The Role of Zakah and Awqaf in Community Development: Rules, Applications and Suggested Framework

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Abstract

The Shari'ah is a comprehensive system which provides guidelines for the holistic development of human beings. As regards the engagement at the economic level and through financial transactions, it presents effective and sustainable tools for the development of resources viz. social, intellectual, spiritual, physical and financial assets. The instruments of Zakah and Waqf provide a paradigm in the achievement of equitable distribution of wealth and its healthy circulation.

This paper attempts to understand and explore the scope and potential of Zakah and Awqaf in the development of communities and their economic growth. It briefly discusses case studies in the present context where Zakah and Awqaf are being used as tools of extending financial inclusion and development of the resources of the community.

1. Introduction

The Islamic tradition envisions the establishment of a just and equitable society while ensuring the preservation of human dignity. However, there is a substantial gap between the ideals and realities of society as can be seen from the enormous misdistribution of capital, assets and skills among its members at large. At the heart of society lie the community and the welfare of its members. Thus, it becomes an imperative concern for policymakers and social activists alike.

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In the context of the modern globalized world, civic participation is faced with new challenges and the demand for social services has been growing exponentially. This challenge is further contributed by the devolution of responsibilities of the government onto community based organisations which are faced with the need to assume responsibilities for providing social services, addressing housing needs and implementing welfare programs (Green & Goetting, 2010).

Following the above arguments, one may observe that the discipline of Community Development greatly resonates with the concept of social reform as envisioned by the Islamic world-view. This emphasis on building sustainable communities has been largely understated in the current industry.

As regards the need to address this problem from an Islamic Finance perspective, an important observance regarding the void of effective policies in the social welfare sector was made in a recent public lecture (Ismail, 2014). Certain noteworthy models have been proposed as regards the objectives of alleviating poverty through the integration of *Awqaf* and *Zakah* such as the integrative microfinance model (Hassan & Ashraf, 2010) and the discussion of the potential of Islamic financing schemes in poverty alleviation (Gustina & Ihsan, 2012).

Nonetheless, the discipline of Community Development and more specifically its resonance with the Islamic tradition remains largely unexplored. This paper is an attempt to allude to the possibilities of an integrative approach using *Awqaf* and *Zakah* in the development of place-based communities and the revival of a sound social welfare and security structure in Muslim society.

2. Community Development

The United Nations defines ‘Community Development’ as a process where community members come together to take collective action and generate solutions to common problems. It is a term that is inclusive of the practices of activists, professionals and involved citizens, who synergize their strengths and entrepreneurial skills towards the efficient utilization of community assets.

Community development is therefore a planned effort to build assets that increase the capacity of residents to improve their quality of life (Green & Haines, 2011). It alludes to the process of socio-economic progress of a community with minimum reliance on the State authority, instead through the efficient channelization of the resources that are available yet underutilized within the community.
One of the continuing debates in the field of 'Community Development' is whether the policies should be place-oriented or people-oriented. A different opinion in this regard is that the literature on Community Development has created a false dichotomy between place and people and that the two are not entirely disconnected, as can be seen in the approach of the Mobility Strategy (Alan Hughes, 1991).

Advocates of place-based community development often argue that people-based policies might not be very effective as people, once skilled, may migrate away to another place rather than contributing to the human capital of their community while place-based policies might lead to a more sustainable form of development through institution-building and improvement of existing infrastructure.

2.1 Community

The term 'community' is a complex one and has several dimensions. In common parlance, a community may be understood to be a group of people residing in a particular geographical area and often sharing common interests. As a matter of convention, these people have access to certain assets or factors of production at a collective level. An important concern in this regard is that most communities may not readily accept the responsibility for developing assets. Thus, for the proper utilization of these assets, communities may depend on technical assistance from professional organizations. Critics argue that this may lead to dependency on outside resources; nonetheless it is also possible that the professionals impart skill training and mentorship, especially to the youth. The latter approach seems to be more cognizant of constraints of time and resource mobility (Green & Haines, 2011).

Therefore, various resources of the community - physical assets or human capital, may by synchronised to bring about collective benefit to the residents.

