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Chapter 6
Challenges in the Institutionalization of *Zakāt* and *Waqf* in Contemporary Economics

Salman Ahmed Shaikh

Introduction

In institutionalizing *Zakāt* in contemporary economies, there are certain problems which need to be resolved in order to streamline its institutionalization within a modern economic framework (Barizah and Abdul Rahim 2007). This is because major forms of storable wealth as well as modes of production have changed in the last fourteen hundred years.

In olden times, primary forms of storable wealth were property, livestock, such as goats, sheep, cows, camels, and commodities, such as gold, silver, diamond and precious stones. In modern economies, new forms of storable wealth have appeared, such as financial investments, foreign exchange and intangible assets, such as trademarks, patents, and licenses etc.

Furthermore, changes have also taken place in the modes of production. In olden times, primitive agriculture and the trade of labor-intensive manufactured goods was common. Nowadays, even developing countries have a much greater proportion of services value added as compared to agriculture value added in GDP. The industrial manufacturing and services sectors production have eclipsed agricultural production in almost every economy, regardless of their state of development.

When the Islamic jurisprudence of *Zakāt* was developed in the period soon after Prophet Muhammad, the contemporary investments, modes of production and organizational forms, such as limited liability corporations were not present. Hence, naturally, Islamic jurisprudence could not take the current context into account. Today, if we want to institutionalize *Zakāt* at the government level more formally, it is important to extend the rules to new forms of wealth and production in order to avoid anomalies and discrepancies (Mahmud and Haneef, 2011; Shirazi et al. 2009).

This chapter outlines challenges in institutionalizing *Zakāt* and also discusses how to resolve them. It also presents a workable program in which *Zakāt* along with other Islamic social finance institutions can be integrated into an institutional setup for efficient, extended and sustainable delivery of micro financial services including microcredit as well as non-financial capacity-building support.

1. Practical Challenges in the Institutionalization of *Zakāt*

(1) Multiple *Niṣāb* on Different Forms of Wealth

The first challenge is multiple *Niṣāb* (exempted value of wealth) on different forms of wealth. For example, if a person has a diversified wealth base, but wealth in each form is less than the value of *Niṣāb*, then this might result in *Zakāt* exemption, despite having a sizable aggregate value of wealth. So, if someone has 500 grams of silver, 4 camels, 29 cows, 39 sheep and goats, then that person is still going to be exempt from *Zakāt*, because he has wealth below *Niṣāb* in each category even though, the aggregate value of the wealth held by that person can be quite significant.

Even in liquid wealth, we have multiple *Niṣāb* — one amount is in silver, and the other is in gold. In silver, the value of *Niṣāb* is around

612.36 grams, while in gold, it is around 85 grams. In some countries, such as in Malaysia, the gold *Niṣāb* is used, and in other countries, such as Pakistan the silver *Niṣāb* is used (Senawi et al. 2018).

The conversion rate between silver and gold has changed drastically over the last 1400 years. Today, they are completely different values, and the *Niṣāb* in gold is almost 10 times as much in value as the *Niṣāb* in silver. If we use a silver exemption limit, then the people who are supposed to pay *Zakāt* are relatively less rich. But, if we use a gold exemption limit, then the people who are supposed to pay *Zakāt* are relatively richer. From both of these exemption limits, we get different numbers of *Zakāt* payers and *Zakāt*-deserving people.

(2) Exemptions May Result in Avoidance and Inconsistent Impact

Some exemptions in wealth that is subject to *Zakāt* may result in deliberate avoidance or inconsistent impact. There is *Zakāt* on wealth at 2.5% on gold and silver, even if not held for trade, but on other minerals like diamonds, there is no *Zakāt* if not held for trade. So, if just before the *Zakāt* due date, a person converts cash or gold into diamonds, then the *Zakāt* amount will go down as there is no *Zakāt* on diamonds and on other precious stones if they are not held for trade, no matter what their value is. So, some exemptions may result in avoidance or inconsistent impact.

(3) High Value-Added Production Exempted from Production Levy

The structure of economies and modes of production have gone through a lot of changes over the last 1400 years. From agrarian economies, we entered the era of the industrial revolution in the 18th century. In the 20th century, we entered the era of knowledge economies.

Now, we are on the brink of embracing Industrial Revolution 4.0. So, the modes of production have significantly changed over the last 14 centuries. Even in developing countries, the services sector constitutes as much as 50% of the total GDP or more while the share of agriculture has diminished considerably, to no more than 10% to 20% in many of the developing countries, and in the developed countries, the share of agriculture is now even less than 10% of GDP.

