* and the data at *Bait-ul-Mal* can be used by the *zakah* institutions. Similarly, the beneficiaries of *zakah* can be included in the database and used by the *Bait-ul-Mal* and other poverty-focused institutions.
- iv) In order to solve the problem of poverty, the focus of the *zakah* disbursements should be on capacity building and wealth creation instead of income support. While traditionally *zakah* payments were given out as handouts, the countries that were studied in the survey indicate that there is a realization that the focus should change to provide the human, physical,

and financial capital to make the households productive. In this respect, *zakah* institutions are providing funds for enhancing physical and human capital. For example, since 2001, Pakistan Central *Zakat* Council has allocated large amounts of funds for rehabilitation and providing vocational training. *Zakah* institutions are also providing support for paying fees at schools, colleges, and vocational training institutes. Federal Territory of Kuala Lumpur and State of Negeri Sembilan have established educational and health institutions that exclusively serve the poor. Similarly, in South Africa there is a shift of disbursement from giving handouts to paying fees for skill development and higher education, providing productive capital for small scale cottage industries, and providing financial capital to start business.

- v) *Zakah* being collected in most countries by the government bodies is very small compared to the total that is given. Most of the *zakah* is paid to individuals or non-government bodies. This dispersion of *zakah* funds through individual efforts may not have the required impact when it comes to poverty alleviation. This may be because most of the funds given out as *zakah* most likely goes for income support purposes and does not solve the problem of poverty in the long run. If more *zakah* can be collected by the public *zakah* institution, it will be able to make the desired impact. In countries with Muslim minorities like South Africa, the problem is that different organizations compete with each other to collect funds from the same donors. In such cases, there is a need for coordination among these institutions so that the collective *zakah* collections can be enhanced and used effectively.

Another aspect of increasing the *zakah* revenues is to expand the *zakah* base by expanding the assets on which *zakah* should be paid. As mentioned earlier, the sources of income and wealth at contemporary times are different than the time of the Prophet (pbuh). In this regard, contemporary *Shari[ah]* scholars have to come up with resolutions that add newer assets and sources of income under the purview of *zakah*.

### 7.1.2 .*Awqaf and the Overall Development Scheme*

In order to enhance the role of *awqaf* in the overall development plan of a country the following steps can be taken.

- i) *Awqaf* institutions can contribute to the development efforts of the country if they are of the philanthropic category established for the general public (Type D *awqaf* in Table 5.5). But the experiences from the countries that were surveyed indicate that most of the *awqaf* institutions are religious in nature and are not contributing to the overall welfare of the poor. There was a general feeling that people are more aware of *zakah* and *sadaqat* as means to tackle the problem of poverty, but the use of *awqaf* has not been recognized as an instrument of community and social development. Most of the *awqaf* properties in Pakistan and Malaysia are religious in nature (mosques, graveyards, and shrines), with a small number generating income that could be used for social welfare purposes. In South Africa, *waqf* for philanthropic reasons are not plenty due to the legacy of apartheid that made it difficult for non-whites to own land and property. Thus, there is need to raise awareness of the social role that *awqaf* institutions can play.
- ii) The potentials of *waqf* institutions in contributing to poverty alleviation can be enhanced by enhancing the quality and quantity of *waqf* institutions. Improving the quality of existing undeveloped/underdeveloped *awqaf* properties can be done by investing in them and thereby increasing the returns. For example, a survey revealed that in a sample of 46 *awqaf* properties maintained by Kuwait *Awqaf* Public Foundation, 28 were considered developed and 18 were considered undeveloped/underdeveloped (IRTI 2000). An estimated investment of an average of US\$ 2.8 million on an undeveloped/underdeveloped *waqf* property would increase the expected annual income by US\$ 0.46 million. The average rate of return on these investments is expected to be 16.4 percent. The same study shows that in a sample of 32 *awqaf* properties from four states in India, only two are developed, and the remaining 30 are either undeveloped or underdeveloped. With an expected investment of US\$

660,896 on the average, the expected income from each of *waqf* property can be increased by US\$ 126,547, giving an average rate of return of 19.15 percent. To enable investments in *awqaf* properties, there is a need to create financing bodies that can service the development of these institutions.

- iii) The other way in which *awqaf* can play a more dominant role is to increase its quantity by establishing new institutions. It has been observed in the countries that were surveyed that new *waqf* institutions are not being established. One reason of fewer new institutions being established is that *waqf* is usually conceived to be land and real estate. As land/real estate has become very expensive, there is a disincentive among persons with average means to donate their land/real estate for charitable purposes. Thus, only the very rich can afford to create new *waqf*. One important reason why this is not being done may be the laws and regulations related to *awqaf* institutions (discussed in next section). To increase the number of *awqaf* properties there is a need for laws and regulations that facilitate the creation of new *awqaf*. Furthermore, there is a need to develop alternative models of creating *waqf* other than the ones based on land/real estate. Some of these institutions are discussed in Section 7.4.

## **7.2. Laws and Regulations**

A few issues that concern the effective use of *zakah* and *awqaf* institutions for poverty alleviation are related to laws and regulations. In principle, the government should be responsible for the collection and distribution of *zakah* in Muslim societies and *waqf* institutions are usually privately instituted and managed by administrator (*mutawalli*). In many countries, however, the management roles in these institutions have been reversed. Most of the *zakah* funds are given privately to individuals or to charitable organizations. The governments are not being able to use the potential of *zakah* in poverty alleviation to its fullest extent. Similarly, laws related to *waqf* properties give the control of these

institutions to the government in many countries.<sup>70</sup> Most of the *awqaf* institutions managed by the government, however, are religious in nature and the social objectives of *waqf* are not being realized. There is a need to have the appropriate legal and regulatory structure for *zakah* and *awqaf* institutions so that these institutions can serve the social objectives they are intended to perform. These new laws and regulations should facilitate the effective management of *zakah* by public institutions and *awqaf* by private charitable organizations.

