



ZAKAT, SADAQAH & WAQF: COMPLETING THE ISLAMIC FINANCE VALUE CHAIN

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OUTLINE

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- Waqf Models for Islamic Social Finance (ISF)
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- Zakah, Sadaqah & Waqf: Prospects and Potentials
- Conclusion

INTRODUCTION

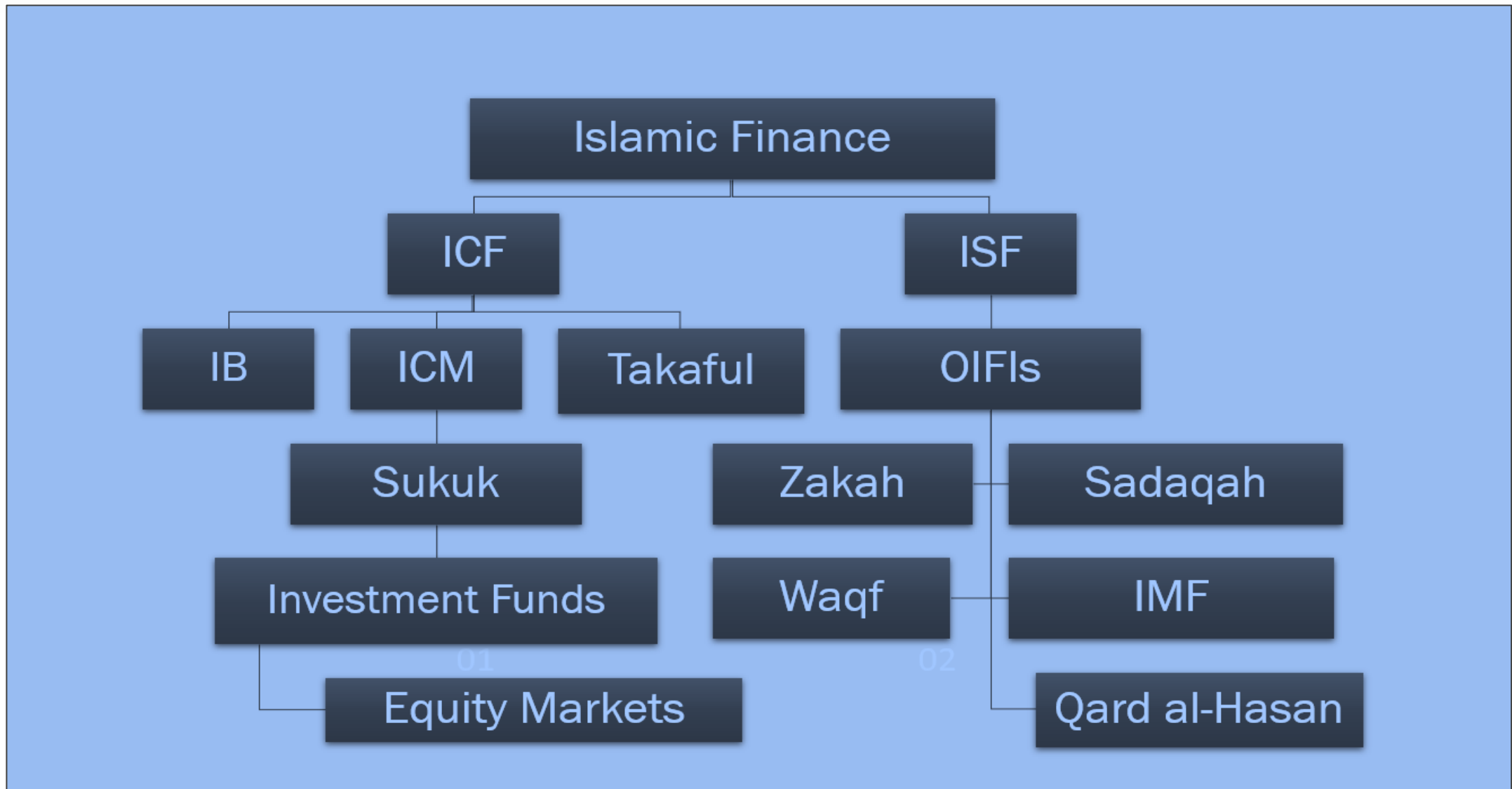
- The goal of Islamic economic system is to bring about a seamless integration of *maslahah nafsiyyah* (private interest) and *maslahah ‘ammah* (public interest) to create a peaceful and harmonious society at large
- To achieve this noble goal, the Islamic financial system is a ready tool to accentuate the aforementioned
- To contextualize this discourse, Islamic philanthropy is an important institution to complement products and services of other segments of the Islamic financial industry



ISLAMIC FINANCE

Is a financial transaction or dealings whose operations are guided by the principles of Shari'ah

COMPONENTS OF ISLAMIC FINANCE



OVERVIEW OF GLOBAL ISLAMIC FINANCE INDUSTRY ASSETS

Global Islamic Finance Industry



Is expected to grow by around 10 per cent in 2023 - 2024

Growth in Assets



Up by 9.4 percent in 2022 compared with 12.2 per cent in 2021

Global assets and estimation



Around USD4 trillion in 2021 and is estimated to grow to USD4.94 trillion by 2025

Source: S & P Global Ratings, 2023 & IFD Report, 2022

GLOBAL SIZE & GROWTH OF ISLAMIC FINANCE ASSETS ACROSS SECTORS

US\$4 TRILLION IN 2021

Islamic Banking
US\$2.8tn.

70%

Sukuk
US\$713Bn

19%

Islamic Funds
US\$238Bn

5%

OIFIs
US\$169Bn

4%

Takaful
US\$73Bn

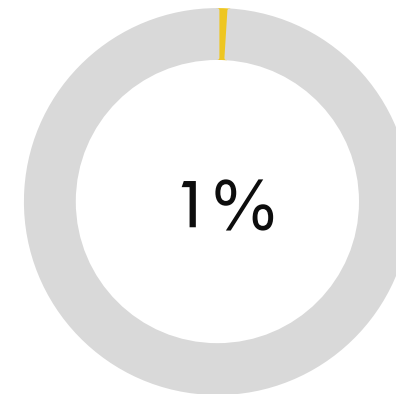
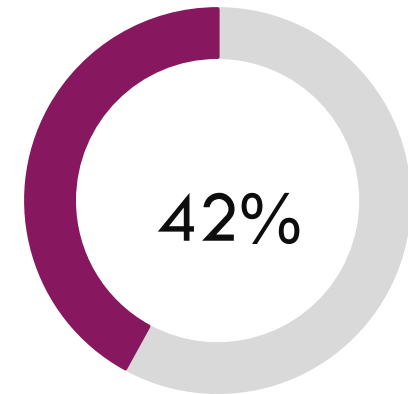
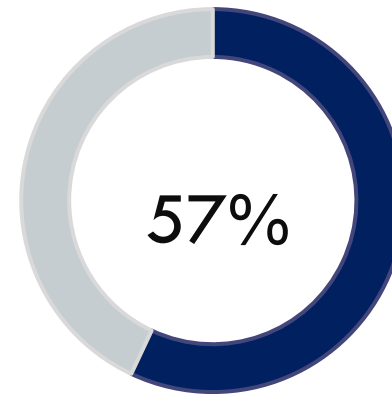
2%