In Islamic jurisprudence, production from agriculture was subject to *Zakāt* at a 5% and 10% rate depending on the nature of the production process. Nonetheless, agriculture is no longer the dominant mode of production in terms of value-added production. In comparison, there is much greater value-added production in the manufacturing sector and also in the services sector. The list of top corporations and top billionaires shows that they are engaged in the ICT sector or sophisticated state-of-the-art industrial manufacturing.

The contribution margin (difference between sale price per unit of output and cost price per unit of output) in an agricultural enterprise is very low, because of the competitive nature of the market. Agricultural markets are the closest to purely competitive markets with a large number of buyers and sellers trading in undifferentiated goods. Hence, the difference between the selling price and variable cost is not that high because of the competitive nature of the market structure in most agrarian markets.

There is *'Ušr* (10% fixed rate levy) or half *'Ušr* (5% fixed rate levy) on the value of produce that comes from agriculture. But, what about value-creating activities in the industrial sector? What about value-creating activities in the services sector? In the manufacturing and services sector, there is more value addition and greater contribution margins. A major portion of invested capital in the economy lies in the manufacturing and services sector. A major portion of business profits also arises from these two sectors.

If we do not have the same production value levy on the services and industrial sector value creating activities, then it would result in inconsistencies and inequities. The agriculture sector is the mainstay of employment for poor farmers in developing countries. Now, if that sector is subject to a 10% and 5% flat production levy on output, then why not treat industrial and services sector output and value-creating activities in the same way?

As per current understanding in mainstream Islamic jurisprudence, industrial output would be subject to only wealth *Zakāt* of 2.5% if the industrial output is held for trade on a certain date in a year. Now, on that certain date, the stock of inventory could be very high, or it could be very low, and it depends on a lot of circumstances. If one knows the date in advance, one can also create an arbitrage opportunity if one wants to avoid *Zakāt* by liquidating the asset and buying an asset which is exempted from *Zakāt*.

Furthermore, as per traditional understanding, held for trade asset including real estate is subject to *Zakāt* if following two conditions are met:

i) The definite intention to sell the asset is there at the time of buying the asset without any semblance of confusion.
ii) The intention remains from the time of buying the asset till the time *Zakāt* due date arises without any confusion.

This opinion leaves it to the *Zakāt* payer to decide the matter and his intention — which is invisible to others — becomes the deciding factor as to whether the asset is subject to *Zakāt* or not. If he changes his intention to sell anytime from the time of buying till the *Zakāt* due date or even says that he is unsure whether to use the asset or to sell it, then the asset in his ownership would not be considered subject to *Zakāt*.

(4) Inconsistency in Incidence based on the Different Natures of Businesses

There is also inconsistency in the incidence of the *Zakāt* levy based on the different nature of businesses. In typical production processes 1400 years ago, there were simple supply chains. Now, we have global value chains. A single finished good is produced with different processes in production completed in different regions. Finally, when the product is ready in the retail market, then we have the finished goods inventory. Now if only that retailer is going to pay the wealth *Zakāt* on his inventory, then what about those at the back end of the supply chain? Their profit margins are usually higher than the retailers who compete in a more competitive retail segment.

Expensive consumer durables and specialized capital goods for firms would have lower inventory turnover ratios. Some manufacturers with streamlined efficient and short production processes might opt for just-in-time inventory and they will have high turnover ratios. Other businesses in the services sector may not have inventory as they do not sell any tangible goods. So, different businesses would have different levels of tradable inventory and their intensity of *Zakāt* payment would depend more on the nature of business rather than their size of business (invested capital in production infrastructure) or net profits. Capital intensive businesses will have greater incidence of *Zakāt* on tradable inventory if they cannot adopt just-in-time inventory due to the high cost of production and customization needs and if their production process goes beyond a year.

Businesses which are more profitable will have higher sales and higher inventory turnover ratios. Businesses which are struggling will have less sales and low inventory turnover ratios. The former class of businesses might have earned more profits and have higher capacity to pay *Zakāt* while the latter class of businesses might have earned lower profits and have lower capacity to pay *Zakāt*. Nonetheless, the latter businesses with unsold inventory will have to pay higher *Zakāt* comparatively on inventory piled up. They are required to pay *Zakāt* on the whole value of inventory regardless of whether the ex-post net income is positive or negative.