One way in which governments can enhance the *zakah* revenues is through enacting laws that allow them to deduct *zakah* on various observable assets. While there is a need for laws that will give the governments the right to collect *zakah* from individuals and economic entities, the laws themselves will not be sufficient to ensure the bulk of the *zakah* funds will be tapped into. For example, Pakistan, Saudi Arabia, and Sudan, have enacted laws that entitle them to collect *zakah* on various assets, but the collections appear to be very small. In Saudi Arabia, *zakah* collection dropped from an average of 0.4 percent of GDP percent during the late 1960s to 0.1 percent during mid-1970s (Salama, 1982). The corresponding figures for Pakistan is 0.08 percent respectively (Kahf 1993).<sup>71</sup> To attract a larger part of voluntary *zakah* funds, there is a need to improve the efficiency of *zakah* collection and disbursements. This will create trust among the people, and as a result, they will willingly pay their *zakah* dues to the government agencies. An important aspect in building this trust and increase collections is that the government has to prove their abilities to use these funds in an efficient way to reach the target groups.

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<sup>70</sup> Rashid (2003) traces this trend to the takeover of the *awqaf* properties by the Ottoman Empire which led to similar policies by the colonizers of other Muslim nations.

<sup>71</sup> In all the countries surveyed, there is a realization that the amount of *zakaah* collected by the government agencies is very small compared to the potential. For example, the Chief Administrator of *Zakah* and *Ushr* in Pakistan indicated that the estimate of total *zakah* potential in Pakistan is Rs. 76 billion, out of which less than Rs. 4 billion is collected by the government. Similarly, in Malaysia the FTKL approximation of the total potential of *zakah* collection is RM 700 million (compared to RM 84.5 million collected in 2002). The corresponding estimates given for the states of Selangor and Negeri Sembilan are RM 500 million (against RM 78.7 collected in 2002) and RM 60 million (against RM 15 million in 2002) respectively.

A related issue in countries where *zakah* collections are under different jurisdictions, there is a need to have unified laws related to *zakah* in all states. The items in the *zakah* base and the *nisab* should be similar in all parts of the country. For example in Malaysia as states deal with religious affairs, the amount of *zakah-fitr* varies in different states. A central coordinating body (like JAKIM in Malaysia) can play an important role in harmonizing the rules and laws related to *zakah* in different states.

Another important tax law related issue is the treatment of *zakah* vis-à-vis taxes. People apprehend that by paying both taxes and *zakah* they are double-taxed. This is particularly true in countries where non-Muslims live side by side with Muslims. Malaysia has instituted tax laws that allow tax credit for *zakah* payments. That is, individuals can deduct *zakah* payments from their actual tax liabilities. There are, however, no such tax rebates for businesses and companies paying *zakah*. Getting corporate tax rebate for *zakah* can create some problems as Malaysia has a sizable non-Muslim minority. *Zakah* will be paid by Muslim owned companies and the proceeds spent on Muslims only. Public companies, however, have ownership dispersed among Muslims and non-Muslims and it may be difficult to delineate the Muslim component of these institutions.

We have seen that, in both Pakistan and Malaysia, the provincial/state governments have control over *waqf* properties. Ordinance of 1979 in Punjab province gives the government arbitrary power to take over the administration, control, management and maintenance of any *waqf* property. Thus, the *Awqaf* Department of the Government of Punjab can take over the control of any *waqf* it deems is not being managed proficiently and become the trustee for these *waqf* properties. Similarly, in Malaysia, the states/regions have their own *Waqf* Laws that make the Islamic Religious Council as the sole trustee of all *awqaf* properties (Khan 2003).

While these laws may have been enacted to prevent corruption and avoid incompetence in religious *awqaf* properties, they may have an adverse effect on management, establishment, and growth of new *awqaf* institutions. Rashid (2003) alleges that government control of *awqaf* is unhealthy as it opens the door for corruption, abuse, and mismanagement. Ismail (2002) points out that the legal environment for *awqaf* in Pakistan is not conducive to its promotion outside the realm of

the state. Knowing that the state can assume control of a *waqf* after the death of the dedicator/creator (or *waqif*), there may be no incentive for individuals to create new *waqf*. He concludes that under the present *waqf* law "it is not feasible to consider the *waqf* as a major vehicle on non-government public benefit work for the future".

The legal framework in these countries does not give the government the same authority with regard to other nonprofit organizations like trusts, foundations, and societies. Such discriminatory treatment against *waqf* properties will force people to create more of these non-Islamic institutions, rather than *awqaf*. Thus, there is a need for a new *waqf* law that would, among others, level the playing field for *awqaf* institutions with other nonprofit organizations. These laws should also create a balanced approach towards the better management of these institutions. This calls for having better governance structures and efficient management of these institutions. The law has to outline clearly the framework of the administrative set-up of the *awqaf* institutions to prevent the decay and corruption that forced the governments to take control over these properties in the first place. If the *waqf* is mismanaged, the government would have the authority of passing over the administration of the institution to a body that has representatives from eminent Muslim organizations, recognized Islamic scholars, professors, judges, etc.

### **7.3. Effective Organizational Structures for *Zakah* and *Awqaf* Institutions**

To make the *zakah* and *awqaf* effective in poverty alleviation, the institutions should have effective organizational structures to conduct the affairs in order to achieve its social mission. In this section, we discuss how the *zakah* and *awqaf* institutions can be efficiently managed to achieve the goal of poverty alleviation. This will be analyzed in the light of experiences of the different organizational forms in different countries surveyed. The section will then suggest forms of *zakah* and *awqaf* organizations that can facilitate poverty reduction in Muslim communities.

