


Chapter 23

Islamic Social Finance: Integrating Zakah Funds in Microfinance and Microenterprise Support Programs: Selected Case Studies

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ABSTRACT

Alleviating poverty and inequality are among the central objectives of zakah in the Islamic economic system. These objectives are also on top of the 17 SDGs of the UN 2030 Agenda. This research argues that microenterprise support programs (MSPs) have been proven as effective tools in combating poverty. However, lack of funds has always been a major challenge for the sustainability of those programs. Channeling zakah funds to MSPs will directly contribute to empowering deprived populations and helping them to lift themselves out of the poverty cycle. Two zakah-based MSPs have been analyzed in this chapter. The first one is the Asnaf Entrepreneurship Program of Lembaga Zakah, Malaysia and the second one is Baitul Maal Muamalat Indonesia (BMMI). According to literature, using zakah in (MSPs) requires a strict implementation of best practices including screening program beneficiaries, providing professional training and monitoring to businesses, and finally applying a graduation scheme.

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INTRODUCTION

Zakah is one of the most effective tools in the Islamic fiscal policy and economic system that has been introduced to achieve a variety of socio-economic objectives. On top of those objectives are poverty alleviation and wealth redistribution. The former objective is clearly indicated in the *hadith* narrated by *Imam* al-Bukhari when the Prophet (PBUH) commanded Mu'adh bin Jabal, his delegate to govern Yemen: "Inform them (the people of Yemen) that Allah has made a charity obligatory upon them, that is collected from their rich and given back to their poor." (Al-Bukhari, 1422.H); the latter objective – wealth redistribution- is mentioned in Surat (At-Tawbah) "*Zakah* expenditures are only for the poor and for the needy and for those employed to collect [*zakah*] and for bringing hearts together [for Islam] and for freeing captives [or slaves] and for those in debt and for the cause of Allah and for the [stranded] traveller - an obligation [imposed] by Allah. And Allah is Knowing and Wise". Historically, *zakah* has played a significant role in lifting the socio-economic situations of Muslim communities. For instance, at the time of Khalifa Omar bin Abdul-Aziz (RAA), there was a surplus of *zakah* funds which indicate to little poverty, Omar bin Abdul Aziz had enriched people to the extent that they did not find a poor man who would accept *zakah* (As-Sallabi, 2015).

In contrast, currently, estimations of *zakah* amounts that are estimated to be payable by Muslim individuals around the world ranges from US\$ 76 billion UNHCR (2019) to as much as US\$600 billion (UNICEF, 2019). Other estimations are also found in the literature including the estimation of Shaikh al-Qaradaghi, *zakah* might reaches about 400 billion (Al-Taher, 2017). In addition, the Islamic Development Bank that estimated *zakah* to reach \$230 - \$560 billion (Mod  r, 2018; Kachkar, 2019). Such a huge potential of *zakah* funds, can substantially contribute to closing the widening financial deficit in humanitarian efforts. According to the latest UNHCR reports, a funding gap of over \$4.5 billion for 2020. This represents approximately 51% of total funds needed (UNHCR, 2020). No wonder that the UNHCR has recently established the Refugee *Zakah* Fund in attempt to tap on the institution of *zakah* (UNHCR, 2020a). According to the report, in the first six months of 2020 the fund managed to collect \$55.2 million in *Zakah* and *Sadaqah* funds. The funds are expected to help over 1.8 million IDPs and refugees by the end of 2020 (UNHCR, 2020a). Since its onset in 2016 to 2019 the fund has managed to raise and distribute around \$14.4 million to approximately 6,888 families located in Lebanon, Jordan, and Yemen (UNHCR, 2019).

Zakah is also considered one of the key sources of funds to financing the proposed UN 17 SDGs for 2030. These goals were unanimously agreed upon by world leaders in September 2015 at an historic UN Summit and subsequently came into effect in January 2016. The core objectives of the UN SDGs are to tackle the major challenges facing humanity and the planet. Accordingly, it was understood that "over the next fifteen years all, countries will mobilize efforts to end all forms of poverty, fight inequalities and tackle climate change, while ensuring that no one is left behind" (<https://www.un.org>). However, for the achievement of the mandated SDGs, billions of US dollars are direly needed particularly, in developing countries including many of Muslim-majority states. Thus, the role of *zakah* as a potential source of funding is very much appreciated along with other components of Islamic social finance. In other words, *zakah* is strongly aligned with the SDGs, including SDG No.1 no poverty, SDG No.2, zero hunger, and SDG No.10, reduced inequalities, and others.

It is believed that serious collaboration with *zakah* donors and administrators could substantially enhance the effort to reach the goals (SDG 17) (A Rehman, 2018). A case in point is the collaboration between UNDP and BAZNAS Indonesia (the national *Zakah* collection body) to employ *zakah* funding

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