(5) A Business Cycle Downturn May Put More Pressure on Traders

A business cycle downturn can occur in many economies after certain periods of time, and in recessions, the ability to pay tax or any kind of a levy to the government is much less compared to in an expansionary business cycle period. However, if we have *Zakāt* on tradable inventory, then what happens is that there is going to be more *Zakāt* collection in recessionary and deflationary periods compared to when the economy is doing very well. If inventories are taxed rather than income, then traders and producers who are struggling to make sales are burdened even more through paying wealth *Zakāt*, irrespective of whether they can make enough sales, let alone earn any profits. It may instigate a deflationary pressure just before the *Zakāt* due date in the economy when unsold inventory is sold at significantly deflated prices causing recession and unemployment.

There is also a positive side to this story. This will discourage hoarding in the economy. Consequently, sellers are not going to be holding on to their inventories long enough because if they do, they will be subject to *Zakāt*. Therefore, they would like to have a higher inventory turnover ratio as compared to hoarding. However, again there is the problem that not all businesses have very high inventory turnover ratios. Not all businesses have the same value of inventories as well.

There are fast moving consumer goods and there are capital intensive goods as well like railway parts or airplane parts and capital equipment and so on. Thus, there will be greater incidence of *Zakāt* on businesses with low inventory turnover ratios either due to nature of business and/or due to lower sales in recessionary periods.

(6) Different Treatment of Liquid Capital and Physical Capital

There is also a difference in the treatment of liquid capital and physical capital. Yousuf al-Qaradawi (1999) and Prof. Monzer Kahf (1999) are of the view that the physical capital stock should also be subject to *Zakāt*, but the problem is that if we go by the *Nuṣūṣ*, i.e., Qur'an, Sunna and Hadith, we find that means of production should be exempted from *Zakāt*. There are many corporations which have a huge amount of wealth invested for productive purposes in physical capital goods. If investment in factories, plant, machinery and equipment is going to be treated as a means of production, then such investments would be exempted from *Zakāt*. In that case, only the liquid capital is going to be subject to *Zakāt*.

There is also a positive side to this treatment. Islamic economics encourages the conversion of liquid capital into physical capital, so that there should not be any idle capital. This can boost investment, production, employment and incomes. But the problem still remains that in a lot of businesses, especially in the manufacturing industry, the liquid capital would not be as much in value as compared to the physical capital goods.

The value of land, machinery, plant and buildings is going to be much higher compared to the cash, account receivables, liquid investments and the value of tradable inventory. Thus, if working capital management is conducted in a way that the cash flow received near the

Zakāt due date is used to purchase fixed assets in businesses, then *Zakāt* collection would go down since the means of production in a producing concern are exempted from *Zakāt*.

(7) Proposals on *Zakāt* on Shares Yield Different Outcomes

If we study the scholarly views on *Zakāt* on shares, we find that there are many opinions which are quite different from each other. These opinions have different implications, effects and outcomes. For example, if we talk about investment in shares, it is subject to wealth *Zakāt* at 2.5% which is a consensus-based view.

If an investment is made with the intention to obtain capital gain, then the entire value of the shares constitutes the *Zakāt* base. If the investment is made with a long-term holding view to obtain dividends, then only assets subject to *Zakāt* constitute the *Zakāt* base, which means that cash in hand, cash at the bank, account receivables, investments and tradable inventory, are going to be the Zakatable assets and *Zakāt* is going to be paid on them.

This kind of ruling puts the onus on the *Zakāt* payer as to whether they have the intention to hold the stock for a long term or has the intention to hold the stock for a short term to obtain capital gain in the market. The problem is that intentions are invisible, and it is quite difficult to institutionalize this kind of a ruling, because if there is going to be an external agency who is going to be administering the calculation as well as mobilization of *Zakāt*, then it is very difficult to have a system where we could come up with a uniform law and way of administering *Zakāt*, if we are going to base our decisions primarily on people's intentions.

Hanafi Jurists allow all debts to be deductible against the Zakatable value of assets. If we talk about the balance sheet of any manufacturing concern, on the asset side, there are current assets and fixed assets. Usually, the value of fixed assets is more than the value of current assets. Now, what happens is that if from the Zakatable current assets, we allow all the debts to be deductible, then most corporations are going to have a negative net Zakatable base since current assets minus total liabilities will most probably be a negative number for most corporations. Then in that case, there is going to be no *Zakāt* chargeable on shares. Almost 75% of all the invested wealth is in the corporations. Most bank financing also goes to corporations. Therefore, if we allow all debts to be deductible from the Zakatable value of assets in corporations, then 75% of the invested wealth would not be effectively in the *Zakāt* basket anymore.

