

## Chapter 4

# Theoretical and Practical Considerations of Inclusive Islamic Social Finance through *Waqf* and *Qard Hasan*

Muhammad Hakimi Mohd. Shafiai

### Introduction

In our recent research we are combining various aspects of Islamic finance, and I am proposing the inclusion of *Qard Hasan* as part of a comprehensive, all-inclusive Islamic finance in order to fulfill the Divine Decree. In this chapter we will examine the practical effects of *Qard Hasan*, regarding the profitability of the product and also the business elements including the contribution of Grameen Bank.

I met its founder, Muhammad Yunus in Malaysia many years ago, and now he has moved from Grameen Bank, from micro-finance to social business. Already we can see the elements of entrepreneurship and the elements of sustainability and profitability, but the impacts from the activities of many entrepreneurship must be channeled properly in order for them to have a beneficial social impact. From the aspiration of *Qard Hasan*, I believe we can formulate a combination of *Zakāt*, *Infāq*, *Ṣadaqa*. and *Waqf* together, so that we can have what I regard as inclusive Islamic Social Finance.

I want to highlight three things. The first is about social inclusion in terms of shared prosperity as well as human dignity which will directly contribute to wellbeing. If we look at the SDGs from the Muslim world point of view, it has been difficult to achieve the highest

degree of human dignity, that is, zero hunger, zero poverty, and clean water. For Muslim nations, achieving this is really a struggle when compared to a nation like Japan. I remember that in December 2018 Professor Kono Yasuyuki from the Center for Southeast Asian Studies, Kyoto University, made a presentation related to SDGs, and he said that a country like Japan is now mainly concentrating on topics like sustainable cities and renewable energy as part of the seventeen pillars of the SDGs.

The second part is about building an inclusive climate and society friendly financial system by combining *Waqf* with *Qard Hasan*, and then with this larger reservoir of funds for sustainability, we can propose an incubator program and an entrepreneurship program.

As for the third part, I want to highlight social inclusion<sup>1</sup> versus social exclusion, and as part of this inclusion, the element of an ethical system for competitive markets through the inclusion of social needs.

## **1. Social Exclusion and Wellbeing**

How can we overcome social exclusion? How can we engage with people or give them access to resources and respect in terms of their dignity as human beings? How is it that systematically, despite being in a society, people are unable to get, or are denied access to the rights, opportunities and resources that are generally available to everyone? The implication here is that they are being excluded. If you look at the website of the World Bank for instance, billions of dollars have been spent on the issue of overcoming social exclusion. There are countries like Mexico which have a “need denial society,” so some groups are

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<sup>1</sup> *Social inclusion* is defined as the process of improving the terms of participation in society, particularly for people who are disadvantaged, through enhancing opportunities, access to resources, voice, and respect for rights.

being denied access to their rights or opportunities to participate, particularly in economic activities, in community services, and also politics.



Figure 1. Impact of Social Exclusion

Source: Author

Based on the issue of social exclusion, there are three major consequences, vulnerability, poverty, and reduced inequality which is listed as SDG #10. This is the big issue, the poor are getting poorer, and the rich are getting richer, so there is inequality within society. We can see that social exclusion also increases poverty and vulnerability.

I believe that we can have an impact, directly or indirectly, on the wellbeing of human beings, in terms of their physical and mental wellbeing, social values, lifestyle, and belief system. If we want to connect the impact of social exclusion and the issue of wellbeing, we have to seriously take into consideration how we can tackle this issue.

From here I want to highlight how psychological wellbeing will directly affect the issues of health, happiness and also prosperity. When Malaysia introduced a new economic policy in 1970, it increased tensions between the Malay and Chinese communities, resulting in riots. Inequality in Malaysia has resulted in racial tensions. To address this serious issue our government introduced a 10-year program called the

Shared Prosperity Vision.



Figure 2. Social Wellbeing  
Source: Author

I would like to take up the issue of wellbeing and especially to highlight prosperity and also human dignity which are closely related to the social issues shown below.