2.2 Asset-Based Approach to Community Development

Community assets, as one may call them, are those factors of production which if developed effectively, may lead to substantial collective benefit of the society. These assets can be understood to be different forms of community capital because investments in them generate additional resources for the community. This definition alludes to the significant suggestion that the profit motive need not be removed from the process; instead social objectives are added to the profit motive. Furthermore, the goal of asset-based community development is
to identify and fortify the resources and mobilize the residents to make use of these resources to meet their needs. Therefore, wealth in the community may be used to create additional wealth for the residents (Green & Goetting, 2010).

2.3 Social Capital

Another important aspect underlying the concept of Community Assets is that of Social Capital. In the words of Putnam (1993), social capital refers to 'those features of social organisation such as networks, norms and trust that facilitate coordination and cooperation for mutual benefits.' Therefore, social capital is an indispensable resource for a community that is based on the values of social coherence and solidarity, aimed to achieve collective progress.

3. The Shari'ah Perspective

In light of the above discussion, one may come to appreciate the resonance of the idea of collectivism and social capital with the Islamic tradition. In fact, this concept is deeply-rooted in the spirit that Islam seeks to imbibe in the social practice of its followers and thus it assumes a greater and more holistic significance to the Muslim community. Islam seeks to build communities that thrive upon a culture which binds individuals and families so that a natural infrastructure is built for providing support and assistance to those in need. An important feature of the Islamic world-view is that it promotes the idea of 'Asabiyah or social solidarity, as proposed by Ibn Khaldun (Dusuki).

In order to promote cohesion and efficiency in the social structure, it is necessary to focus on capacity building for all individuals, especially in order to facilitate for them the means to earn a lawful income to support their households. The ethos of the Maqaasid ash Shari'ah that encompass capacity building are reflected in one of the traditions as follows:

*Narrated by Anas ibn Malik:*

A man of the Ansar came to the Prophet (peace be upon him) and begged from him. He (the Prophet) asked: Have you nothing in your house? He replied: Yes, a piece of cloth, a part of which we wear and a part of which we spread (on the ground), and a wooden bowl from which we drink water. He said: Bring them to me. He then brought these articles to him and he (the Prophet)
took them in his hands and asked: Who will buy these? A man said: I shall buy them for one dirham. He said twice or thrice: Who will offer more than one dirham? A man said: I shall buy them for two dirhams. He gave these to him and took the two dirhams and, giving them to the Ansari, he said: Buy food with one of them and hand it to your family, and buy an axe and bring it to me. He then brought it to him. The Apostle of God (peace be upon him) fixed a handle on it with his own hands and said: Go, gather firewood and sell it, and do not let me see you for a fortnight. The man went away and gathered firewood and sold it. When he had earned ten dirhams, he came to him and bought a garment with some of them and food with the others. The Apostle of God (peace be upon him) then said: This is better for you than that begging should come as a spot on your face on the Day of Judgment. Begging is right only for three people: one who is in grinding poverty, one who is seriously in debt, or one who is responsible for compensation and finds it difficult to pay. (Abu Dawud Book 9, Number 1637)

In the given example, the Prophet of God (peace be upon him) not only sold the existing assets of the needy person for a profit that was utilised to buy part of another functional asset i.e. an axe, but also contributed his skill to add value to the asset to develop its functionality. Thus, in the early ages of Islam, especially in the Madinan period when the community was being built, begging was a rare incidence. This was the case not only because the baytul-maal had succeeded in providing financial self-sufficiency for the community but also because peoples' capacities were being built so as to help them earn a lawful provision for supporting their households.

Therefore, the concepts of capacity-building and development of real assets are not foreign to the Islamic tradition but they need to be revived in a comprehensive manner if the true objectives or the Maqaasid ash-Shari'ah are to be attained.

3.1 The Concept of Wealth in Islam

The concept of wealth in Islam takes into consideration its legality, ownership and rights of individuals over it. The ultimate owner of all wealth is God while human beings are considered to be trustees. The structure and classification of wealth may be illustrated as follows:

Source: (Lahasna, 2013)

Hence, there are a variety of production possibilities through which wealth can be created and distributed. Our focus in this paper is the efficient distribution of
wealth within a community so as to facilitate capacity building and sustainable progress. In this regard, one cannot iterate enough the significance of Infaq— in the Islamic tradition. It refers to the 'spending of wealth' for specific purposes and is tied to the motivation of both prosperity in this word and reward hereafter.