On the other hand, Shafi'i jurists have a different view. They do not allow debt to be deductible against Zakatable value of assets and this results in a different outcome. Hence, these juristic differences create problems about how to institutionalize the system of *Zakāt* in a standardized way. This also affects the potential amount of *Zakāt* collection and hence its socioeconomic effects.

Some Hanafi Jurists like Maulana Mufti Muhammad Taqi 'Usmani have also suggested that we should not allow all debts to be deductible against value of Zakatable assets. Only the value of those debts can be deducted which have been taken to buy Zakatable assets.

(8) Condition of Strict *Tamlīk* (ownership) Limits Usage Beyond Asset Transfer

The condition of *Tamlīk* (ownership) implies that the receiver of *Zakāt* shall become the owner of the value of the *Zakāt* so that he can use it the way he desires by having financial autonomy. Even though, this condition has a positive aspect which is to ensure financial autonomy and prohibit misuse or exploitation; nonetheless, the condition of ownership transfer to the individual human being in *Zakāt* limits the usage of *Zakāt* funds in providing indirect benefits. Such indirect benefits are provided through building schools, hospitals and producing public goods that benefit not only a particular individual, but a group of individuals or society at large. When we talk about public goods, these are non-rival and non-excludable goods. When public goods are provided by the state outside of the market, non-payers cannot be excluded from the usage of these public goods. For instance, when the state provides water filtration service, it benefits society, but no one single person owns that public good. If we take the position that *Zakāt* funds cannot be used to provide public goods and build the infrastructure of institutions which provide indirect benefits to the poor, then it may introduce inflexibility in the way *Zakāt* funds could be used for the broader welfare of people and society.

2. Reassessing *Zakāt* Administration in Modern Economies

The challenges discussed so far require revisiting *Zakāt* administration in modern economies. First of all, if we have guidance from the *Nuṣūṣ*, i.e., Qur'an and Sunna including Hadith, then they shall be our primary sources to think over redesigning the system of the administration of *Zakāt* in contemporary economies.

Some scholars have gone beyond *Nuṣūṣ* to favor *Ijtihād* which goes against the *Nuṣūṣ* even in matters where we have explicit guidance from the *Nuṣūṣ*. If we have guidance from the *Nuṣūṣ*, then we should stick to it. For instance, the *Niṣāb* and the rates of *Zakāt* have been identified in the *Nuṣūṣ*, so we cannot change them. However, there are things which can still be changed with the advancement of technology and changes in economic structure.

In some cases, *Ijtihād bi l-Qiqās* from the *Nuṣūṣ* is possible and it has been used in Islamic jurisprudence and we have examples of that in the Islamic tradition. For instance, horses were exempted from *Zakāt* in earlier period, but then they were brought into the *Zakāt* net later on. Likewise, production in a forest was not part of the initial administration of *Zakāt*, and then it was brought into the *Zakāt* net (Nadvi 1996). Initially, the state was responsible for complete *Zakāt* collection, but then due to administration difficulties, it was decided that only *Amwāl Ẓāhira* — only those forms of wealth which are quite easily discoverable, and which can be monitored very easily and can be collected very easily — would be subject to the collection of *Zakāt* by an external agency, meaning the state. Meanwhile, for *Amwāl Bāṭina* — those forms of wealth which are not quite as easily discoverable — it would be allowed to pay *Zakāt* on them privately. These matters were decided for administrative convenience in that period. Now, with the changes in technology and in the way we document the economy, there might be situations where we do not have to make certain exclusions or exemptions.

For instance, blockchain technology provides an easy and robust way of documenting the different economic activities, and also the ownership of different kinds of assets, digital as well as real and financial. Therefore, it is quite possible that those administrative steps that we were taking initially are no longer needed for applying *Zakāt* on perishable goods like vegetables since it was hard to document, collect and distribute such forms of production. Without fast transportation and refrigeration facilities, it used to be difficult to keep them fresh and usable while transporting them to different areas. So, under those difficult circumstances, the *Zakāt* administration was treating them differently. However, this does not mean that we have to just take only those forms of wealth and production in *Zakāt* net which were there 1400 years ago. If we went by that route, then there would be lots of inconsistencies as well as cases of injustice.