Figure 3. Wellbeing: Prosperity and Human Dignity

Source: Author

Here we can see that wellbeing is about the issues of clean water, leisure, social participation, family life, housing, work, education, financial security, environment, and security as well as health. Therefore, we must seriously consider economic empowerment in order to tackle the issues of human capital, financial capital, physical capital, and also social capital. Moreover, based on our study and also supported by my article in 2019 (Mohd. Noor, Mohd. Shafai, and Ismail 2019), even though this type of society has the financial capital, they do not have any strength in terms of the spiritual element, and so the business or the economic activities are really liable to failure.

## **2. Inclusive Islamic Social Finance *Waqf*: A Unique Islamic Institution**

In this second part, I would like to argue that *Waqf*, together with *Qard Hasan*, can be regarded as inclusive Islamic Social Finance. I am stressing this because *Waqf* is a unique Islamic institution and is upheld as a unique contribution of Islamic civilization to the forms of endowment that were practiced by civilizations before Islam.

Since then, *Zakāt* in the form of *Waqf* has evolved throughout the centuries. *Waqf*, as a unique Islamic financial instrument is highly regulated as a public policy instrument under the rules of government. Professor Raditiya mentioned in Chapter 3 how the central bank of Indonesia introduced Cash *Waqf* and Cash-Linked *Shukūk* and of course, we must bear in mind that *Waqf* is a means to provide charity, as a part of a Muslim's religious duty.

### **(1) *Waqf* and Civil Society (Civil Economy)**

Here I want to discuss *Waqf* in the context of the civil society or the civil economy, the integration of the mosque and the market, piety and business, private and public, spiritual and material, the individual, the community, and society. We can argue that *Waqf* allows a creative space for communities to micromanage their own socioeconomic affairs, according to essential divine ethical norms. If we examine *Waqf* we can see that it is a powerful instrument, but we have to also examine each case, country by country, in terms of the practices that are happening these days.

### **(2) Corporate *Waqf***

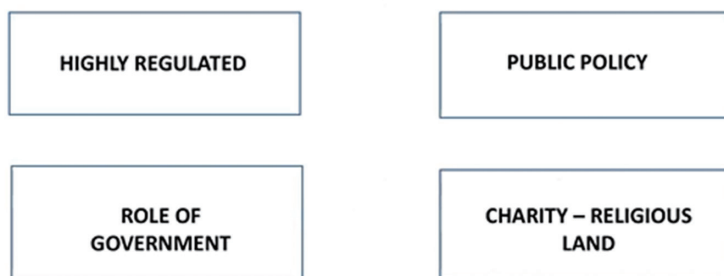


Figure 4. Aspects of Corporate *Waqf*

Source: Author

Corporate *Waqf* is a charitable endowment whose asset base consists of shares in a company. A *Waqf* is an Islamic trust, which places an asset into perpetual endowment with returns allocated to prescribed beneficiaries. By combining the perpetual charitable features of traditional *Waqf* with the organizational ability of the corporate form, we can create a concrete and powerful instrument.

Through the history of Corporate *Waqf* here, I believe that it has proved to be a very professional management system. If we can manage all the *Waqf* properties, especially the *Waqf* land, with the efficiency of corporate leaders, using their technical knowledge of business, their skill in commerce, with trust, then I believe we can see a significant impact on society.

In terms of practice, since 1926 there has been one foundation in Turkey and another in India. These conglomerates evolved and tried to create corporate *Waqf*. More recently, as has been reported in the literature, *Waqf an-Nur*, established in 2005 by Johor Corporation in Malaysia, is significant in terms of the current practices of Corporate *Waqf*. In Johor Cooperation, *Waqf an-Nur* is concentrated mainly in the health services.

### 3. *Qarḍ Ḥasan*

#### (1) Originality

*Qarḍ Ḥasan* is a mechanism for welfare and not for the purpose of business transactions. It is somewhere between giving in charity and giving a loan, being a cash loan as a form of social service from the rich to the poor and those needing financial assistance, in other words, Islamic social lending.