4. Zakah: A Brief Overview

Zakah is the term that is used to denote the share of wealth that the poor have in the wealth of the rich. It is a proportion of the wealth above the nisab level, which all Muslims are required to pay once in a lunar year for the purpose of infaq and towards certain legislated purposes.

The rightful recipients are clearly stipulated through divine legislation as follows:

'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 God and for the [stranded] traveller - an obligation [imposed] by God. And God is Knowing and Wise.'

2 The Qur’an, 9:60
Thus, the general object of Zakah is to be a means of socio-economic relief for those in need and for establishing financial inclusion of all members of a community.

The clear stipulation of the eight categories of its beneficiaries is a measure of prudence to prevent misappropriation and wrongful claims to its funds. Thus the system of Zakah may be regarded as a vital institution that shall avert possible instances of financial exclusion by ensuring that all the vulnerable groups of society are taken care of.

In the current context, victims of child abuse, domestic abuse, drug addicts and unskilled labour etc. may all be considered as part of these vulnerable groups. In case that the fiqh opinions followed in a particular area refuse to consider these as rightful recipients of Zakah per se, they may still benefit from the income of Awqaf assets. Therefore, none of the vulnerable groups shall face financial and social insecurity, as would be expected of a Shari’ah based community.

Economists and sociologists have observed that the determination of the usage of proceeds is more important than the collection of funds. (Al Qardawi & Monzer, 2000)

4.1 Application of Zakah in Community Development

The diligent collection of Zakah funds is an important function of the administration while its distribution is a pertinent task that must be carried out effectively in order to realize its full benefit to the recipients. However, one of the most primary concerns of Zakah management, especially in countries where the government is not directly involved in regulating Zakah, is the lack of a central treasury akin to the Bayt ul-maal that served as a pool of funds in the early periods. This is a major deterrent in the regulation of Zakah distribution but it may be addressed with reforms at the level of community based organizations.

The usage of Zakah fund is already legislated by divine decree and the only responsibility of the community is to ensure that their benefits reach those to whom they are due. Considering the absence of state involvement in this task, it would be appropriate to regard this responsibility as a Fard Kifayah of the organization representing a community.

It is interesting to note that while the divine legislation defines clearly the recipients of Zakah, it does not restrict the use of funds to the purchase of consumption goods only. Therefore, the investment of unused Zakah funds
shall be dealt under shuroot-jaaliyah and be used to generate returns or other functionality that ensures the well-being of the beneficiaries.

Many recipients of Zakah are in a dilemma about how to consume it due to multiple factors, lack of financial literacy being one of them. More often than not, the funds get used to purchase consumable goods and the ultimate object of improvement of living standards remains unfulfilled. As regards the case of Awqaf, the underutilization of these resources for the benefit of the community has been established by researchers and largely prevalent in Muslim society.

The applications of Zakah funds may be discussed by contextualising the eight heads legislated in the Qur'an to the modern societal structure as follows:

**The Poor and the Needy**

The funds of Zakah are an important source to extend financial inclusion to the BOP (Bottom of Pyramid) members of a community. Hunger, lack of access to healthcare and paucity of resources are some of the key issues faced by the poor and needy. Victims of domestic abuse and orphans may also be included in this category.

**Those Employed to Collect Zakah**

It is a common practice for students of madrasas to collect the funds for Zakah door-to-door from residential areas. Indeed the collection of Zakah is a noble task but very often it is disorganized. To formulate a standard practice in this regard would be a welcome reform for most Zakah payers as they will not have to worry about the credibility of each and every madarsa which asks for a portion of their Zakah.

**Bringing hearts together to Islam**

The incidences of domestic violence are prevalent in many households and unfortunately among Muslim ones as well. With the exception of one or two developed countries, there is no support system for victims of such oppression. Most victims of zulm such as these may require special fortification of Eeman and Tawakkul; Zakah funds may be used to sponsor faith-enhancing activities in shelters.