The operations of *zakah* and *awqaf* institutions are in some ways similar to nonprofit organizations involved in welfare and charitable activities. As such, there is scope to learn from the experiences of

successful nonprofit institutions. In this respect, Moore (2003) maintains that the building blocks of a successful organization involved in welfare oriented work are a clear social mission, legitimacy and support, and organizational capabilities. While social mission delineates the public value objective of organization, legitimacy and support focus on the donors. The organizational capabilities reflects the ability of the organization to achieve the desired objective in terms of using its own resources efficiently and also getting things done with other organizations with similar goals.

The governance structures and management procedures are important determinants of increasing the organizational capabilities to reach the social objective of poverty alleviation. This would require an effective and supportive board of trustees overlooking the management of the organization. Other than ensuring that the relevant systems, processes, and procedures are in place, they have to pay attention to issues like strategic planning and human resources management. Good management would be reflected in the operational capacity of raising funds and efficiently using them to achieve the goals of the institution.

It is important to note that the legitimacy and reputation are also important factors determining the inflow of funds from donors to welfare oriented organizations. Relationship with the donors would depend to a large extent on the impact of the organization on the beneficiaries. The value of a welfare oriented nonprofit organization ultimately lies in the extent to which it can fulfill its social mission. The goal that the organization pursues must align with the purposes of the community of donors. Given that the funds are provided for the stated mission, satisfactory relationship with donors would, therefore, depend on how well the organization fulfills their aspirations. Better reputation and goodwill of an institution will make it easier to increase both the number and size of donor accounts.

Given the dependence of the welfare-oriented nonprofit organizations on donations, it is also essential to have transparency in operations. This can be done by maintaining financial integrity and instituting internal control mechanism to avoid misappropriation of funds, fraud, waste, and abuse of resources. Among others, the duties of the of authorizing, recording and disbursing of funds should be separated, the authority to make financial decisions should be delineated, bank statements and correspondence are promptly reviewed and reconciled,

and an annual audit prepared by independent auditors that should be made available to the public.

Given the above framework, we will evaluate the *zakah* and *awqaf* institutions operating under the alternative systems found in the field survey. The objective of this exercise is to assess the strengths and weaknesses of these systems and come up with suggestions.

### ***7.3.1. Organizational Structure for Zakah Institutions***

The organizational strengths of welfare institutions like *zakah* can be analyzed under the following three criteria:

- i) **Governance Structures and Management Procedures:** Other than the processes of making decisions and implementing them, transparency, human resource, flexibility to introduce innovations in systems and processes, and cost efficiency in operations are important aspects of good governance and management procedures.
- ii) **Raising Revenue/Funds:** Essential issues are ease with which donors can make payments, marketing and information, and building trust by providing information.
- iii) **Disbursement of Funds:** The important issues here would be to identify the beneficiaries, establishing a delivery system, having access to volunteers, networking and coordination with other similar organizations, and disbursements to achieve the objectives. The latter would be reflected in the percentage of disbursements going for income support and that going for capacity building.

Experiences in countries that were surveyed indicate various organizational structures. The organization/agency that manages *zakah* collections and disbursements in the states/countries surveyed are given in Table 7.1. We briefly discuss the operational issues of the organizational types in the light of the three criteria mentioned above.

**Table 7.1: Types of *Zakah* Management Schemes in Various Countries**

States/Countries	Collection	Disbursements
Pakistan	Government	Government
Negeri Sembelan and FTKL, Malaysia	Corporation	Government
Selangor, Malaysia	Corporation	Corporation
South Africa	Nonprofit Organization	Nonprofit Organization

**Governance Structures and Management Procedures:** In all cases of management schemes there is a governing body that oversees the *zakah* operations. The overseeing body is a council in case of government, board of directors in case of corporations, and board of trustees in case of nonprofit organizations. The members in these bodies are usually reputable persons and are expected to perform their jobs proficiently.

When examining other operational aspects like transparency, appropriate human resources, flexibility to innovate for processes, and cost efficiency, the corporate structure appears to be a better format. Governments have to follow various guidelines that apply to all offices. Most of the employees are government servants and are posted to the *zakah* offices as a matter of routine. As certain governmental procedures have to be followed in decision making, it is less flexible and difficult to make decisions regarding innovative processes and systems that enhance efficiency. The management procedures of nonprofit organizations will largely depend on the size of the institution. Larger organizations will be able to benefit from the economies of scale. If the nonprofit organization is large, it will be able to employ efficient managers, hire employees with appropriate skills, and be able to introduce innovative processes to enhance efficiency.

**Raising Revenues/Funds:** Results from the survey indicate that corporations are in a better position to raise funds, followed by nonprofit organizations. Given the corporate structure and the fact that the income of the organization depends on how much *zakah* is collected, the corporation makes all efforts to increase the *zakah* collections. This was observed in case of Malaysia, where the corporations responsible for

*zakah* collections undertake various measures to publicize the concept of *zakah* and make it easier for *zakah* payers to pay their dues. Examples in this regard are the various ways in which *zakah* can be paid in Malaysia. *Zakah* can be paid not only at the *Zakat* Collection Offices, but also be deducted from salaries automatically and be paid at banks, post offices, and over the internet. Similarly, nonprofit organizations also use different means to publicize their activities and raise funds.

When government collects *zakah*, it is more difficult to raise *zakah* using these schemes. In case of Pakistan, most of the *zakah* collected are forced deductions at the source. Very little *zakah* is paid to the government agency voluntarily. Faiz (1995) shows that while the compulsory payments in Pakistan are relatively large and have increased over time, voluntary deductions have been very small, amounting to only 0.5 percent of the compulsory deductions.<sup>72</sup>

As mentioned above, an important factor to raise funds is the legitimacy and reputation of the organizations. In this respect, the operations of corporations are more transparent and able to build trust among the *zakah* payers. The *zakah* payers are interested to know if the funds are being used for the beneficiaries. In this sense the revenue will depend on how the funds are disbursed.