I want to discuss how we can regard this as Islamic social lending, and then, in terms of the issue of repayment, I want to focus on this in terms of Islamic loan theory, because from the Islamic point of view it is not lending money to make money, but to bring a reward from God to the owner, because *Qarḍ Ḥasan* is given for the sake of God as mentioned in the Qur'an based on *Iḥsān*, in the path of Allah *subḥānahu wa-ta'ālā*. In the case that the borrower cannot repay the loan, the lender may postpone and or cancel the loan.

To explain loan theory from an Islamic perspective, we have to first grasp the ethical and metaphysical philosophies to understand the motivation to earn a reward from God, *fi sabīli llāh*.

I believe we can illustrate the Islamic loan theory of *Qarḍ Ḥasan* in the light of the Theory of Knowledge by al-Ghazali, for instance, the theory of intention.

We can argue *Qarḍ Ḥasan* from ethical and metaphysical philosophies and also from the practical side because a loan is an action, something we give to the people. The lender has to choose whether he is giving the loan as a benevolent loan or for monetary reward. The outcome will be either a reward from God (which is unseen and postponed) or a monetary reward such as interest in



conventional finance. The choice will be based on the satisfaction the lender will get.

## **(2) An Insight into the Theoretical Foundation**

We must consider all aspects of a loan. First, both the practical purpose of the loan, e.g., continuity of life, and the purpose or reward in terms of seeking the reward in Paradise, and then in terms of the repayment of the debt and default risk. There is a reward in Paradise, but from the decree of God, debts must also be repaid. And then according to a strong Sunna of the Prophet, we have to repay the loan in a timely and beautiful manner.

## **(3) Dynamic Mechanism**

I want to highlight two prongs of *Qard Hasan* as a dynamic mechanism not only from the redistributive issue, but also from the banking operation in terms of liquidity management. I believe the key ideas in terms of implementation can be to support *Zakāt* and *Waqf* for social wellbeing.

This will give a motivation for the relationship between the receiver and the donor and help to find a way to promote Islamic banking institutions as a way of humanizing banking towards the “unbanked group.”

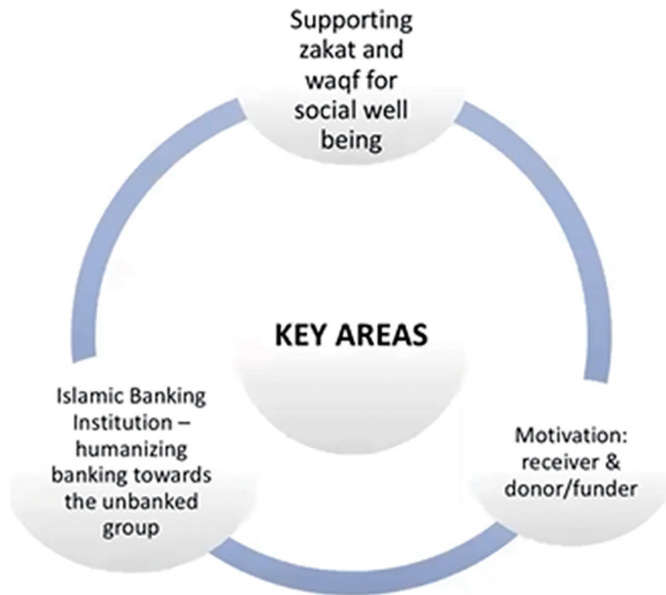


Figure 5. Key Areas for Support

Source: Author

#### **(4) Financing**

Moving from the theoretical side of *Qarḍ Ḥasan*, we can look at the various practices of *Qarḍ Ḥasan* financing. For example, people or institutions make loans to serve the needs of the low or no-income society; then there is the issuing of micro finance to small entrepreneurs, and then also providing cash in advance for unique cases not covered by *Takāful*, as well as for education loans which are mainly nonprofit driven. Then, if we look at the global practice of *Qarḍ Ḥasan* we can see two very influential and prominent institutions for micro finance, Akhuwat Foundation a nonprofit organization in Pakistan that provides interest-free loans to individuals who are unable to access formal

financial services, and Baitul Mal wat Tamwil (BMT), a financial institution in Indonesia that operates as a cooperative savings and loan organization. We can also see similar institutions in the Gulf, the UAE, Qatar, and Dubai, where they make a salary advance by using *Qard Hasan*, and in the case of Egypt, as part of the CSR for Faisal Islamic bank.

