

Integrating Model of Religious and Corporate Charities in Islamic Microfinance Institutions for Poverty Reduction

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Abstract

Purpose: Poverty is a plague that impact developing countries worldwide, but its impact can be heavily felt in Muslim Majority countries where poor health, education, infrastructure problem is rising at alarming rate. The purpose of this paper is to integrate religious and corporate charities in microfinance institutes that will alleviate poverty.

Design/methodology/approach: In this research, qualitative research method is used by relying on secondary data from previous scholarly works, working papers, case studies and relevant internet sources.

Findings: This paper justifies the integrated model for religious and non-religious sources of funds in Islamic finance that will help poverty reduction.

Research limitations/implication: The gap left behind by this paper is for future researcher to carry out empirical investigation of viability of this model.

Originality/value: The theoretical research is a contribution to theory and practice of CSR and Islamic economies.

Keywords: Corporate social responsibility; Microfinance; Waqaf; Sadaqah; Zakat

Introduction

Poverty has been the main concern for most developing countries. It is the socio-economic deprivation and a global phenomenon that affects 40 percent of world's seven billion population that earns less than US\$2 a day [1]. Around 1 billion people don't have access to clean water 115 million children don't get primary education and 10 million children died due to preventable illness [2]. Although it's a global issue but in Muslim Majority Countries particularly 44 percent out of 1.7 billion people live below poverty line [3]. Two digits poverty rates prevail in nine Muslim majority countries [4].

After the World War II, world leaders started to address the poverty circumstances. After the Europe reconstruction, developed countries commence their efforts to "bring up to date" underdeveloped areas. Religious organization also shared their view of improving poor life conditions [5]. However, the role played by religious organizations and religiously motivated individuals lack recognition. One aspect of poverty alleviation is Microfinance institutions that provide financial services to low income groups that are not served by traditional banks [6]. Their financial services include savings, insurance, payment and credit services [7]. However, all microfinance banks strategies have not been very effective and need to be change with more innovative political and cost-effective strategies [8,9]. This led to adoption of corporate social responsibilities as another tool for poverty reduction [10].

In Muslim societies, social justice and justice can be achieved by implementing proper Zakat, Waqf and Sadqah System [4,11,12]. In traditional Microfinance system, equality can't be achieved as it requires excessive interest from poor and instead of equality non-equity prevail in society [13]. Zakat is the third Pillar of Islam and is considered as Principle weapon of Poverty reduction [14]. Waqf is the religious endowment.

This paper objective is to establish a new model for microfinance institution that integrates principles of Islamic charity like Zakat, Sadaqah, Waqaf with non-religious charity CSR. This paper discussed

in four parts. First part is introduction, part two is literature review, part three is discussion of model proposed and final part concludes with research gap and future implication.

Review of Literature

Islam and poverty

Poverty is a multi-dimensional aspect that is impediment for economic development and life improvement of poor people worldwide. It is a situation that is experienced due to no of factors ranging from political, economic to social and cultural factors [15]. The SEA defines poverty as an unfair practice that precludes and stop people from having access to basic things of life like housing, health, water, good diet, etc. [1]. In Islam, it is believing that although all people are given same opportunities but not all have same economic status. Its reason is individual difference ability to acquire a specific status [16]. In Islam poverty is defined as situation in which and individual don't have five basic requirements that is religion, physical self, knowledge and wealth. Removal of poverty is viewed as a part of social system and faith in Allah. Problem of Poverty has been faced many civilizations. As Qardhawi identifies that position of poor before Islam in Egypt and conclude that poverty results by having no excess to land and productive activities [17]. In Islam, he issued of lack of access to productive capital has been addressed by establishing social justice and social insurance [18].

The concept of equality can be evident from income distribution

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Received September 07, 2017; Accepted September 25, 2017; Published October 05, 2017

Citation: Butt QTA (2017) Integrating Model of Religious and Corporate Charities in Islamic Microfinance Institutions for Poverty Reduction. J Bus Fin Aff 6: 293. doi: 10.4172/2167-0234.1000293

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through Islamic charities like Waqaf, Sadaqah, Zakat [5]. Islamic charities play a significant role in poverty alleviation. Compulsory Charity is Zakat and if benefits of charity are permanent than it is Waqaf or Sadaqah jariah [18]. Zakat and Sadaqah are used in income distribution and Waqaf is used for long term investment (Table 1) [19].

Microfinance

The term Microfinance is used for short term lending mostly with shorter period. It is used for financial stability of low income groups. In Most countries, poverty reduction projects are main focus of Microfinance institutions. Most of the people that do not have collateral get credit facilities from Microfinance Institutes [14]. Islamic Microfinance is popular in Muslim and non-Muslim communities. Terms of Microfinance make it more viable option as discussed below:

- Risk sharing: Islamic Microfinance is more attractive for borrowers as compare to conventional banking products as risk is shared between investors and client.
- Profit Sharing: Lending Institutes become strong partner and take more interest because of co-ownership.
- Fixed rates Repayment rate: Islamic Microfinance products have fixed repayment rates as it prohibits earning of interest through profit.
- Transparency: In contract liability of partners are clear that make these products more transparent.
- Social Welfare and Justice: In line with Shariah complaint Products, Islamic microfinance institutions ensure transparency and justice that is also purpose of Islamic Justice System.