Source: IFD Report, 2022

PERCENTAGE SIZE OF NIGERIA ISLAMIC FINANCE INDUSTRY

- Size of the Nigeria Islamic Finance Industry – USD 2.9 billion in 2022

- Sukuk
- Islamic banks
- Islamic funds and Takaful



Source: Fitch Ratings, 2023

مقاصد الشريعة MAQASID AL SHARIAH



- Is the intent and higher objectives and values of Allah
- Avoidance and protection from harm (**Mafsada**) – *Dur' al-Mafasid*
- Focuses on the promotion of the common good and benefit for the larger society (**Maslahah**) in three categories

- **Hierarchy of Maqasid al-Shari'ah**
 - ❖ **Daruriyyah** (Necessities)
 - ❖ **Hajiyyah** (Needs)
 - ❖ **Tahsiniyyah** (Luxury)

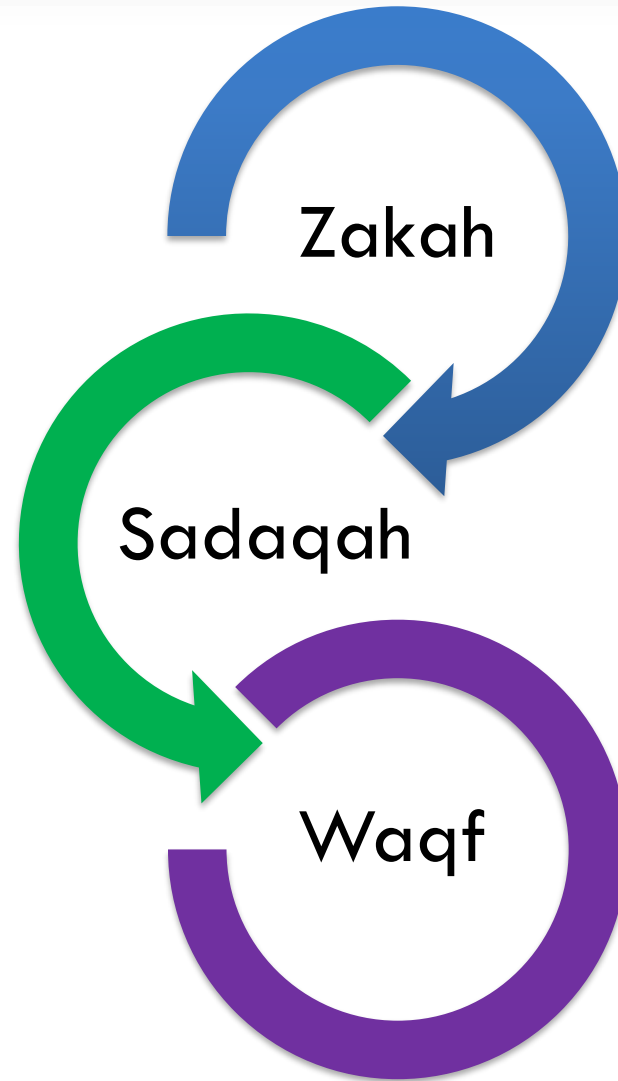
ISLAMIC SOCIAL FINANCE (ISF)



ISF is an instrumentality for providing social services to deprived people or communities; reduce income inequality; empower the poor and vulnerable persons as well as improve infrastructural deficits with a view to improving the socio-economic welfare and development of individuals and the society at large

Some of the instrumentalities of ISF include: Zakat, Waqf and Sadaqah among others

ISLAMIC SOCIAL FINANCE INSTRUMENTALITIES



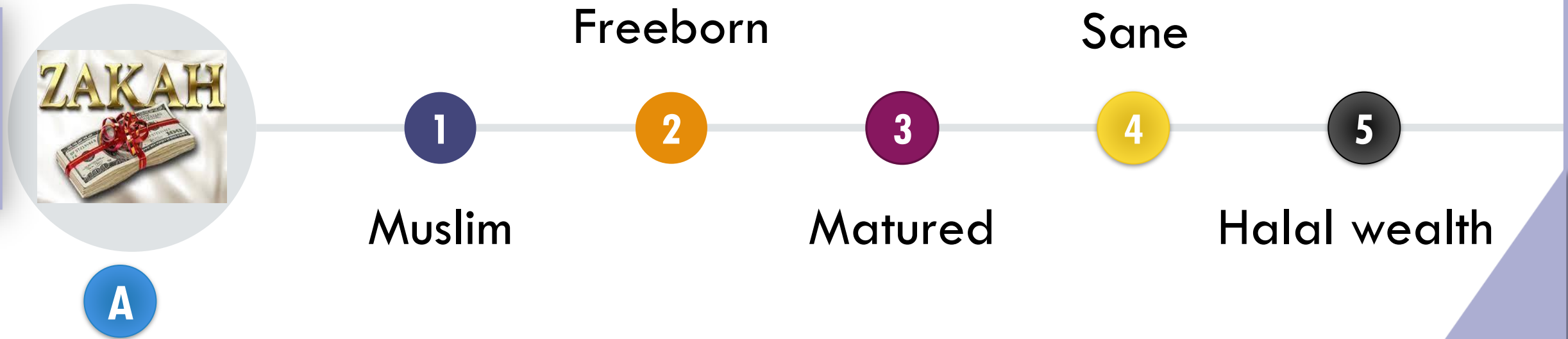
Source: Shuaib, 2023

ISLAMIC SOCIAL FINANCE INSTRUMENTALITY: ZAKAH



- **Literarily**, Zakah means purification (Q91:9), sanctification (Q9:103), growth & increase (Q30:39), guidance (Q80:7)
- **Technically**, it refers to the determined estates taken from **specific types of wealth**, when they reach a **specific threshold (nisab)**, at a **specific time (hawl)**, which must be spent on **specific categories (asnaf)** in **specific ways**

CONDITIONS GOVERNING PAYMENT OF ZAKAH (1 OF 2)