**Disbursement of Funds:** As noted above, disbursement of funds to the right target group with the appropriate impact determines whether the social objectives of the organization is reached. To do so, a low-cost infrastructure of mainly volunteers needs to be established to identify the poor and deliver the assistance in forms that would enhance their productive capacities. Furthermore, to empower people and build capacity, there may be a need to coordinate with other welfare oriented organizations and also establish institutions that can facilitate this. Vocational training centers in Pakistan and Malaysia are such examples. All this requires authority and broader mandate that governments have. Corporations and nonprofit organizations have to create a large infrastructure to be able to reach the poor in different parts of the country cost effectively. Thus poverty alleviation can be more effectively done by the government, if a well planned strategy is worked out by various agencies involved in development projects. Specifically, the funds can be

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<sup>72</sup> See also Table 3.1 in Shirazi (1996) for historical data on forced and voluntary *zakah* collections in Pakistan.

disbursed by the government to different agencies/institutions that are involved in serving the poor. A coordinated effort by these institutions will have a better chance to empower the poor and bring them out of poverty.

From the above discussions, it appears that a corporate structure is suitable for good governance and management procedures and collection of funds. The disbursements of *zakah* proceeds, however, can be done better by government by involving various agencies/institutions that have a goal of alleviating poverty. Thus, an appropriate system of operating efficient *zakah* institutions would be a separate corporation for *zakah* collection and a public body for disbursements. Furthermore, there is a need for independent nonprofit organizations that can work together with the public *zakah* institution to complement the work of reducing poverty by various empowerment schemes.

### 7.3.2. Organizational Structure of Awqaf Institutions

*Awqaf* institutions can be identified according to their types and management. The dominant types of these institutions found in the field survey are shown in Table 7.2. Most *awqaf* properties in Pakistan and Malaysia are for religious reasons. In Pakistan, while most of the *awqaf* properties are controlled by the government, a few are controlled by the individuals. In South Africa, while the mosques are *awqaf* properties, there are a few philanthropic *awqaf* for social welfare purposes that are managed by the family members of the creator (*waqif*) and nonprofit organizations.

**Table 7.2: Types of Awqaf Institutions in Different Countries**

States/Countries	Dominant Type of Awqaf Institution	Managed by
Pakistan	Religious	Government/Private
Malaysia	Religious	Government
South Africa	Religious/Philanthropic	Private/Nonprofit Organization

As in the case of *zakah*, we examine the strengths and weaknesses of the organizational structures of managing *awqaf* institutions by the

government, private individuals, and nonprofit institutions. We will analyze these organizational structures according to three criteria with an objective of poverty alleviation. The criteria for *awqaf* institutions will be governance and management issues, managing assets and disbursement of funds.

While government body can oversee the operations of the *awqaf* properties, it will lack appropriate human resources and the flexibility to make decisions to bring in changes and develop the *awqaf* properties. A professional manager, under the guidance of an independent board of trustees can take initiatives to enhance both the value and returns of *waqf* assets. These will be difficult to do under bureaucracy of government procedures. Similarly, the disbursements of the *waqf* revenue for various welfare oriented activities would require a clear social objective on which the funds can be disbursed. Given the long history of government managing religious *waqf*, this social orientation has to be instituted in the government agency managing the *waqf* institutions.

Private individuals (*mutawallis*) managing *waqf* do not have an overseeing body like a board of trustees and, as such, lack oversight of its operations. In many cases, the *mutawallis* are individuals who did not establish the *awqaf*. Unless these individuals managing the *waqf* properties have initiative and social drive, the institutions may not perform their social objectives. Furthermore, if the *mutawalli* is not competent and professional, the *awqaf* properties will not be managed properly. Run by individuals particularly those who did not create the *waqf*, these institutions are not expected to have transparency. One main reason that the control of privately run *awqaf* properties were taken over by the government in Pakistan was the mismanagement and misuse of funds by individual *mutawallis*.

Nonprofit organizations, with a board of trustees overseeing the operations, appear to have the organizational strengths needed to operate a *waqf* property effectively. They can hire a manager who can operate the *waqf* institution with professionalism and efficiency. The framework of nonprofit organization also appears to be most effective when it comes to managing the assets and growth of the institution. A professional manager, under the guidance of the board can bring in initiatives to enhance both the value and returns of *waqf* assets.

The experiences and discussions show that while *waqf* run by individuals may breed inefficiency and stagnancy, the ones managed by governments lack growth potentials. *Waqf* institutions can be best managed by institutions that have a framework of nonprofit organization with an overseeing board guiding the operations and a professional manager running the operations. One possible way in which *awqaf* bodies can be operated is to have a governing body that out-sources the income side. The income side of *waqf* can be given to a professional company for efficient management and growth of these institutions. The income derived would then be spent on various social welfare related heads, including poverty alleviation by an agency created by the governing body. Kuwait *Awqaf* Public Foundation (KAPF) is a good example of an independent institution that is managing the institutions of *awqaf* efficiently by using innovative means and systems to serve the community. Various other new institutional structures of *awqaf* and *zakah* are discussed in the next section.

#### **7.4. Institutional Development and Diversity**

The discussions indicate that poverty is a complex problem and its mitigation requires a multidimensional approach. While traditionally *zakah* and *awqaf* institutions were able to serve the poor, the institutional developments and diversity can be tapped to use these institutions to alleviate poverty during contemporary times. Some of the ways in which this can be done are given below.

##### **7.4.1. *Zakah* Collection Corporation**

The experience of *zakah* collection in Malaysia shows that *zakah* collection can be efficiently done under a corporate structure. The income of a corporation, that is wholly owned by the *zakah* agency, is a percentage of the *zakah* collected. Thus, the corporation uses all means to maximize the *zakah* collections by using modern management and transparent system. Furthermore, to increase the revenue the corporation uses a marketing strategy by educating people about *zakah* and making it easier for people to pay their *zakah* dues.