3. Alternative Proposals on *Zakāt*: The Way Out

Some of the issues that we have talked about have already been dealt with and some issues are still outstanding. From the economic standpoint, there is a need to revisit contemporary forms of wealth, business organizations, modes of finance and operations of institutions to come up with consistent rulings of *Zakāt* on new forms of wealth, production and income earning pursuits. Prof. Monzer Kahf, Yusuf al-Qaradawi, and many other renown jurists and Muslim economists, are at least favoring this point of view in a broad sense. They have different ideas on the specifics of how to bring changes and reforms, but they do agree on the need for reforms.

Zakāt is meant to purify wealth, as is stated in the *Nuṣūṣ* (Qur'an 9:103). In his magnum opus, *Fiqh az-Zakāt*, Yusuf al-Qaradawi has given a lot of references from the *Nuṣūṣ* as well as from the opinions of the jurists to emphasize the need for a consistent extension of the *Zakāt* net on new forms of wealth. If *Zakāt* is meant to purify wealth, then considering only some forms of wealth as subject to *Zakāt* opens loopholes and room for *Zakāt* arbitrage. So, from an economic perspective, any asset (real or financial) that can perform the function of a store of value beyond regular personal use can be classified as one of the forms of wealth subject to *Zakāt*. Divisibility of investments, securitization and financialization of assets allow people to have growth in all forms of wealth directly or through convenient exchange.

That is one way to go forward in institutionalizing wealth *Zakāt*. Now what about *Zakāt* on value creating activities where there was

'Ušr (10% levy) and half-*'Ušr* (5%) on agricultural produce. Such value-creating activities are not limited to agriculture anymore in contemporary economies. In the composition of GDP, the manufacturing and services sector together constitute almost 80% of the GDP. In the manufacturing sector, value creating activities resulting in tangible goods production come within the *Zakāt* net with 2.5% *Zakāt* on tradable inventory. Nonetheless, since this rate is charged once a year with allowance of adjustment of debt, it is quite possible that tradable inventory minus debt turns out to be a negative figure whereby there is no *Zakāt* due on business assets. On a single day, the value of variable inventory in someone's hand could be any number depending on lots of circumstances one cannot know in advance. One cannot really rely on it for a sustainable source of *Zakāt* mobilization.

In the services sector, such value-creating activities do not result in tradable inventory. So, all of these value-creating activities which constitute 50% or more of the GDP are going to be excluded from *Zakāt*, because there is no storable inventory in the services sector. If the essence of *'Ušr* is to apply *Zakāt* on value creating activity resulting in production or income, then this principle can be extended to contemporary value-creating activities in the manufacturing and services industries.

Lastly, let us consider *Zakāt* on shares. When we buy a stock, we are making a divisible investment through financial securities in a value creating economic enterprise. In economic enterprise, means of production are exempted from *Zakāt* and only the value of production is subject to *Zakāt* at 5% (*Niṣf-'Ušr*) and 10% (*'Ušr*). From the perspective of investor, income on stock investment comes with employment of investment capital, but not labor. In this regard, income on stock investment can be subject to *'Ušr* rules rather than *Zakāt* on wealth. *'Ušr* is due on agricultural production where water is not provided by the producer. Hence, when factors of production are less intensely used in the production process, then there is a greater charge, i.e., 10% instead of 5%. This view of applying *'Ušr* rules on stock investment, which is an indirect way of engaging in economic enterprise, is favored by Professor Akram Khan (2005) in his comments on the paper by Professor Abdul Azim Islahi and Professor Obaidullah (Islahi and Obaidullah 2004).

If we look at the merit of this view, it is quite logical, and it effectively resolves the inconsistency that we have discussed. Likewise, those who are salaried professionals, those who are earning royalty income and those who are earning consultancy income, they all can be brought into the *Zakāt* net. It is important to look at whether they are putting in labor only in economic enterprise or capital as well. Consultants, self-employed professionals like doctors and salaried professionals earn through labor only. Hence, their income can be treated under *'Ušr* rules and *'Ušr* can be deducted at source.

When someone invests only capital in the stock market in buying shares, he or she is providing capital in the economic enterprise, and hence the income arising from that can be subject to *'Ušr*. This is based on the premise that on agricultural production, if we have production coming from the intensive use of both labor and capital, then the value of the produce is subject to 5% or half *'Ušr*, and if the value of production is coming from a production process in which there is intensive use of only the capital or labor; then in that case, the value of produce is subject to charge of complete *'Ušr* meaning 10% (Siddiqui 1982).