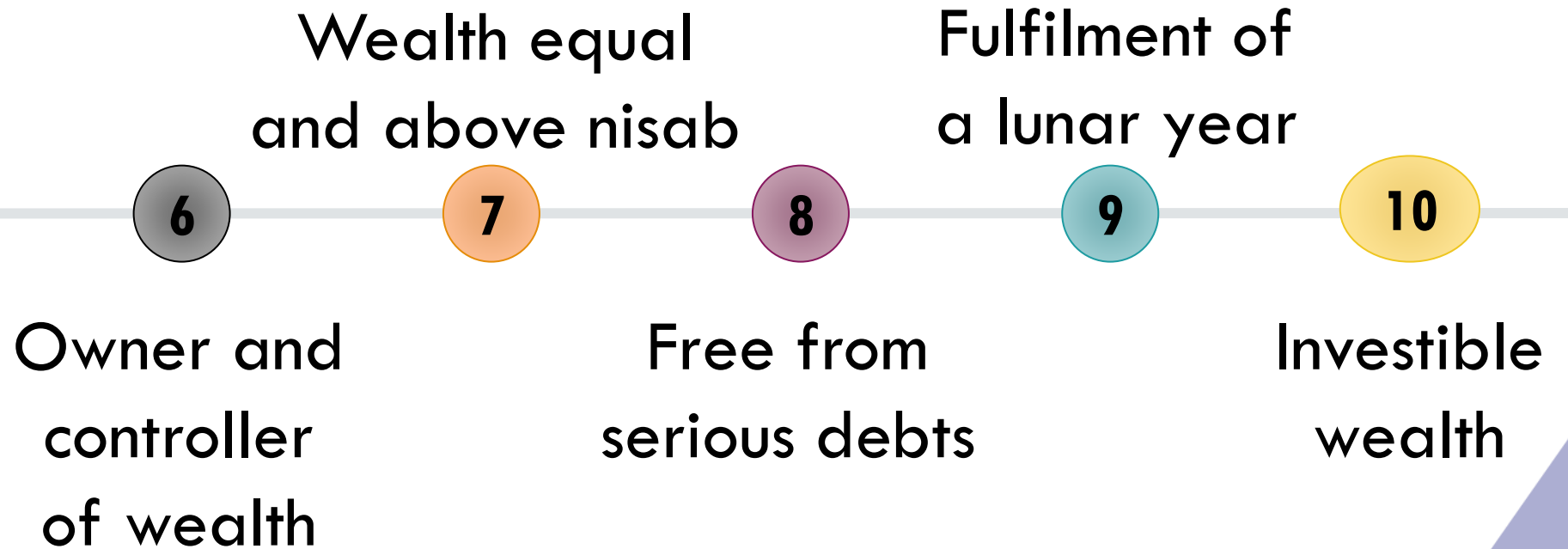


CONDITIONS GOVERNING PAYMENT OF ZAKAH (2 OF 2)

ZAKAH



B



Rikhaaz
(Product of mines)

Cash &
Trading
goods

Agricultural
produce

Gold, Silver
or
Ornaments

Fruits

ZAKATABLE
ITEMS
1 OF 3



Source: Shuaib, 2023



Source: Shuaib, 2023



Source: Shuaib, 2023

BENEFICIARIES OF ZAKAH

Surah at-Tawbah,
Chapter 9:60



Source: Shuaib, 2023

SADAQAH (CHARITY)



- Sadaqah is derived from the word *sidq* (sincerity), which is truthfulness
- **Technically**, it means worshipping Allah by voluntary charity, without been asked, with faith that Allah will reward the donor, and hoping for a recognition and compensation in the hereafter
- Charity includes alms given to ease difficult situations, philanthropic and public good to humanity Q92: 5-7

WAQF

Literarily, it means endowment, *Habs* (keeping, preserving, holding); *Tasbil* or *Tahbis* (to direct to a good cause) or *Sadaqah Jariyyah* (perpetual charity)

Technically, it means locking up of the title of an owned asset from disposition and allotment of its benefits for a specific purpose (AAOIFI)

CONDITIONS OF WAQF



01

Ownership belongs to Allah

Permanency of Mawquf

02

03

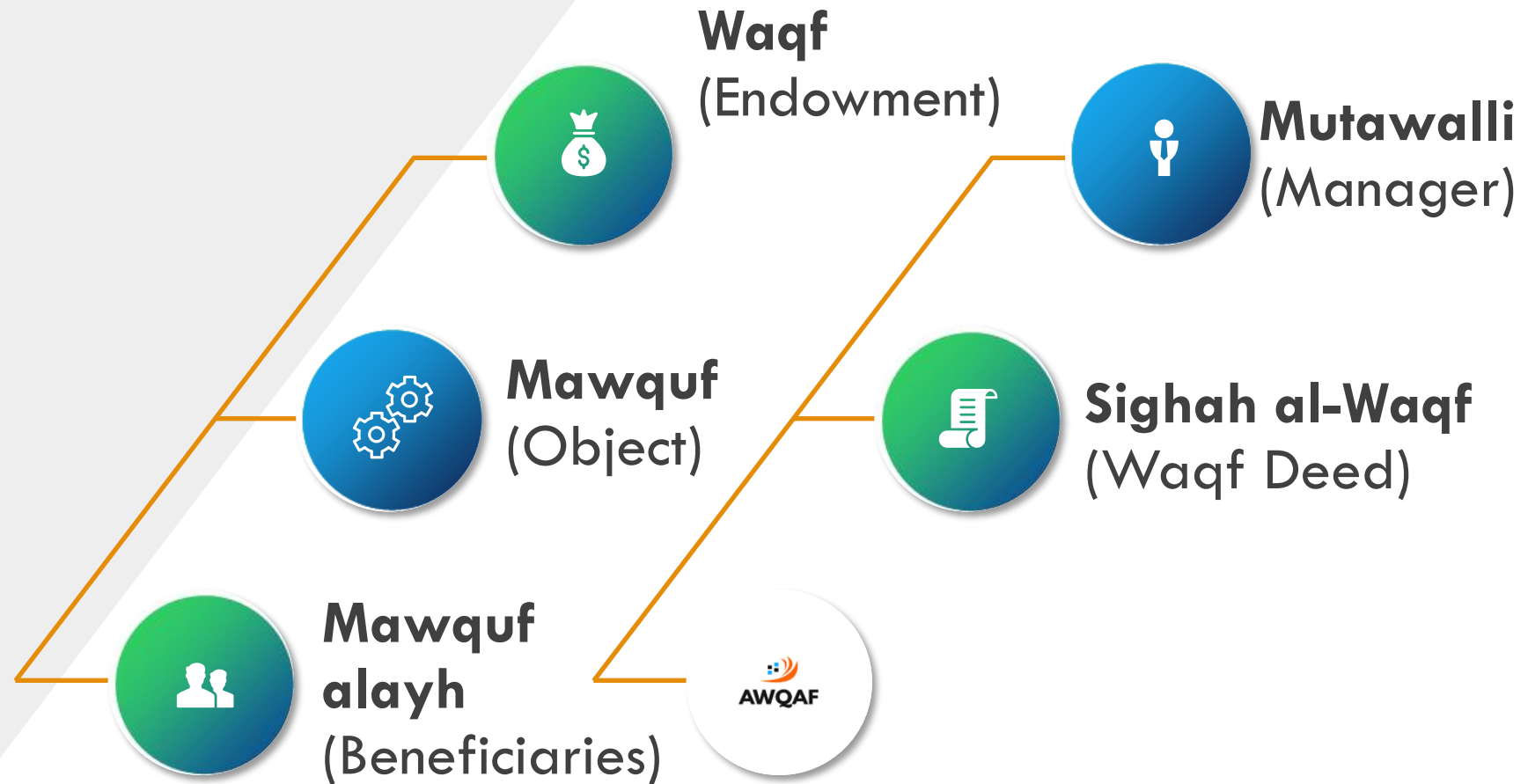
Mawquf alayhi clearly stated in Waqf Deed