#### **7.4.2. Support and Insurance for the Vulnerable**

One way of preventing the increase of the number of poor is to avoid the non-poor who are vulnerable to being poor due to some negative shocks. This can be done in a couple of various ways. One way is to have a scheme of giving interest-free loans (*qard hasan*) to the vulnerable. Kahf (2004) indicates that in Sudan, *Diwan al Zakah* has initiated giving out loans to farmers at the beginning of the agricultural season to enable them to buy the necessary inputs, which are returned after the harvest time. This policy has increased the productivity of the farms and increased *zakah* collection from the farmers equivalent to 74.4 percent of the loans. Similarly, *zakah* funds can be used to insure the assets of the poor at the margin to protect them against negative shocks.<sup>73</sup> While these activities for the vulnerable non-poor and the poor can be managed by the *zakah* office, a special institution that deals with this group may be desirable.

#### **7.4.3. Cash Waqf**

Traditionally, the corpus of *waqf* has been in the form of land and real estate. As pointed out, one of the reasons that prevents the creation of *waqf* is that land has become very scarce and expensive. This enables only the very rich to form *waqf* properties. In order to revitalize the institution of *waqf*, there is a need to develop alternative ways that would enable people of all means to contribute to the creation of a *waqf*. In this respect, cash *waqf* is an old concept that needs to be revived. Cizakca (2004) proposes the revival of cash *waqf* that flourished in Islamic empires starting from the medieval times was continuing to the Ottoman period. *Waqf* were established in the form of cash for a charitable purpose. The cash was invested in the form of *mudarabah* or credit and the revenue generated from the investments were used for charitable purposes. The *waqf* funds were also given out as loans to underprivileged people and those of modest means. Cizakca suggests a model in which the concept of cash *waqf* can be used in contemporary times to serve the social objectives in the society.

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<sup>73</sup> Using *zakah* funds for insuring the poor was pointed out by Professor Seyed Khalid Rashid of International Islamic University, Malaysia in a meeting with the author.

**Box 3: *Sukuk Al-Intifaa*-An Innovative Instrument for Developing *Waqf***

King Abdul Aziz *Waqf* for the two Holy Mosques owns land adjacent to the Grand Mosque in Makkah. The *Waqf* has leased the land to the Binladin Group on a BOT (build-operate-transfer) concession contract for 28 years. According to the contract Binladin Group is to build a shopping complex, four towers, and a hotel. The Binladin Group in turn has leased the Zam Zam Tower project to Kuwait based Munshaat Real Estate Projects KSC. Munshaat will finance the construction of the project, operate it, and then transfer the towers back to the *Waqf* through Binladin at the end of the 28-year lease period. Upon completion, the complex will have spaces ranging from studios to royal suites managed by a five-star hotel operator. To raise funds for the project, Munshaat issued US\$ 390 million *sukuk al intifaa* (timeshare bond) for 24 years. Through this issue, Munshaat sold usufruct rights for 24 years by dividing them into weekly time shares. In this way, investors who have bought 24-year sub-leases rent a space for a specific time of the year. They will be able to sub-lease their apartments to Muslims coming to Makkah from all over the world. The weekly rates differ depending on the time of the year. For example, a one-week rent for a studio apartment may be US\$ 5000 for the 24-year period in off-peak season and may increase to US\$ 22,000 during Ramadan. Munshaat will earn a return from the rent differentials between what it receives and from *sukuk* holders and what it pays to Binladin Group. The *sukuk al-intifaa* was oversubscribed by 135 percent in the two weeks of issue. Munshaat estimates a rate of return on investment in the project of 26 percent per annum.

**7.4.4. Development of *Waqf* through Securitization**

One of the instruments that will facilitate the establishment and growth of *awqaf* institutions are *Waqf* certificates. These certificates having a reasonable denomination can be acquired by individuals who are interested to assist and support the creation of *awqaf* institutions. The certificates can be used in couple of ways to develop the *waqf* institutions. First, the certificates can be used to add to an existing pool of cash *waqf* (mentioned above). Second, they can be used to raise funds to develop existing *awqaf* properties. While certificates can be used as cash as *waqf* for the development of the *waqf* properties, instruments can also be developed to raise funds for their development on commercial basis. An example of the latter type to develop *waqf* estate using securities is the issuance of *sukuk al intifaa* (a timeshare bond). This innovative instrument is being used to develop *waqf* properties of the King Abdul Aziz *Waqf*. The financial arrangement is using a build-operate-transfer

scheme to construct the Zam Zam Tower Complex on land adjacent to the Holy Mosque adjacent to Makkah (see Box 3).

#### **7.4.5. Microfinance Institutions based on Zakah and Awqaf**

Financing microenterprises is considered a “new paradigm” for achieving development and eradicating absolute poverty. Ahmed (2002) and Kahf (2004) maintain that *zakah* and *awqaf* can be used to provide microfinancing to the poor. The returns from *awqaf* and funds from *sadaqat* can be used to finance productive microenterprises at subsidized rates. In addition, *zakah* can be given out to the poor for consumption purposes to avoid diversion of funds from production. Even in cases where the microfinance institutions are not established with *waqf* and *sadaqat* funds, *zakah* can be given to the poorest recipients of microfinance for consumption support to avoid divergence of funds from productive heads. The combination of microfinancing and *zakah* funds will make it easier for the poor to break out of the poverty cycle.

#### **Box 4: Awqaf Properties Investment Fund**

Under the guidance of the Islamic Development Bank (IDB), *Awqaf* Properties Investment Fund (APIF) was established in 2001 with a mission "to mobilize funds to promote and develop the *awqaf* properties worldwide and revive the awareness of Islamic *Sunnah* of *Waqf* and to augment the IDB goals of social and economic development in its member countries and other societies". APIF has a subscribed capital of US\$ 55 million coming from various *awqaf* ministries, *awqaf* institutions, and Islamic financial institutions, including the IDB. IDB acts as the *mudarib* (manager) of the Fund. The objective of APIF is to develop and invest in accordance with the principles of Islamic Shariah in *awqaf* real estate properties that are socially, economically, and financially viable in the member countries of IDB and Islamic communities in non-member countries. The Fund is authorized to mobilize additional resources in the form of *muqarada* bonds, leasing certificates and co-financing. During its first 18 months of operations, APIF has participated in 8 real estate projects in five countries. These projects were jointly financed with IDB and the *Awqaf* Authorities of the host country. The Fund is well positioned to gain from future opportunities with a well diversified portfolio of investments. The Fund has 50 projects in its pipeline consisting of commercial, residential, and special purpose buildings spread over in 20 countries. AFIP is planning to work with an international real estate company to provide property management services for its portfolio.