In Literature, different studies have supported Microfinance system based on Islamic finance. According to Islamic principles can be applied to maintain practical microfinance Institutions [20]. It can be used in saving mobilization and project financing. Islamic financial approaches promote justice, social equality and financial inclusion of poor [21].

Waqaf

In Arabic, Waqaf means to discontinue or to conserve Institutes [5]. According to Doi [22], Waqf means setting aside valuable property and tangible assets by the owners of property as gift for Allah for the benefit of Humanity. Waqaf has two classifications Waqf al-Ahli and Waqf al-Khayri [1,22]. The term Waqf al-Ahli is a donation set aside for the family of the person making an endowment. It is a type of guarantee because it ensures security of family and realities of dedicator. The waqaf-al-khayri is to set aside property for general wellbeing off poor, widows and under privileged people. Mostly, Waqaf assets are land and building used for religious purpose. Worldwide, increase in cash Waqf has been observed. Apart from welfare, Cizakca Recommends the use

of Waqf as seed capital for poor in society [11]. According to Ahmad, returns earned on waqaf can be used to subsidize micro credit [12].

Zakat

Zakat means to grow [17]. Zakat can be defined as “Amount of money taken from wealth when it reached at particular amount in a particular time that must be spend on definite categories in definite ways” [23]. Shariah has defined the rules for the payer and receivers of Zakat. The leading beneficial of Zakat are poor [18]. Zakat funds can be used to for equal distribution of wealth, circulation of capital in economy and mitigating poverty and social permanence achievement [24]. In Holy Quran Zakat has been used as reference 30 times, at some points Prophets are address as example and Muslims area address for its implementation [14]. Its importance can be exemplified by the incident in Islamic history when first Khalif Aby Bakr declared war against non-payers of Zakat. Paying Zakat purify wealth and make heart free from self-indulgence. However, elements of Zakat are not completely fulfilled. It can be evidence from these Verses of Holy Quran:

Those who establish regular prayers and give in regular charity, and have (full) assurance of the hereafter (Surah Naml: 3).

Those who believe, and do deeds of righteousness, and establish regular prayers and regular charity, will have their reward with their Lord: on they shall be no fear, nor shall they grieve (Surah Baqarah, 277).

In many Muslim countries, no proper system for Zakat collection exists and individuals are free to select to whom they will give Zakat. By establishing a system for Zakat collection in Muslim countries, Zakat Fund can be used for poverty reduction by providing these funds to Microfinance Institutes. As most of the Zakat is paid in Ramadan but the poor require help throughout the year, this can stop the continues funding of two Microfinance Institutes [5]. By using other Islamic and non-Islamic sources of charity as proposed by model in this paper this problem can be overcome. Moreover, by creation of Zakat fund and deducting Zakat monthly from Salary as practiced in Indonesia continued funding can be ensured [25]. Few Researches have been done on Zakat funds management and investment.

Sadaqah

The word Sadaqah has been derived from “sidq” that means giving money and goods for the sake of God to get benefit in this life and afterlife [17]. Now-a-days, sadaqah is charitable e donation and is given in many forms like abarruat (donations), heba (gifts), infaq (charitable spending) and may indicate any act of kindness and charity [26]. The Qur’an affirms: 'those who believe, and do deeds of righteousness, and establish regular prayers and regular charity, will have their reward with their Lord: On them shall be no fear, nor shall they grieve' (2:277). According to Islamic teaching, charity and Sadaqah has multiple benefits. It protects from all kind of evils and act for any shortcoming in previous payment of Zakat [23].

	Zakat	Sadaqah	
Compulsory/Voluntary	Compulsory	Voluntary	Voluntary
Rate	Fixed rate	Any amount	Any amount
Investments	Generally not Invested	Generally not invested may be change according to need	Invested in social or economic asset
Time for payment	Mostly in Ramadan	Any time	Any Time
How payment is made	Generally paid in cash or stocks	In any form of Asset	Can take the form of any asset – cash, land, coins, jewellery

Source: (Hassan and kabir, 2010).

Table 1: Poverty alleviation tools in Islam.