Waqf must be on immediacy

04

Source: Shuaib, 2023

PILLARS OF WAQF



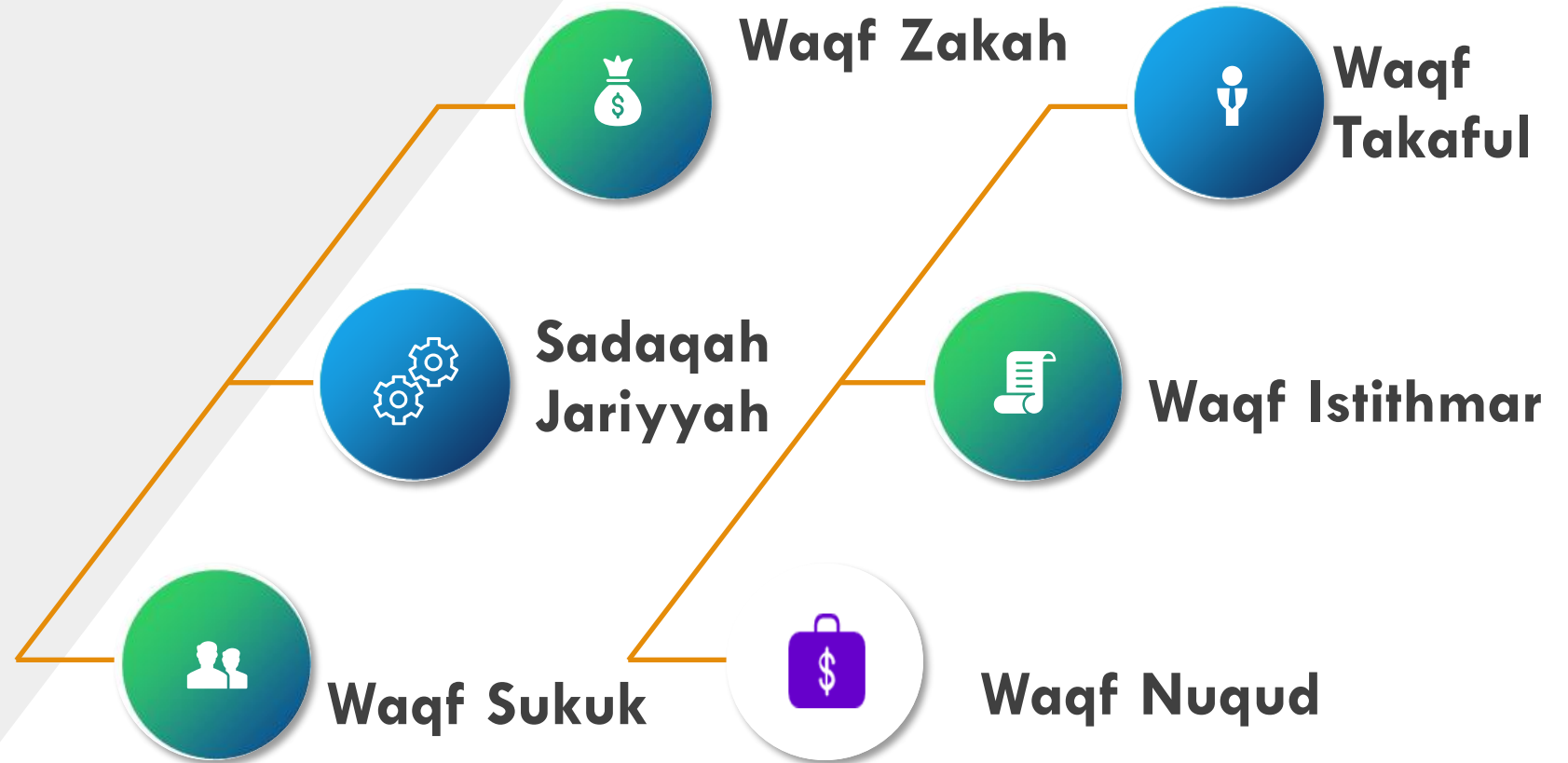
Source: Shuaib, 2023

CATEGORIES OF WAQF



Source: Shuaib, 2023

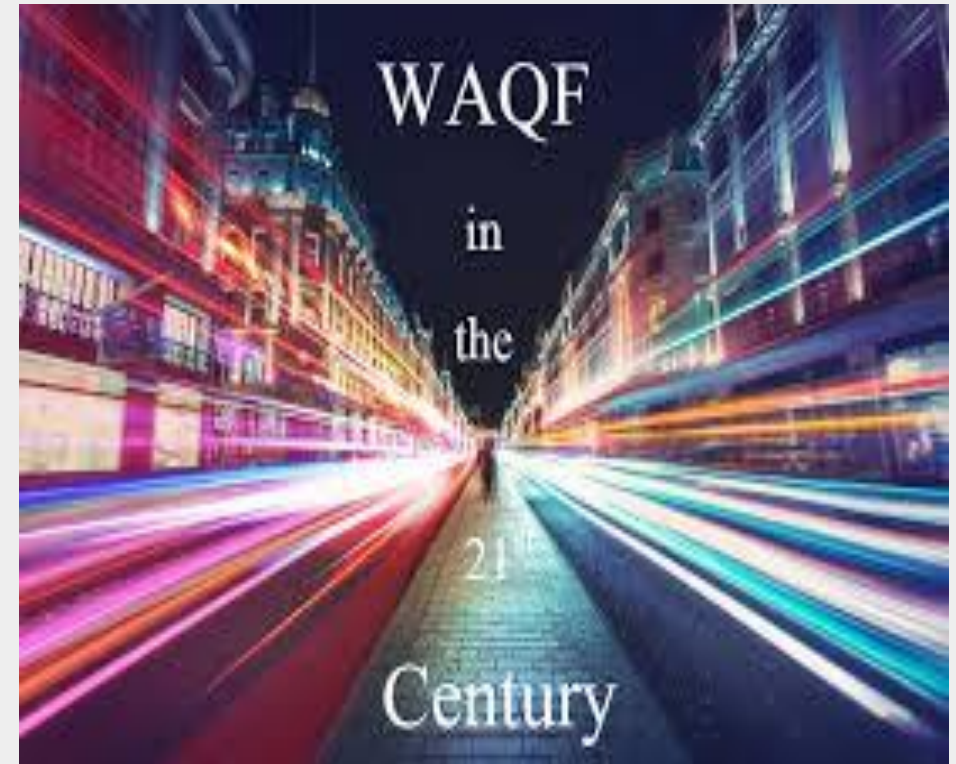
WAQF MODELS FOR ISLAMIC SOCIAL FINANCE