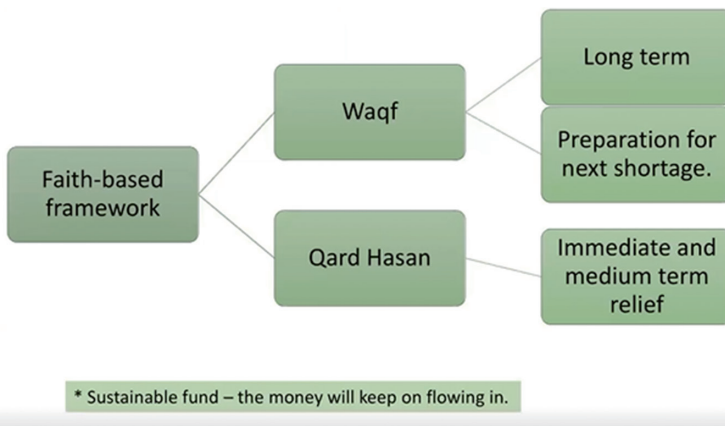


Figure 6. Financing Scheme

Source: Author

In the case of Malaysia, Bank Islam Malaysia Berhad, a fully Islamic commercial bank, operates micro financing through what they call the “*Ṣadaqa House*.” They issue a soft loan using *Qard Hasan* as part of the micro financing program. In my faculty right now, we have an agreement with the Bank Islam Malaysia Berhad to provide financing to the students for practical research on entrepreneurship. Also, as a cooperative, they provide educational loans, personal financing, and so on.

Today we can see all these things coming from cooperative institutions and also from fully fledged Islamic banks like Bank Islam

Malaysia Berhad and also Bank Rakyat, and well as institutions like the Islamic Religious Council in Johor, as a part of a microcredit scheme.

## 4. Way Forward: Integrating *Waqf* and *Qard Hasan*

### (1) Incubation Program 1

If you regard *Waqf* as something that needs proper management in order to gain the benefit, and that this will take time, then we have to have another instrument which can be used immediately, which I argue here is *Qard Hasan*. Then we can have sustainable funds where the money will keep on flowing in. From there, through the business incubator, by using the instruments of *Waqf* and *Qard Hasan*, we plan to have a proper program as well as see a growth in business and also sustainability, profitability, and finally, a beneficial impact to society.

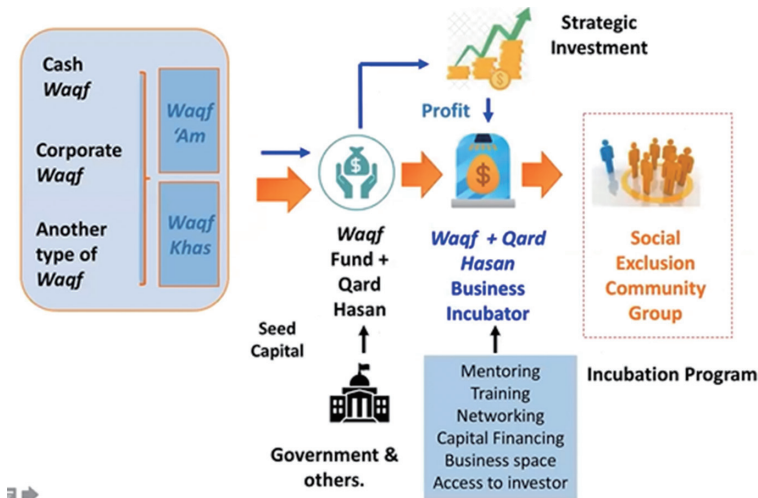


Figure 7. *Waqf* Management Scheme

Source: Author

## (2) Incubation Program 2

The figure below is the proposed framework showing how the government and other institutions like foundations use the *Waqf* fund and *Qard Hasan*, and then through the incubator program of mentoring, training, networking, capital financing, finding a business space, it can gain access to investors. This will make a community group, with the support of the incubation program, so that we can have a comprehensive program using the *Waqf* fund and also financing using *Qard Hasan*.