Hence, it is important that *Zakāt* administration should not have loopholes, should not allow *Zakāt* arbitrage and does not exempt huge amounts of wealth invested in some activities while only taxing the poor farmers in agriculture at market value of production without allowing debt adjustment and exemption.

4. Institutionalization of *Waqf* in Contemporary Economies

If we talk about *Waqf*, it is less complicated. It is more flexible to use *Waqf* assets and funds for a variety of beneficial uses. One issue comes in dealing with concept of perpetuity when the *Waqf* asset is in cash form. It is because cash is useful when it is spent. Once it is spent, it is no longer intact. However, the solution proposed by scholars is that instead of using cash in *Waqf* for beneficial uses, the cash shall be invested in less risky investment options to generate regular income stream. The income earned on less risky investments can be used for beneficial uses. In this way, the principal value of cash remains intact.

Another issue comes in the strategic repositioning of the *Waqf* if required with the passage of time. *Waqf* rules state that the instructions by *Waqf* are just as binding as *Nuṣūṣ*. Nonetheless, with the passage of time, it is possible that the *Waqf* asset requires strategic repositioning to make it more useful and valuable. For instance, if a well or mosque was built and if somehow, there is less population in the area, then the *Waqf* asset or property over there can be exchanged with another asset or property somewhere else where there is need for such asset or property. Likewise, if an agricultural farm was endowed as *Waqf* and it becomes less productive due to shortage of water or deterioration in soil quality, then the farm can be exchanged with another one in a different locality where there can be more effective use of the *Waqf* property.

Contemporary jurists had devised rules under which exchange and substitution of *Waqf* assets is allowed under strict governance. A balance is kept between giving due importance to the instructions of the *Wāqif* while also ensuring that, if necessary, the *Waqf* assets can be changed or substituted to protect against a loss of usefulness of *Waqf* assets or property.

If the *Waqf* deed is worded in such a way that a provision is kept for exchange and substitution is permitted by the *Wāqif* himself, then this can further simplify the issue and avoid the situation of conflict between *Wāqif*'s instructions and the demands of realities on the ground. Hence, there is much less complication in institutionalizing *Waqf*. The issues which arise are resolvable through contemporary juristic opinions. If we combine both *Zakāt* and *Waqf* together in an integrated institutional setup, then the synergistic benefits of both institutions can help in building sustainable institutions for social protection. The next section provides one proposal in this regard.

5. Integrating *Zakāt* and *Waqf* Islamic Microfinance Model

The problems in conventional microfinance include small scale, lack of sustainability, and limited outreach. So, an alternate structure or program has to ensure three goals, i.e., achieving adequate scale, sustainability, and outreach. This can happen if we have a stable source of funding. With a stable source of funding, both financial as well as non-financial support can be provided to the clients.

Hence, there is a need and strong case for introducing an integrated Islamic microfinance model (Hassan 2010; Nadzri et al. 2012; Shirazi 2014). It will not only take care of the financial needs of the clients, but also the non-financial needs of the clients. Through this, we can provide not just financial services, but a complete lifestyle in which a beneficiary would get not only financial support, but also non-financial support. Moreover, this would also increase the commitment of clients to the program since they are getting not only financial services, but also non-financial services for their survival.

If clients do not pay their financing commitments on time, they will not only suffer in terms of not getting access to finance in the future, but also from being excluded from all the other non-financial support they were getting from the integrated microfinance model.

To encourage more commitment and engagement, it is important that we should have a microfinance model which not only provides financial services in the form of credit, but also provides non-financial services. The way to do that is to institutionalize different services under one institutional setup to economize on cost. Rather than doing it on a small scale with a limited financial base, we should have a strong and sustainable financial base for the funds. With the inclusion of other players in the whole ecosystem, different services can be provided without duplication of infrastructure investment and incurring additional search and outreach costs.

In scaling operations, there is a need for more financial resources as well as human resources. Such can be mobilized through synergistic partnerships and collaborations. A prospective Cash *Waqf*-Based Islamic Microfinance Model (CWBMF) is illustrated in Figure 1. It mobilizes financial resources through i) cash donations with a purely altruistic motive and ii) impact investments. Impact investors look for dual investment objectives, i.e., doing well by doing good.