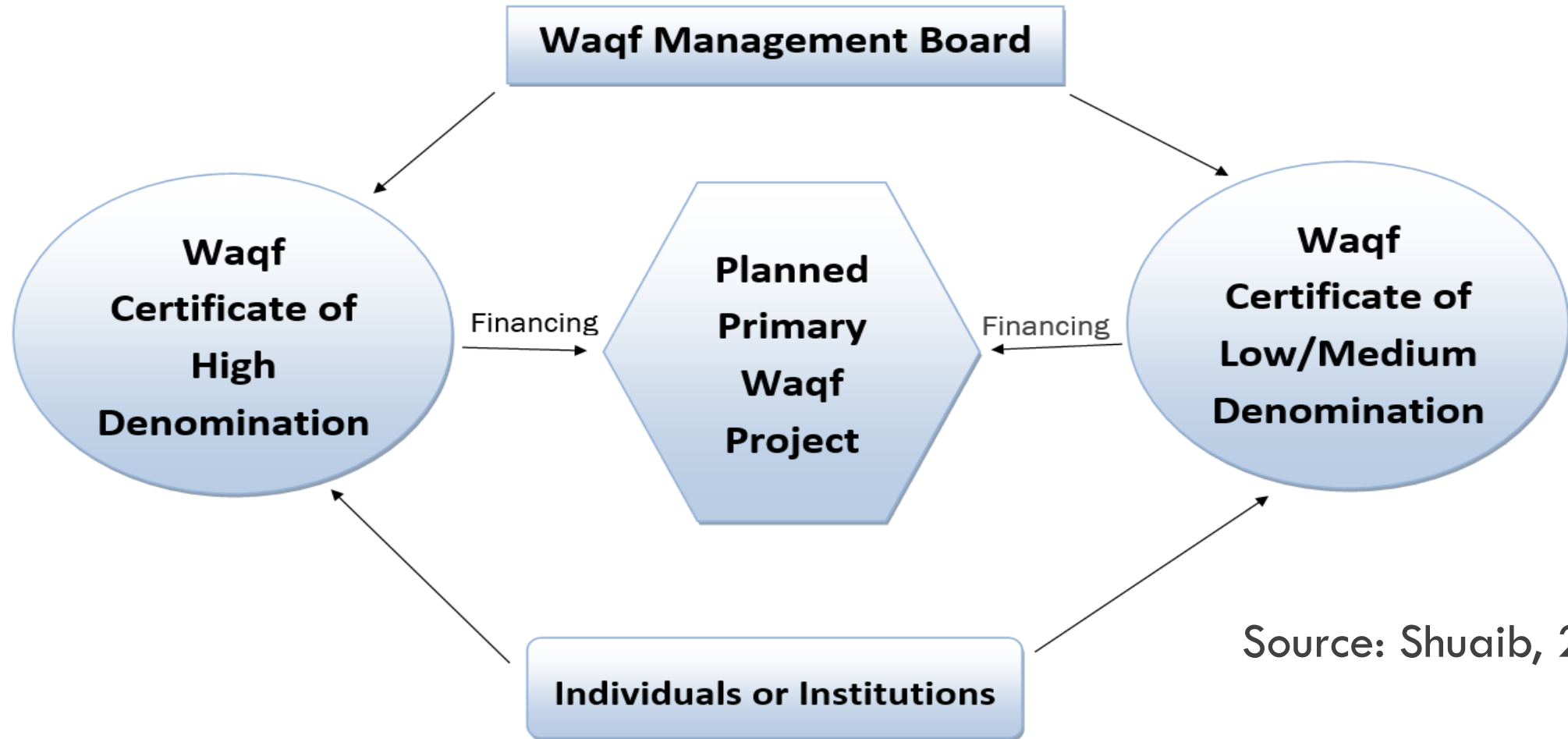
Source: Shuaib, 2023

WAQF AN-NUQUD (CASH WAQF MODEL)

- The application of this model can be operationalized in either of the following:
 - ❖ Direct cash waqf
 - ❖ Mobile cash waqf
 - ❖ Corporate cash waqf



