



## Chapter 4

# FinTech–Based Islamic Social Financing Products: A Critical Evaluation

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### ABSTRACT

*Although the blockchain is still at its infancy stage, experts have already regarded its impact and effect as the beginning of a new technological revolution, particularly relevant to the financial services sector. There are various institutions offered by Shari`ah, like zakah, waqf, sadaqah, and qard hasan, which exist and are already established, not only in the Islamic juristic literature but also in the Muslim world. However, the role of such institutions has been marginalized due to various factors; hence, they fail to create a big impact at macro level. This chapter will critically analyse the role of fintech in rejuvenating the Islamic social financing products with the main focus on blockchain and smart contracts. It will explore the application and usage of blockchain and smart contracts in the context of zakah, waqf, and qard hasan. It will also serve the purpose of a comprehensive and crucial reference-point for the role of fintech, blockchain and smart contracts vis-à-vis Islamic social financing products.*

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## INTRODUCTION

Giving charity is one of the noblest acts in Islam, for which the reward is immensely huge. The Prophet Muhammad (ﷺ) is reported to have said:

*“When a man dies, his deeds come to an end except for three things: continuous charity (sadaqah jariyah); a knowledge which is beneficial, or a virtuous descendant who prays for him (for the deceased).” (Sahih Muslim, Book 13, hadith # 1383)*

That is why, Islam encourages people to get involved in charity and altruistic acts, no matter big or small. And Shari‘ah provides a complete eco-system for Islamic philanthropy to ensure that wealth does not revolve among only the rich of a society.

There are various Islamic social institutions, like *zakah*, *waqf*, *sadaqat* and *qardh hasan* which are proposed by Islam. These institutions always played a pivotal role of sustainable economic development in a Muslim society throughout the history of Islam. The whole social ecosystem was an integral element of the financial empowerment program of the people which actively contributed in the financial inclusion, poverty alleviation and fruitful mutual community initiatives. However, recently, these important institutions have been generally failed to produce substantial impact within the Muslim society. There is an array of issues and challenges facing such institutions in the contemporary world, this paper explains how Blockchain and smart contract technologies can help these institutions for better governance, lower transaction cost, more transparency and higher trust; hence, enhancing the business flexibility and market accessibility. It also presents some related cases that are currently under development as an evidence for the practicality of these technologies in the Islamic social finance arena.

**Key Concepts and Terms:** It is crucial to have to have a clear understanding of the key Islamic charity concepts and terms, since these concepts are at the core of this chapter.

**Zakah:** The very word ‘zakah’ literally means purification and growth. However, in the Islamic law, zakah is defined as the act of placing one’s wealth into the ownership of a specific deserving person given the fulfilment of certain conditions (Al-Jaziri, 2009).

The obligation of zakah has been mentioned in the primary sources of Shari‘ah, namely, the Qur’an and the Sunnah or the traditions of Prophet Muhammad (peace and blessings be upon him - pbuh). For example, the Qura’n says:

*“Take, [O, Muhammad], from their wealth a charity [zakah] by which you purify them and cause them increase and invoke [Allah’s blessings] upon them. Indeed, your invocations are reassurance for them. And Allah is Hearing and Knowing.” (Al-Qur’an, Chapter al-Taubah, 9:103)*

Abu Huraira narrated that Prophet Muhammad (pbuh) is reported to have said:

*“If any owner of gold or silver does not pay what is due on him, when the Day of Resurrection would come, plates of fire would be beaten out for him; these would then be heated in the fire of Hell and his sides, his forehead and his back would be cauterized with them. Whenever these cool down, (the process is) repeated during a day the extent of which would be fifty thousand years, until judgment is pronounced among servants, and he sees whether his path is to take him to Paradise or to Hell. It was said: Messenger of Allah, what about the camel? He (the Holy Prophet) said: If any owner of the camel*

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