Secondly, feeding non-Muslim poor and needy persons may be a source of inviting them towards Islam in a gentle and graceful manner.
Those in burden of debt or slavery

Members of the community undergoing a debt crisis may be supported through the Zakah resources. While slavery is not commonplace in the modern world, it is not uncommon to see its manifestations through child labour, sexual slavery (prostitution), bonded labour etc. The funds of Zakah may be used to liberate people caught in this quagmire and for funding their legal cases, for instance.

In the way of God

This is a very profound addition to the list of Zakah beneficiaries because it provides flexibility of ijtihaad, to judge the worth of a cause relevant to different contexts. For instance, to spend on the soldiers going out for war in the early days would have been considered as a cause of God. However, in our context, it could take a different implication such as building institutions that cater to establishing justice and freedom from oppression. Nonetheless, such flexibility is to be used with caution and only credible mujtahids should qualify a cause as being acceptable in this category.

The stranded traveller

Communities may opt to maintain free-of-cost rest houses for travellers and the food and linen may be provided from the clothing bank. Funds may be extended to refugees or wayfarers in transit.

The idea of the above possibilities is to enhance the economic autonomy of the Muslim community and to prevent any misappropriation of rights and benefits. The above discussion is a very brief and humble overview of the potential applications of Zakah funds to the development of a community. It is hoped that more elaborate ideas of contextualisation could be developed in future work.

In order to understand how the above functions can be institutionalised through community-based organizations, we proceed to discuss the infrastructural assets.

5. Awqaf: A Brief Overview:

The concept of Sadaqah Jaariyah or perpetual charity is considered sacrosanct in the Islamic tradition, which emphasizes on social activism not only for the achievement of worldly prosperity but also towards maximising reward in the hereafter.
There are types of Sadaqah Jaariyah that are mentioned in the famous narration from the Prophet of God (peace be upon him):

‘Abu Hurayrah reported from the Messenger of God (peace be upon him), "When a person dies, all his acts come to an end, but three: recurring charity, or knowledge (which benefits others), or a pious offspring (who prays for him)."'

Following Çizakça (2000), it may be argued that the institution of waqf encapsulates the combination of each of these three aspects. Therefore, the establishment and efficient management of Awqaf assets would entail not only spiritual benefit to the donor himself, but also to a general benefit of the community which has access to these assets.

5.1 Application of Awqaf in Community Development

Awqaf can be utilized as effective tool of wealth management. As most Awqaf are in the form of real estate yet underutilized, there is a pressing need to develop these assets for their reward to accrue to the donors. Attempts should be made to upgrade Awqaf to a level where they become a sustainable source of funding and are able to generate income on their own, thereby decreasing dependency on third-party donations (Lahsasna, 2013).

The Awqaf assets may be used to build housing projects, orphanages, shelters for victims of domestic violence and for providing healthcare facilities etc.

To understand the modern application of Awqaf, we discuss the case of Singapore which has effectively developed its waqf assets to accrue benefit to the community.

Case Study: Singapore

Primarily two structures have been observed with regards to Awqaf development in Singapore:

- Musharakah Bond Structure (example: Bencoolen Mosque project)
- Sukuk Ijarah Structure

The Bencoolen Project:

The Bencoolen Mosque Project is a mixed project consisting of:

- A Mosque
- A Commercial complex
- 103 rooms of Service Apartments
The rent and profits of the adjoining land are used to pay for the expenses of the mosque, as well as the salaries of the employees of the mosque. MUIS acted crucially to observe the need for specialized and separate administration and management of the *Awqaf*; to this effect MUIS established Warees Investments Pte. Limited, a fully owned subsidiary of MUIS, in the year 2000. This entity specializes in the management of portfolio of real estate investments. MUIS has also established an internal REITs (Real Estate Investment Trusts).

In collaboration with the above resources, a Sukuk Musharakah structure was developed to raise SD $60 million for the project. The Musharakah or partnership was among the following three parties:

- MUIS Baitul Mal
- Warees Investments Pte. Ltd.
- *Waqf* Property

The certificates issued by MUIS were 100% subscribed by mosques, statutory boards' banks and institutional investors.