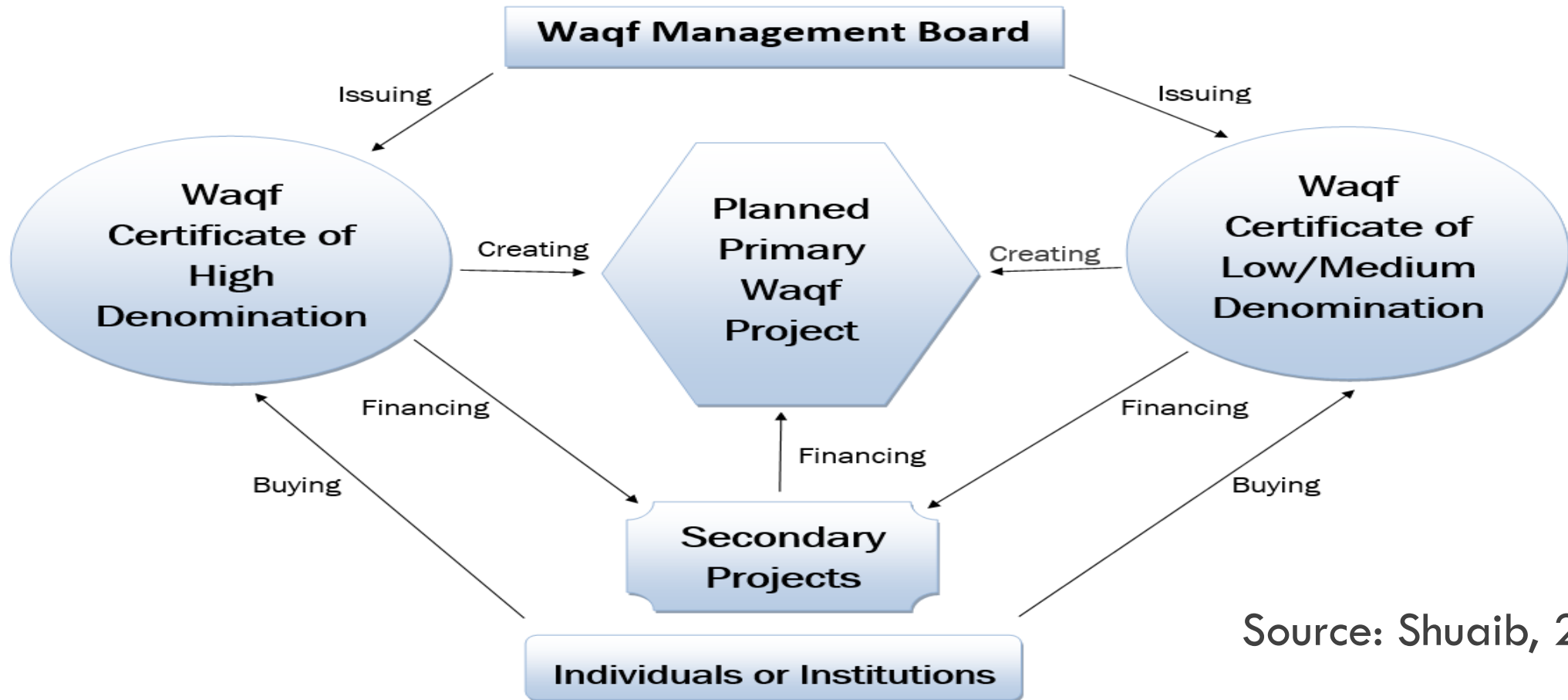
CASH WAQF MODEL



Source: Shuaib, 2023

Financing of Primary Project by Waqf Certificate

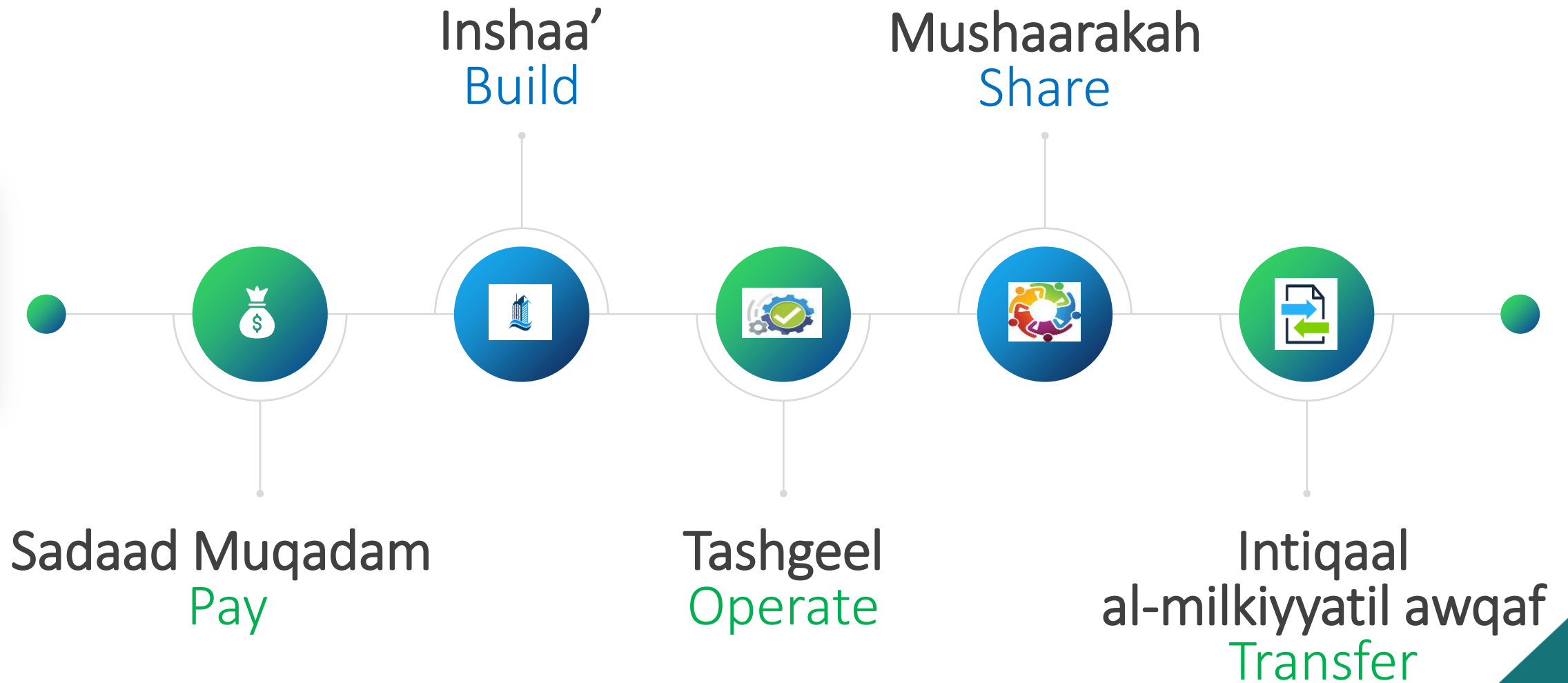
CASH WAQF MODEL



Source: Shuaib, 2023

Financing of Primary Project by the Secondary Waqf Certificate

ISTITHMAAR AL-AWQAF (AWQAF INVESTMENT MODEL)