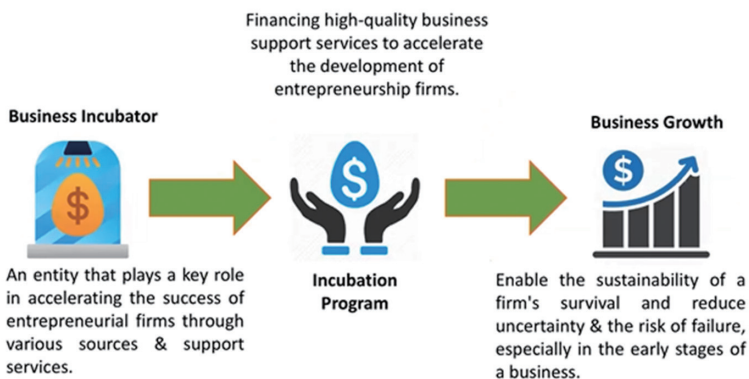


Figure 8. Proposed Framework for Using Funds

Source: Author

Finally, we can integrate *Waqf* and *Qard Hasan*. so that we can have a big reservoir for all potential Islamic funds that are flowing through the society. Either we can use it immediately or we can hold it in reserve for future needs. As it is an instrument of *Waqf*, we need to manage the principal, and we can only leverage on the benefit or the return from the principal of *Waqf*, but for the *Qard Hasan*, we can utilize that immediately.

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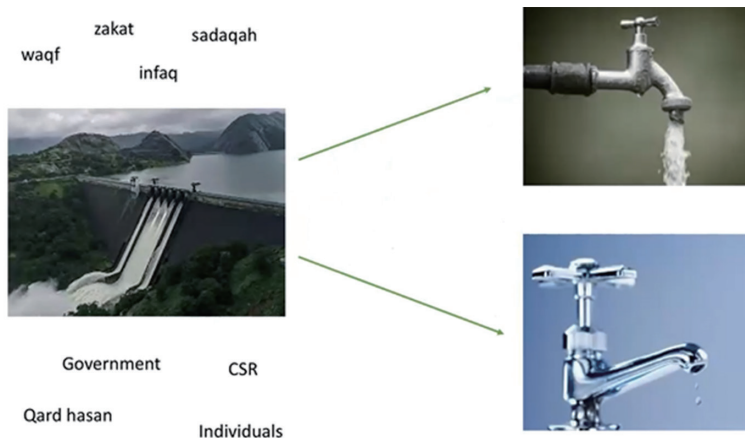


Figure 9: Flow of Islamic Funds

Source: Author

## Conclusion

For Islamic approaches to sustainable development, what I would like to propose is that the combination of *Waqf*, together with *Qard Hasan* with proper academic programs, and an incubation program for entrepreneurial activities within the regular society and among the students' society, can be quite impactful. With such a creative, proactive, anticipative, and holistic program, I believe that we can show to the world that we have some powerful instruments in Islamic Finance, but of course, the bottom line is that we have to manage them properly.

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**Dr. Muhammad Hakimi Mohd. Shafiai**



Chapter 4. Theoretical and Practical Considerations of Inclusive Islamic Social Finance through *Waqf* and *Qard Hasan*

Dr. Mohammad Hakimi is an Associate Professor in Islamic economics at the Faculty of Economics and Management at the National University of Malaysia (UKM) since December 2006.

Additionally, he is a Research Fellow at the Institute Islam Hadhari, UKM (2012–present), the Accounting Research Institute (ARI), Universiti Teknologi MARA (2013–2015), and the Center for Islamic Area Studies at Kyoto University (2013–present).

He obtained both his Bachelor's and Master's degrees in Syariah from the Academy of Islamic Studies, University of Malaya. For his doctorate, he spent three years in Kyoto, Japan (2009–2012), conducting research on Islamic Economics at the Graduate School of Asian and African Area Studies, Kyoto University.

He has made significant contributions in the fields of Islamic economics, Islamic social finance, Islamic philanthropy (*Waqf*), Islamic agriculture finance, and Islamic microfinance at both national and international levels.