> In light of the need to redevelop the mosque, as well as the undeveloped land next to the *waqf* mosque, the amount of financing needed for this project came up to about SGD$35 million dollars. This amount is quite substantial, looking at the projects that need to be undertaken. In a meeting with various scholars, professionals in the finance industry, architects and also the developer, MUIS came up with a proposal to keep the mosque intact and to attach the mosque to serviced apartments. (Abdul-Karim, 2010)

- Mosque Building Cash *Waqf*:

Another example of *Waqf* in Singapore is the Mosque Building Fund (MBF) formed by the cash contributions of Muslim employees. The MBF was first introduced in the year 1975 for the purpose of raising funds from Muslim employees through the Central Provident Fund (CPF) Check-off mechanism, so as to build modern mosques in new housing estates.

In 1984, the CPF was expanded to include the Mendaki Fund and collectively they are called the Mosque Building Mendaki Fund (MBMF). The Mendaki Fund supports Yayasan Mendaki which pioneers educational and social upliftment programmes for the disadvantaged segment amongst the Malay Muslim community. From 1984-2007, SD $47 million were spent from Mendaki component of the MBMF on various educational and youth development programmes.
Figure 1
Disbursement (By Type/Sector) of Awqaf in Singapore

Disbursement of Waqf income by sector

- Mosques, 45%
- Education, 26%
- Madarsa (religious school), 13%
- Needy, 9%
- Poor and Others, 7%

Source (MUIS)

Through the efficient management of Waqf, MUIS has disbursed the return to beneficiaries.

In conclusion, the example of Singapore is a promising one and can be replicated by many more economies that are endowed with Awqaf assets. This could be done through instruments such as micro-franchising and training of asset managers in techniques employed by MUIS and its subsidiaries.

6. Suggested Reforms in Islamic Asset Management

With special reference to Awqaf management, exclusive training should be imparted to individuals with a known zeal for community welfare and thus entrepreneurial capacities can be built. These highly specialised asset or wealth managers can either create an association as in the case of accountants or create model organizations which could expand using mechanisms such as micro franchising.

In either case, a code of Standard Practice with regards to Islamic wealth management should be prepared and all existing mutawallis should be equipped with financial literacy. New mutawallis should be appointment based on their zeal and their skill of being well-versed with the code of Standard Practice.
The scope of operation of these individuals may not necessarily remain restricted to *Awqaf* assets only; their operations could incorporate the supervision of collection and redistribution of *Zakah* funds as well. For this purpose, the collectors employed may be remunerated through a portion of the funds collected. Incentives of combining remuneration from collection of *Zakah* and as employees of asset management firms may attract employment from within the community.

Micro-franchising is an option that may be used to replicate successful models of Islamic asset management in developing markets. Training and research seminars can further enhance the existing knowledge base in this sector.

Therefore, it is of utmost importance that community based organizations and motivated individuals come forward to enhance the productivity of assets available to them and add value to the economy.

### 7. Conclusion

God has ordained Islam as a comprehensive religion reflected by the Maqaasid ash-Shari'ah which expounds the guidelines for the holistic progress of human beings. The Islamic tradition aims at developing a Social Welfare Society as opposed to a Social Welfare State (Bazian, 2012). A social welfare society would imply that the members of society themselves design structures that contribute to development. This may not be seen as a digression from the principle of establishing social welfare policies at the state level, rather as an iteration of the significance of a participative spirit in society.

Throughout the sources that shape the Islamic world-view, there exists a theme of enrichment of the individual, civility and social distributive justice across all facets of society. As regards the field of Islamic economics for instance, the classical perception is to build a nation or society that is economically self-sufficient and where the production possibilities are being exercised to their optimum potential.

A major source of capital for the development of communities, are the instruments of *Zakah* and *Awqaf*. The efficient utilisation of these resources could entail amongst others, the benefits of financial independence and self-sufficiency of the community, while considerably taking away the burden from the government in this regard.
The lack of effective policies and regulation in the Islamic Social Welfare Sector has led to many problems preventing the development of sustainable communities. Applying the community development approach incorporating the development of Zakah and Awqaf assets might provide an effective solution to these problems in order to enhance the benefit that can be generated from Zakah and Awqaf in this world and towards reward in the hereafter.

References

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