Source: Shuaib, 2023

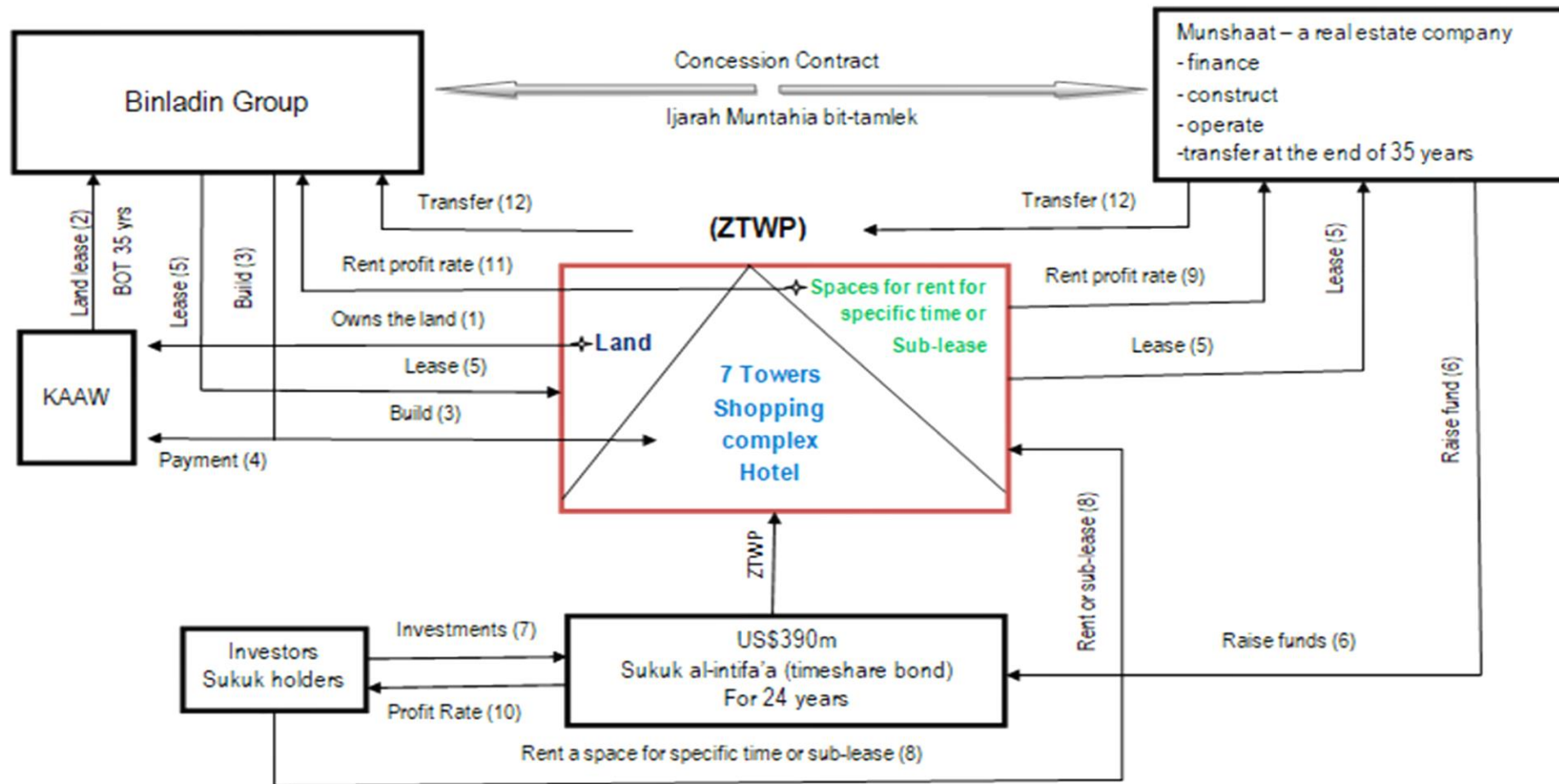
EXAMPLE OF AWQAF INVESTMENT MODEL – CASE STUDY OF APIF-ISDB

CONSTRUCTION OF A COMMERCIAL AND RESIDENTIAL WAQF COMPLEX IN DAKAR FOR THE BENEFIT OF THE TRADITIONAL QURANIC SCHOOLS (DARAS) IN SENEGAL

- Aims to generate regular income for the High Authority of WAQF (HAW) to sustainably support the development and modernisation of the Daras schools by administering, promoting, and developing WAQF in Senegal.
- The project entails the construction of a commercial and residential complex in Dakar and rents out its premises commercially close to the Presidential Palace and French Embassy
- Total project cost is US\$ 24.2 million with 25 years tenor, including a gestation period of 3 years and a tolerance period of 6 months

