

POVERTY ERADICATION: AN ISLAMIC PERSPECTIVE

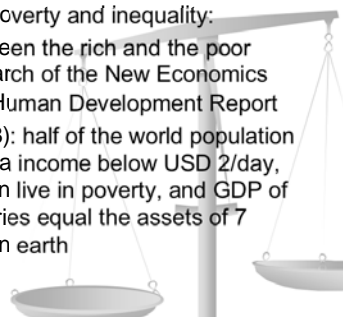



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Introduction


Some facts about poverty and inequality:

- Income gap between the rich and the poor increases ◊ research of the New Economics Foundation and Human Development Report
 - Anup Shah (2008): half of the world population live with per capita income below USD 2/day, half of the children live in poverty, and GDP of 41 poorest countries equal the assets of 7 richest persons on earth
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- K.A. Ishak (2003) of the Oregon University, US found that international development agencies have failed in fighting global poverty ◊ he recommended the use of alternative strategy using religious-based and local culture-based instruments
 - Global economic crisis ◊ worsen economic condition (unemployment increases, etc)
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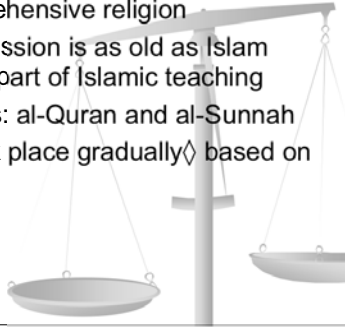
The Needs for New Strategy

Can Islamic-based
instruments be the
solution?



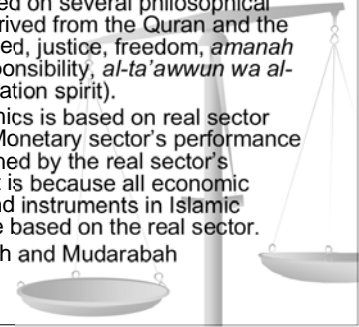
Islamic Economic System

- √ Islam: a comprehensive religion
- √ economic discussion is as old as Islam itself ◊ integral part of Islamic teaching
- √ Basic principles: al-Quran and al-Sunnah
- √ Revelation took place gradually ◊ based on situation

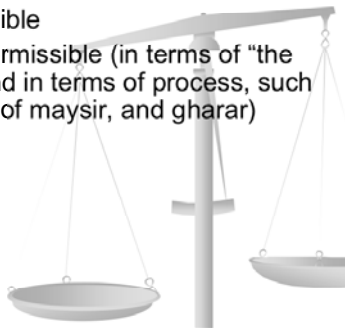


Basic Characteristics of Islamic Economics

1. developed based on several philosophical foundations derived from the Quran and the Sunnah: tawheed, justice, freedom, *amanah* (trust) and responsibility, *al-ta'awun wa al-takaful* (cooperation spirit).
2. Islamic economics is based on real sector productivity ◊ Monetary sector's performance will be determined by the real sector's performance. It is because all economic transactions and instruments in Islamic perspective are based on the real sector. eg. Musharakah and Mudarabah



3. the existence of principle of halal and haram
 - halal: permissible
 - haram: not permissible (in terms of "the thing" itself and in terms of process, such as prohibition of maysir, and gharar)



Instruments for Poverty Reduction

- √ Zakat and Infak
- √ Wakaf
- √ Sukuk



Zakat

- √ “al-ibadah al-maalayah al-ijtimaiyyah”
- √ Obligatory for those whom are eligible to be “muzakki” (zakat payer)
- √ Distributed to 8 groups called “mustahik” (zakat recipients), with priority given to the poor and the needy ◊ see 9:60
- √ Used as poverty reduction instrument ◊ success story during Caliph Umar bin Abdul Aziz

Objectives of Zakat

- √ increasing welfare level of zakat recipients
- √ Increasing productivity
- √ Promoting business ethic
- √ potential funding source for development
- √ increase the wealth and asset in productive ways
- √ encourage people to perform their worship in the best way
- √ reflects the spirit of “sharing-based economy”

Present Day Zakat

- √ Zakat was able to reduce poverty in Selangor state, Malaysia (Patmawati, 2006)
- √ Professional, accountable and transparent zakat management ◊ in the development process (eg. In Malaysia, Indonesia, Middle East)

Infak

- √ Voluntary transfer of wealth and assets from “munfik” (the infak payer) to those who need assistance ◊ voluntary people to people transfer
- √ Encouraged in Islam ◊ various Quranic verses have used the term “growth” on the issue of infak
- √ Can be used in various poverty eradication programs

Wakaf

- Wakaf ◊ part of infak
- Donate your asset in order to get “eternal reward” from Allah ◊ motivational factor
- Once the asset is donated as wakaf, the ownership goes to God and we cannot take the assets back
- Two types of wakaf: fixed asset wakaf (land, building, etc) and cash wakaf
- The value of wakaf assets cannot be reduced

Success Story of Cash Wakaf in Ottoman Empire (Cizakca, 2004)

- Cash wakaf was an “engine of economic growth” of Ottoman Empire for centuries
- In Bursa, Turkey there were 761 wakaf institutions operated in 1555-1823 ◊ 148 of them were categorized as “good and well-managed” institutions
- Principal of cash wakaf ◊ given as financial source for SMEs using Murabahah and Mudarabah schemes ◊ promote trade and investment
- The profit of those financings ◊ allocated for social purposes

Present Day Cash Wakaf

- Still a sleeping giant
- Some efforts have been made ◊ eg. Social Investment Bank in Bangladesh and Islamic Relief in United Kingdom

Sukuk

- Innovative Islamic financial product ◊ Islamic bond operated based on Islamic transactions which are “real-sector based”
- Can be used in mobilizing huge fund available in financial market ◊ invested in real sector projects
- Can be used in poverty eradication project ◊ eg. Ijarah sukuk for the purchase of ships given for the poor fishermen.

Thank You