Source: *Awqaf* Properties Investment Fund, Annual Report, 1423H (2002-2003)

#### **7.4.6. *Qard Hasan Banks***

*Qard hasan* (interest-free loans) has an important position in Islam and was widely used in Islamic societies to assist the poor and needy. Elgari (2004) proposes establishing a nonprofit financial intermediary, the *qard hasan* bank that gives interest-free loan to finance consumer lending for the poor. The capital of the bank would come from monetary (cash) *waqf* donated by wealthy Muslims. Like any other bank, the institution will receive current deposits on which returns will be paid. The institution will advance short- and medium-term loans to individuals. The loans will only charge for actual administrative or service costs. Like other banks, the appropriate criteria will be used to assess the credit worthiness of individuals before advancing loans to them. The wealth of the borrowers will thus influence the size of the loan, but not the decision to lend.

#### **7.4.7. *Insurance based on Waqf***

Khan K. R. (2003) outlines an insurance scheme based on the institution of *waqf*. The Council of Islamic Ideology of Pakistan proposes to create a Mutual Guarantee Fund, with the capital coming as *waqf*. Donors will contribute their fixed amounts periodically and the funds will be used for the mutual guarantee of the participants. The funds can be used to pay participants in case of accidents, losses to body or life, and losses to holdings and property. Under this scheme of *takaful*, the policy holder will be a shareholder. A predetermined profit share will be paid to the shareholders and the balance will be transferred to the *Waqf* Reserve Fund. Funds from this Fund will be used to pay for accidents, losses of property etc.

#### **7.4.8. *Agency/Institution for Development of Awqaf Properties***

Most of the traditional *awqaf* in the Muslim world are land and real estate properties. As pointed out, a large number of these properties are either un/underdeveloped. These properties can be developed and income increased manifolds, if appropriate investments can be made. To do so, there is a need to establish specialized financial institution(s) that can invest in the development of *waqf* properties. Given that many *awqaf* properties will yield attractive returns and viable for investments, the

*awqaf* financing institution(s) can operate on a commercial basis.<sup>74</sup> In this context, *Awqaf* Properties Investment Fund has been established under the leadership of the Islamic Development Bank for investments in *awqaf* properties worldwide (see Box 4). There is a need for similar institutions at the national levels.

#### ***7.4.9. Institution/Company for Managing Awqaf Assets***

Another way to manage *awqaf* institutions efficiently and ensure good returns that can be used for various welfare oriented programs is to manage these institutions professionally. Yusoff (2004) suggests establishing a *waqf* management firm that would be responsible not only to enhance the existing *waqf* assets by unlocking their value, but also to create new *waqf* institutions. The firm would operate under the same principles of Amanah Raya Berhad, a trustee company that, among others, manages trust funds and properties against a fee. The company managing the *awqaf* properties would do so professionally and get a percentage of the assets or income as its fees.

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<sup>74</sup> As has been mentioned in Section 7.1.2, the expected rates of return on investments on un/underdeveloped *awqaf* properties in Kuwait and India are 16.4 percent and 19.2 percent respectively.



## Conclusion

It is widely acknowledged that the third sector plays a significant role not only in enhancing the welfare in societies but also in the economy in terms of GDP and employment. In this respect, the paper studied the role that *zakah* and *awqaf* institutions can play to mitigate poverty from various aspects. The concepts of *zakah* and *awqaf* have been outlined from the perspectives of *Shari'ah* and early and contemporary jurisprudence (*fiqh*). The important historical role that these institutions played in poverty alleviation and welfare promotion in Muslim societies is also presented. The objective of the paper was to see how these traditional institutions of Islam can be used to tackle poverty in contemporary times.

The paper finds that magnitude of poverty in IDB member countries is extensive. To come up with appropriate policies, the causes of poverty were studied from macro and micro perspectives. The role of *zakah* and *awqaf* has been studied in the light of these policies of mitigating poverty. Specifically, these institutions can contribute to poverty reduction through redistribution schemes, capacity building and wealth creation, and providing income support. However, the policy of income support, a prevalent practice of disbursing *zakah*, is recommended for the unproductive section of the population who are not able to earn a living due to physical/mental inabilities.

The paper assesses the potential of *zakah* and *awqaf* institutions in alleviating poverty at the aggregate level. The potential role of *zakah* in mitigating poverty depends on the size of the GDP and the number of the poor. The contribution of *zakah* in alleviating poverty is constrained by a smaller size of GDP per capita and larger number of the poor. *Awqaf* institutions can play an important role, if their size devoted to social welfare activities can be increased. The potential contribution of *zakah* and *awqaf* in reducing poverty hinges on improving the efficiency and increasing the size of their operations. To paper assesses the nature and strength of these institutions by first reporting results on their operations in three countries, Malaysia, Pakistan, and South Africa. Though the experiences of *zakah* in these countries are varied, those of *awqaf*

institutions appear to be similar. The survey shows that *zakah* and *awqaf* institutions are not being used to their full potential. While government agencies are collecting a very small part of the total *zakah* in an economy, most of the *awqaf* institutions are not geared towards social welfare purposes.