On the financing side, clients are segregated into poor and non-poor. Poor clients are served with *Qarḍ Ḥasan* without any extra financial burden. Non-poor clients are eligible for financing through Islamic trade and lease-based modes of finance, such as *Murābaḥa* (deferred payment sale), *Ijāra* (asset lease leading to acquisition) and Diminishing *Mušāraka* (asset financing on declining equity basis). Non-poor clients will also be encouraged to engage in micro-savings and such impact investments will provide an indigenous source of funds as well.

The model in Figure 1 can be further strengthened by extending the service network and engaging i) volunteer trainers and educational institutions for capacity enhancement, ii) *Takāful* institutions and hospitals for health risk management and iii) retail stores for subsidized purchases. This engagement in such a microfinance program will provide not only financial support but also non-financial support in the form of capacity building, health risk management and subsidized purchase of essential goods to manage affordability. This will require joint ventures between the microfinance institution with retail stores, *Takāful* institutions, hospitals and educational institutions. Such institutions in civil society will be forthcoming to play their part as most of these institutions are not profit-based institutions. Figure 2 illustrates the Integrated Cash *Waqf* Based Islamic Microfinance Model (ICWBMF).

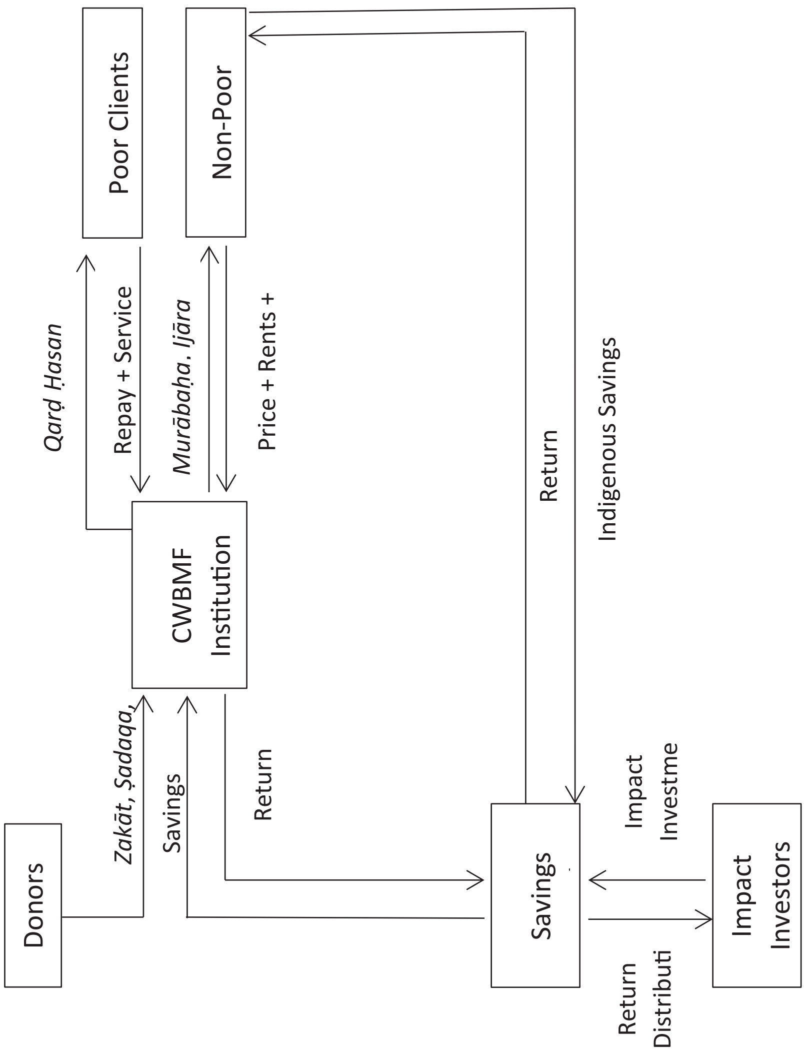

Figure 1: Cash *Waqf* Based Micro Finance (CWBMF) Model
Source: Author

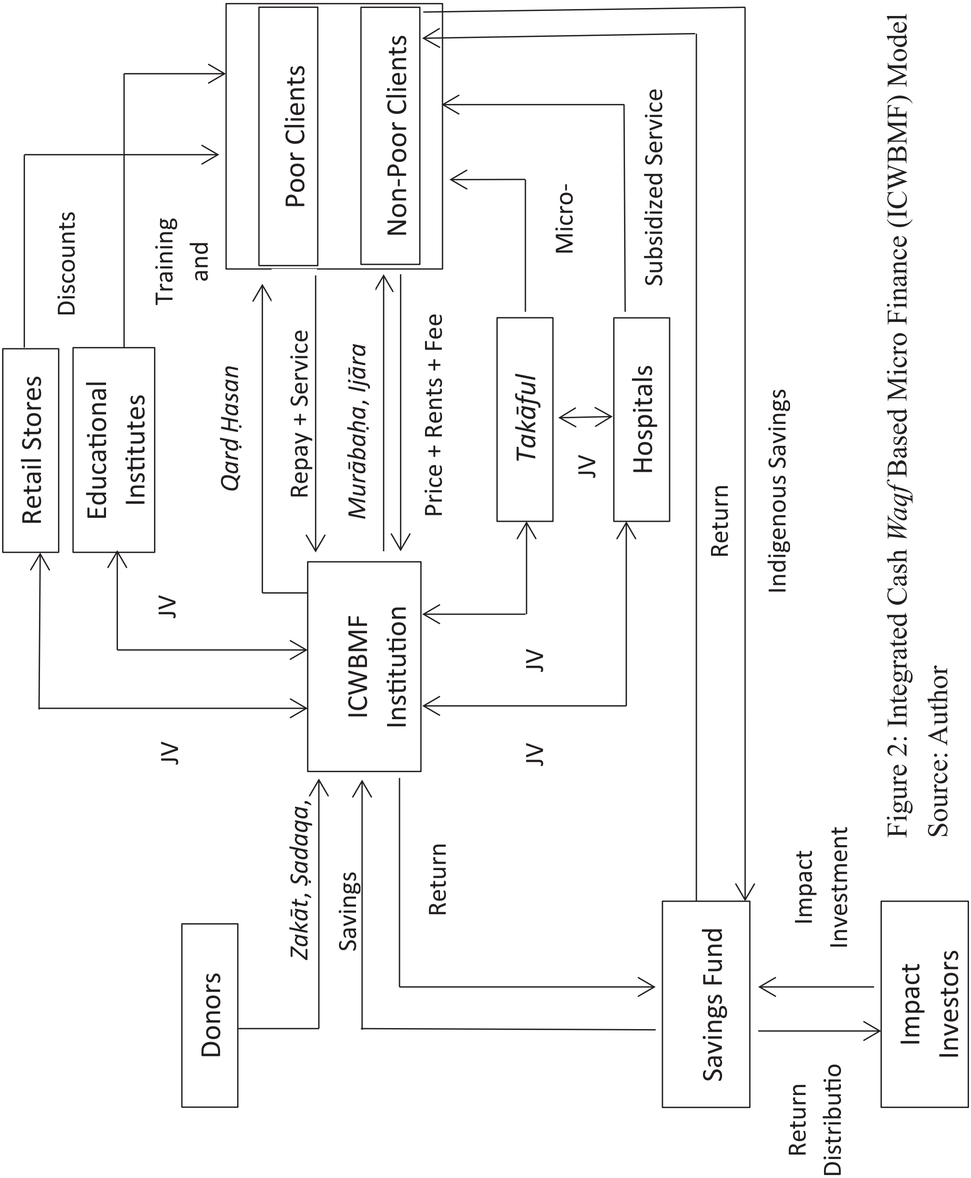

Figure 2: Integrated Cash *Waqf* Based Micro Finance (ICWBMF) Model
Source: Author

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Dr. Salman Ahmed Shaik

Chapter 6. Challenges in the Institutionalization of *Zakāt* and *Waqf* in Contemporary Economics

Dr. Salman Ahmed Shaikh holds Ph.D. in Economics from the National University of Malaysia. He has a Masters in Economics from the Institute of Business Administration (IBA) Karachi. Currently, he is working as Assistant Professor in Department of Management Sciences at SZABIST Karachi.

He is a published author with 36 peer-reviewed indexed research papers, most of which have been published in Web of Science, Scopus or ABDC ranked journals. He has also presented research works in 35 international research conferences held in Malaysia, Turkey, Japan, Brunei, Indonesia and Pakistan. He has also contributed 17 book chapters in book publications by Routledge, Springer, Palgrave, Edward Elgar, DeGruyter and Gower Publishing.

In professional corporate career, he has worked for Meezan Bank, BMC Pakistan and Bankers' Academy, USA. He has also worked for ABN AMRO and Citibank for management internships. He has also conducted corporate training at leading multinational companies like Coca Cola. In Malaysia, he led Workshop on Stress Testing in Islamic Banking for Bank Executives.