Chapter 6
Social Empowerment Through Islamic Finance

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ABSTRACT

Islamic social finance as an order ordained by Allah (Subhanahu wa Taala) for the benefit of mankind, seeks to provide an avenue for financial inclusion as well as entrenching social cohesion among Muslim communities across the globe. This is achieved with the application of Zakat (compulsory alms giving), Waqf (Islamic endowment), Sadaqah (Voluntary charity giving), and Qard (Loan giving) as the instruments. As poverty remains a social disorder and an affront to human prosperity, Islam has provided a remedy to its scourge. This chapter presents a discussion on poverty reduction if these instruments are effectively implemented in Muslim communities across the globe.

INTRODUCTION

Sadly, Islamic Development Bank (IDB) member countries are known to be home to nearly one-third of the world’s multi-dimensional poor people. It is estimated that 504 million people in 43 out of the 57 IDB countries, mainly in South Asia and Sub-Saharan Africa, are living in multi-dimensional poverty, and are suffering from a range of deprivations (Islamic Solidarity Fund for Development ISFD Strategy 2016-2025). Ironically, in the midst of this situation is the phenomenal growth of the Islamic financial services industry (IFSI), which has been growing rapidly over the past decade. In some specific jurisdictions, the share of the Islamic banking sector has become large and systematically important. Thus, it is clear that the demand for Islamic banking is growing and notably in some markets, with predictions that more conventional banks will convert into Islamic banks. However, Islamic financial institutions that exist in a dominantly conventional environment, have despite the theoretical assumption of being ethical, as well as their remarkable levels of expansion, received barrage of criticisms on their lack of contribution to the aspirations of Shari’ah and Islamic socio-economic objectives as noticed in literature. (Badr, 2006)
Thus, in many countries, eradicating poverty is one of the biggest global concerns and remains an essential requirement for continuous development. This is more so in Muslim countries where the Islamic perspective on the concept of basic income as an issue arises. It is a matter of consideration while discussing Islamic social finance and its positive impacts on Ummah. As governments struggle to tackle growing phenomenon of inequality in human societies, coupled with the apparent short-comings of the welfare state, the changing and phenomenal technological challenges to the labour-force, and the changing nature of work in the twenty-first century, the basic income concept is gaining attention from wide spectrum of stakeholders.

According to the IFSB draft exposure document on Technical note 3 on financial inclusion and Islamic finance released in November 2018, estimates suggest that, on average, approximately 9% of the population across 35 selected Muslim-majority countries financially exclude themselves from the formal financial sector due to religious reasons. This translates into nearly 40 million individuals financially excluded from the formal financial system, thus representing a specific gap for the IFSI to bridge. In many jurisdictions, several different efforts have been undertaken in a number of aspects to realise poverty reduction goals, such as raising education levels, improving the provision of medical care, enhancing socio-economic standard among the poor and last but not the least, offering loans to small and micro sized business entities. In spite of all the several efforts, poverty remained a recurring decimal across vast majority of the Muslim Ummah globally.

Against the foregoing therefore, an imperative for soul searching, pondering, and reflections on what went wrong and what next that must be done or revisited is clear, in attempts to effectively struggle with the scourge of poverty in Muslim Ummah across the globe. This is more so as the religion of Islam is not confined to spirituality dimension only, and is intended as a universal religion that asserts itself in Muslim community affairs, with the aim of guaranteeing the general welfare of society. Thus, it is of noteworthy here to mention the four major Islamic social finance instruments/tools in Islamic finance which are Sadaqah, Waqf, Zakat and Islamic micro-financing (based on Qard contract), that are veritable tools of empowerment of the Muslim Ummah. Furthermore, it is evident that these tools of Islamic social finance are concretely more often than not outside the scope of operations of core Islamic finance institutions. Sadaqah is a voluntary charitable contributions aimed at protecting and preserving the rights of less privileged members of society. Waqf is a voluntary dedication and relinquishment on permanent basis by an endower, of assets that are both movable and immovable and whose usufructs as well as cash is utilised for socially beneficial specific purposes, and to specified people as stated by the endower. Zakat as one of the five pillars of Islam is a mandatory levy imposed on various forms of wealth to be distributed for the benefit of specified categories of people as ordained by Allah (Subhanahu wa Taala). Qard means amount extended to a needy person from a debtor as loan, with the only obligation of paying the amount borrowed on the borrower without addition.

While these tools are undoubtedly effective mechanisms for addressing poverty and enhancing prosperity of the Muslim Ummah if properly harnessed, twin issues of what constitute poverty in Islamic perspective, as well as how individual’s characteristics influence their financial inclusion deserve consideration.

On one hand, the researcher notes that various Islamic terms for poverty originate from the root of the Arabic word for poverty, faqr. More importantly however, is the fact that in Islam, two forms of poverty are recognised and which are spiritual and material. An illustration of the former is provided in the following passage of the Qur’an: Indeed you are those who are called to spend in the way of Allah (Subhanahu wa Taala), yet among you there are some who hoard. And whoever hoards, hoards only from his soul. And Allah (Subhanahu wa Taala) is the Rich, and you are the poor. And if you turn away,
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