The theoretical discussions and the information from the field were used to suggest policies and ways to make the *zakah* and *awqaf* institutions effective. The role of these institutions can be made more prominent by integrating their activities in the overall development plan of the country. In this context, however, there is a need to improve the status of the organizations of *zakah* and *awqaf*. This can be done not only by adopting laws that create incentives for their growth and development, but also devising appropriate organizational structures and institutional models that can enhance the efficiency of the operations. It appears that a government owned corporate entity is an appropriate institution to raise *zakah* efficiently. The proceeds can be disbursed by various agencies involved in poverty eradication schemes under the supervision of a government body. Some suggestions of new organizational models and institutions were also presented in the paper.

The success of using *zakah* and *awqaf* to combat poverty in contemporary settings will depend on couple of inter-related factors related to creation of knowledge and information exchange. First, popular attitude has to change towards these institutions in order for them to be effective instruments of poverty alleviation. This requires a long and vigorous drive to create a wider awareness among the people about the proper perspective and role of *zakah* and *awqaf*. As *zakah* and *awqaf* are acts of charity and piety, the revival of *zakah* and *awqaf* institutions will, to a large extent, depend on renewing the confidence of the people on them as important agents for poverty alleviation. It is important to build the trust of the people and the community on these institutions by enlightening them on their noble role in enhancing the welfare of the poor.

One way in which the trust on these institutions can be restored is the proper management of these institutions. This brings us to the second aspect of revitalization of the traditional institutions of *zakah* and *awqaf*. There is a need to develop innovative institutional models having efficient governance structures and operational mechanisms. Public institutions along with non-government organizations, nonprofit

organizations, research institutions, and financial institutions at national and international level, like the IDB, have an important role to play in devising operational models of *zakah* and *awqaf* to enhance social welfare in general and poverty alleviation in particular. Programs for knowledge and information exchange that can promote new institutional models of *zakah and awqaf* may be sponsored by these institutions in different forums, workshops, seminars, and conferences. While several organizations including the Islamic Research and Training Institute (IRTI) of the Islamic Development Bank Group have been actively involved in organizing these events, the focus has to be on specific areas related to the development of new institutional structures that can be used in contemporary times.

### Appendix 1: Data Sources

Variable	Period(s)	Source(s)
Population (total)	2001	WDI 2003
GDP per capita (constant 1995 US\$)	2001	WDI 2003
GDP (constant 1995 US\$)	2001	WDI 2003
Poverty Headcount, National (% of Population)	1995- 2001	WDI 2003
Population below \$1 a Day	2000	WDI 2002
Population Below \$ 2 a Day	2000	WDI 2002
Income share held by highest 20%	1990-2001	WDI 2002 and WDI 2003
Income Share held by Lowest 20%	1990-2001	WDI 2002 and WDI 2003
Gini Index	1995-2001	WDI 2002 and WDI 2003
Human Development Index (HDI)	2001	HDR 2003
Public expenditure on health (% of GDP)	1994-2000	WDI 2002
Public expenditure on education (% of GDP)	1994-2000	WDI 2002
Life expectancy at birth, total (years)	2001	WDI 2003
Illiteracy rate, adult total (% of people ages 15 and above)	2001	WDI 2003
School enrollment, Primary (% net)	1995-2001	WDI 2003
Improved water source (% of population with access)	1995- 2001	WDI 2003

WDI 2002 - World Development Indicators CD Rom, World Bank.

WDI 2003 - World Development Indicators CD Rom, World Bank.

HDR 2003 – Human Development Report, UNDP.

## GLOSSARY OF ARABIC TERMS

Some of these terms have a much wider meaning. It is, however, not possible to encompass this in a glossary. The basic sense in which these terms are generally used is given below. Meanings of many words are taken from Khan, M.A. (2003).

<b>Ahli (waqf)</b>	Private <i>waqf</i> instituted for the benefit of family members. (also called <i>khass</i> )
<b>Al-intifaa</b>	Benefit of usufruct.
<b>Amil</b>	Collector of <i>zakah</i> . Also, the working partner in a <i>mudarabah</i> contract
<b>Amm (waqf)</b>	Public <i>waqf</i> established charitable or religious purpose.
<b>Amwal batinah</b>	Items/goods that are unobservable or unseen (with regards to assessing <i>zakah</i> )
<b>Amwal zahirah</b>	Observable items/goods (with regards to assessing <i>zakah</i> )
<b>Ashir</b> (plural, <i>Ushshar</i> or <i>Ashirun</i> )	Collectors of <i>zakah</i> (or customs) stationed by the state on public roads.
<b>Awqaf</b> (singular, <i>waqf</i> )	<i>Lit</i> : Detention. <i>Tech</i> : Donation of a property in perpetuity so that it cannot be sold or inherited by anybody. The donation is such that no proprietary rights can be exercised over the corpus but only on the usufruct, that can be used for various purposes.
<b>Birr</b>	<i>Lit</i> : Reverence, piety, kindness.
<b>Baitulmal</b>	Public treasury
<b>Fakir</b>	A needy and poor man who has nothing to live on. One of the eight categories of on whom <i>zakah</i> funds can be spent on according to <i>Qur'an</i> .
<b>Fiqh</b>	Refers to the whole corpus of Islamic jurisprudence. In contrast with conventional law, <i>fiqh</i> covers all aspects of life, religious, political, social or economic. In addition to religious observances like prayer, fasting, <i>zakah</i> and pilgrimage, it also covers family law, inheritance, social and economic rights and obligations, commercial law, criminal law, constitutional law and international relations, including