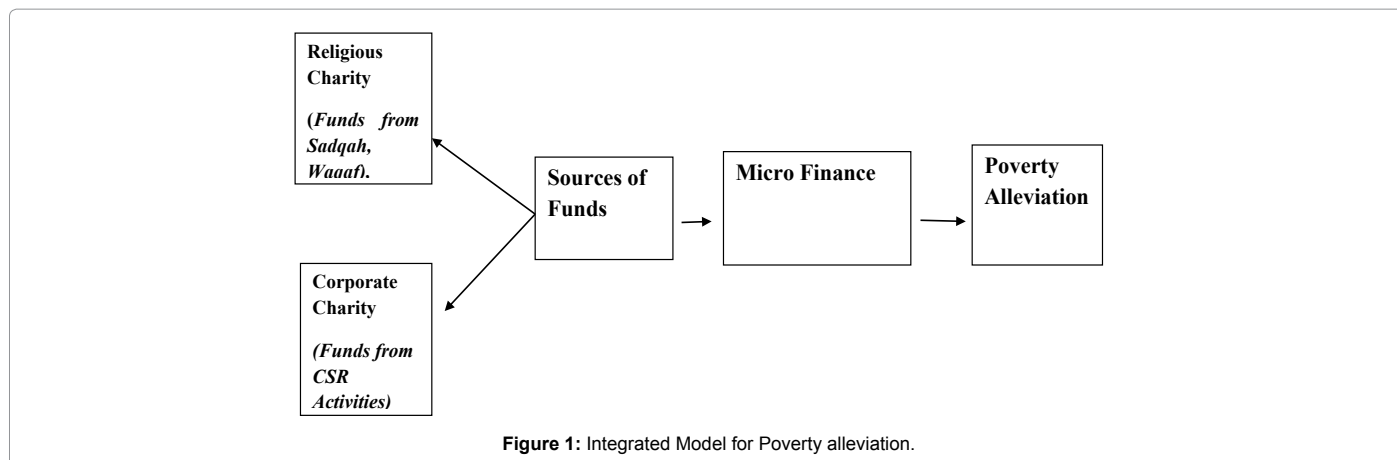


Figure 1: Integrated Model for Poverty alleviation.

The main difference between Zakat and Sadaqah is that Zakat is compulsory while sadaqah is voluntary. Total amount of sadaqah collected through institutions is low because of voluntary act. By institutionalizing Sadaqah and including corporate philanthropy can generate more funds that can help to boost performance of microfinance institutes [5].

CSR

Corporate social responsibility is defined as ethical duty placed on corporations' due to their social obligation to improve their environment in which they operate [27]. Recently, Corporations engagement in poverty reduction programs has been increased due to different CSR initiatives in developing nations [28]. CSR is a voluntary obligation like Islamic concept of Sadaqah. It is a compassionate duty carried by responsive individuals and corporate bodies. CSR amount is spending on different projects like education, health, infrastructure facilities. Many countries regulation also emphasize corporate to report their annual CSR amount in annual reports. If the amount of CSR projects is collected by a central agency that will use this amount for Microfinance financing than it can lead to better usage of money on macro level that helps in poverty mitigation. A public-private partnership is suggested in this research as such partnerships will ensure the fair usage of funds. Representative from Corporate bodies and Microfinance Central Regulators are suggested. Model suggests integration of Corporate Philanthropy activities with conventional Microfinance institutions.

Proposed Model

Based on unique aspects of Islamic financial principles for poverty alleviation there is a potential for Islamic Microfinance Institutes to achieve success by incorporating Islamic charities and funds from Corporate Social responsibilities as additional source. The Propose Model as depicted in Figure 1 has two funding sources. One from Individual Islamic charities and other is corporation charities. As a result, integrated institution of Microfinance will get continues supply of fund. Microfinance institutes will use this fund for economically poor people to improve their economic status. If poor will earn adequate skills by using these funds than they can start new microenterprise that benefits others.

The role of Government in this framework will be to enable environment and CSR implementation and establish institutes for transparent collection and usage of Islamic charities. There should be inclusive governance and management structure. There should

be separate management in Microfinance institutes for corporate charities and to manage projects established from CSR funds. The funds accumulated from CSR, Zakat, waqaf and Sadaqah could be used as welfare support schemes to alleviate poverty. This model will be acceptable in Muslim countries because activities in Muslim societies are guided by the Principles laid down in Quran and Hadith. By contributing funds towards microfinance institutes, a highly reward for wealthy individuals, corporation and social entrepreneurs will be earned. As Prophet (PBUH) also said:

“The example of the Believer in their mutual love and mercy is like the example of a body, if one part of the body feels pain, then all the body suffers in sleeplessness and fever” (Al-Bukhaari).

Conclusion, Implications and Recommendation

This theoretical research sets out to integrate CSR, Waqaf, Zakat with Microfinance institutes for poverty reduction and economic development in Muslim Majority Countries. In line with the set objectives and literature review a model is proposed. In clear term, poverty alleviation is linked with performance of microfinance institutes. This paper is a contribution to theory and practice of Islamic charities and CSR in the field of Islamic economics. The model when operational will help to increase performance of microfinance institutes in Muslim majority countries. The gap left behind by this paper is for future researcher to carry out empirical investigation of viability of this model. This could include operational structure and regulatory frame work for collecting and utilization if funds in Microfinance institutes.

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