	war. The whole corpus of <i>fiqh</i> is based primarily on interpretations of the <i>Qur'an</i> and the <i>Sunnah</i> and secondarily on <i>ijma'</i> (consensus) and <i>ijtihad</i> (individual judgment).
<b><i>Fisabilillah</i></b>	<i>Lit:</i> In the way of Allah. <i>Tech:</i> All efforts that help to implement Islam. One of the eight categories of on whom <i>zakah</i> funds can be spent on according to <i>Qur'an</i> .
<b><i>Fuqaha'</i></b> (singular, <i>faqih</i> )	Jurists who give opinion on various juristic issues in the light of the <i>Qur'an</i> and the <i>Sunnah</i> and who have thereby led to the development of <i>fiqh</i> .
<b><i>Gharim</i></b>	<i>Lit:</i> Debtor. One of the eight categories of on whom <i>zakah</i> funds can be spent on according to <i>Qur'an</i> .
<b><i>Habs</i></b> (plural, <i>abhas</i> )	An alternate word used for <i>waqf</i> . See <i>awqaf</i> .
<b><i>Hadith</i></b> (plural, <i>ahadith</i> )	A report on the saying, deed or tacit approval of the Prophet (pbuh).
<b><i>Halal</i></b>	Things/activities permitted by <i>Shari'ah</i> .
<b><i>Haram</i></b>	Things/activities prohibited by <i>Shari'ah</i> .
<b><i>Ibnu Sabil</i></b>	Traveler. One of the eight categories of on whom <i>zakah</i> funds can be spent on according to <i>Qur'an</i> .
<b><i>Ijārah</i></b>	Leasing.
<b><i>Ijtihad</i></b>	Efforts and diligence of jurists to formulate rules of law based on evidence found in <i>Shari'ah</i> and <i>Fiqh</i> .
<b><i>Istisna'</i></b>	Refers to a contract whereby a manufacturer (contractor) agrees to produce (build) and deliver a certain good (or premise) at a given price on a given date in the future. This is an exception to the general <i>Shari'ah</i> ruling which does not allow a person to sell what he does not own and possess.
<b><i>Khayri (waqf)</i></b>	<i>Waqf</i> instituted for social welfare and general good.
<b><i>Khass (waqf)</i></b>	Private <i>waqf</i> instituted for the benefit of family members. (also called <i>ahli</i> )
<b><i>Maqasid al-Shari'ah</i></b>	Goals of the <i>Shari'ah</i> .
<b><i>Muallaf(-atul qulub)</i></b>	<i>Lit:</i> Those whose hearts have been reconciled. One of the eight categories of on whom <i>zakah</i> funds can be spent on

	according to <i>Qur'an</i> .
<b>Mufti</b>	A <i>Shari'ah</i> scholar qualified to issue decrees ( <i>fatawa</i> ) in light of <i>Shari'ah</i> rules and principles.
<b>Mudarabah</b>	An agreement between two or more persons whereby one or more of them provide finance, while the others provide entrepreneurship and management to carry on any business venture whether trade, industry or service, with the objective of earning profits. The profit is shared by them in an agreed proportion. The loss is borne only by the financiers in proportion to their share in total capital. The entrepreneur's loss lies in not getting any reward for his/her services.
<b>Musharakah</b>	An Islamic financing technique whereby all the partners share in equity as well as management. The profits can be distributed among them in accordance with agreed ratios. However, losses must be shared according to the share in equity.
<b>Mustarak (waqf)</b>	A <i>waqf</i> with beneficiaries that include both the family members and the public.
<b>Mutawalli</b>	Administrator of a <i>waqf</i> property (see also <i>nazir</i> , <i>qayyim</i> , <i>walyy</i> , and <i>wasyy</i> )
<b>Nazir</b>	Administrator of a <i>waqf</i> property (see also <i>mutawalli</i> , <i>qayyim</i> , <i>walyy</i> , and <i>wasyy</i> )
<b>Nisab</b>	Limit on wealth for exemption of <i>zakah</i> .
<b>Qard Hasan</b>	A loan in which only the principal amount is returned (interest-free loan).
<b>Qayyim</b>	Administrator of a <i>waqf</i> property (see also <i>mutawalli</i> , <i>nazir</i> , <i>walyy</i> , and <i>wasyy</i> )
<b>Qur'an</b>	The Holy Book of the Muslims, consisting of the revelations made by God to Prophet Muhammad (pbuh) during his prophethood of about 23 years. The <i>Qur'an</i> lays down the fundamentals of the Islamic faith, including beliefs and all aspects of the Islamic way of life.
<b>Ramadan</b>	Ninth month of the <i>Hijri</i> calendar.
<b>Riqab</b>	<i>Lit</i> : to liberate a soul (or slave). One of the eight categories of on whom <i>zakah</i> funds can be spent on according to <i>Qur'an</i> .
<b>Sadaqah</b>	Charity

<b><i>Sadaqah jariyah</i></b>	Charity that provides benefits in the present and future.
<b><i>Sharī 'ah</i></b>	Refers to the divine guidance provided in the <i>Qur'an</i> and the <i>Sunnah</i> and embodies all aspects of the Islamic faith, including beliefs and practices.
<b><i>Sukuk</i></b>	Security
<b><i>Sunnah</i></b>	Source of the Islamic faith after the <i>Qur'an</i> and refers essentially to the Prophet's example as indicated by his practice of the faith. <i>Sunnah</i> is the collection of <i>ahadith</i> , which consist of reports about the sayings, deeds and reactions of the Prophet (pbuh)(see also <i>hadith</i> ).
<b><i>Takaful</i></b>	Mutual or joint responsibility. An alternative of Islamic insurance.
<b><i>Tamlik</i></b>	To make someone the owner of an asset.
<b><i>JUshr</i></b>	<i>Lit</i> : One tenth. <i>Tech</i> : Tax on agricultural produce to be spent on poor.
<b><i>Walyy</i></b>	Administrator of a <i>waqf</i> property (see also <i>mutawalli</i> , <i>nazir</i> , <i>qayyim</i> , and <i>wasyy</i> )
<b><i>Wasyy</i></b>	Administrator of a <i>waqf</i> property (see also <i>mutawalli</i> , <i>nazir</i> , <i>qayyim</i> , and <i>walyy</i> )
<b><i>Zakah</i></b>	Obligatory tax on income/wealth levied on all persons who have wealth above <i>nisab</i> spent on heads specified in <i>Shari'ah</i> .
<b><i>Zakatul-fitr</i></b>	Obligatory tax paid to the poor during the month of <i>Ramadan</i> .

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