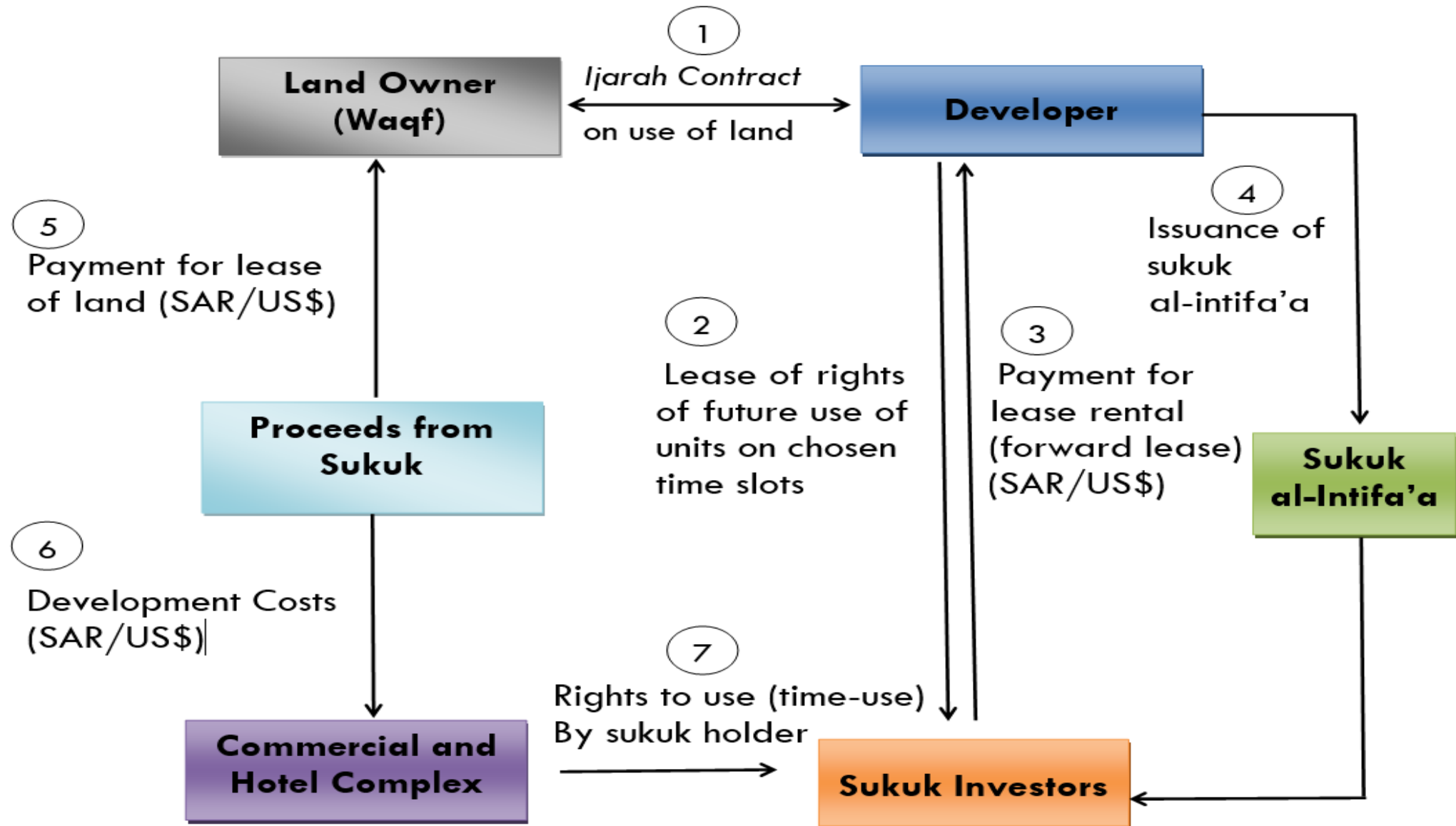


WAQF SUKUK MODEL – CASE STUDY OF KAAW



Source: Shuaib, 2022

WAQF SUKUK MODEL – CASE STUDY OF KAAW

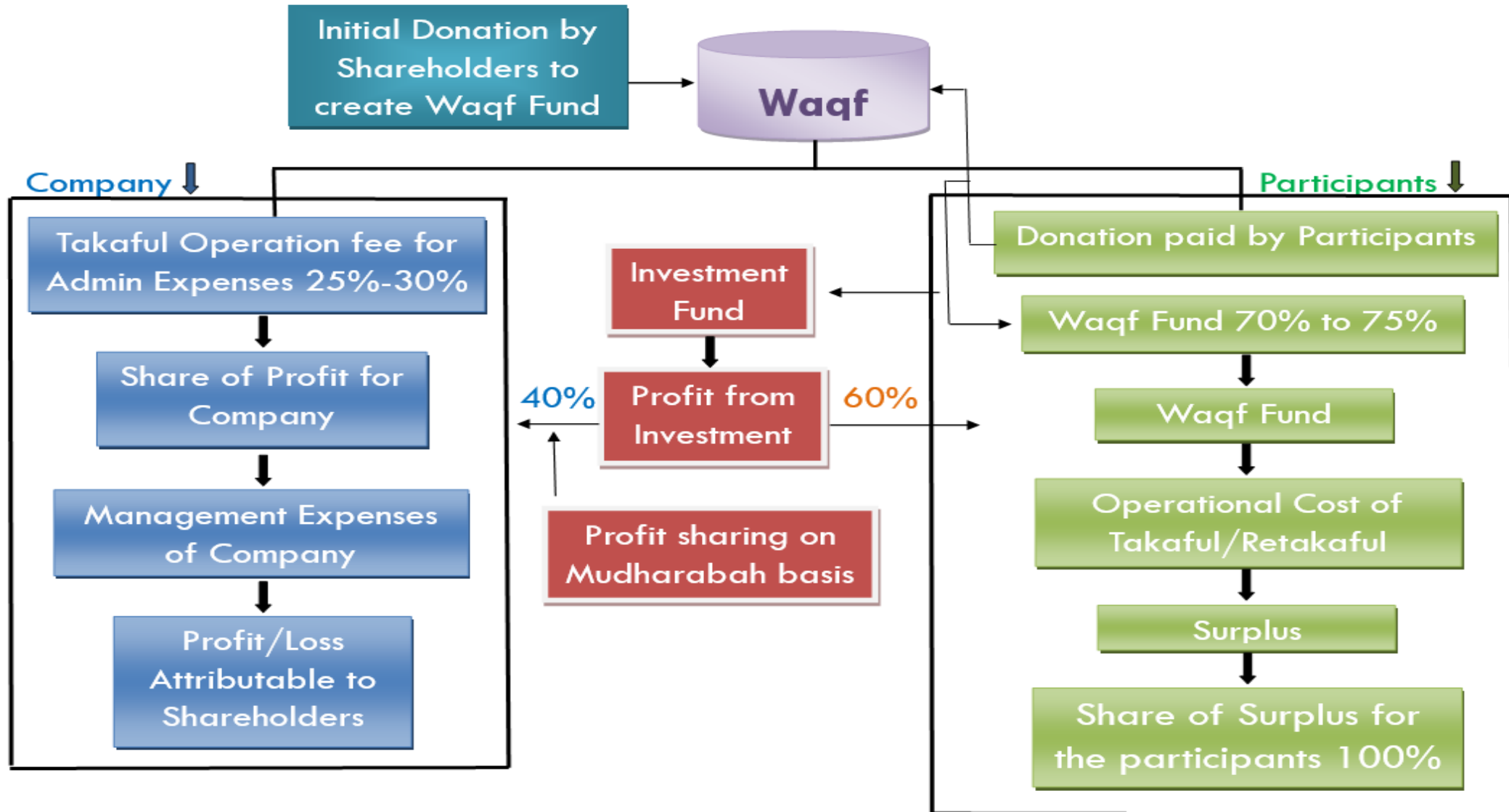


Source: SCM, 2009

WAQF SUKUK MODEL – CASE STUDY OF KAAW

1. Developer (i.e. Munshaat) was granted a 24-year lease over the waqf land
2. Developer leased asset under construction to sukuk investors
3. The sukuk investors made lump sum payment of lease rental to the developer (proceeds for the sukuk)
4. This forward lease (*Ijarah Mawsufah*) was evidenced by the issuance of sukuk *al-intifa`a*
5. Proceeds from sukuk issue were used to pay for the said lease
6. Proceeds were also used to pay the development cost of commercial and hotel complex of Zamzam Tower
7. After the construction, the sukuk investors enjoyed the usufruct of the asset based on time sharing slots

WAQF TAKAFUL MODEL



Source: Shuaib, 2023

- The objectives of the Waqf fund are:
 - ❖ To extend financial assistance to its members in the event of losses
 - ❖ To extend benefits to its members strictly in accordance with the Waqf Deed (Hujjatu Waqf)
- underlines the agreement or consent of the participant that the takaful contribution paid in return for participating in the takaful product to be credited by the operator into the takaful fund in accordance with the principle of waqf or endowment
- Waqf account to be created by the operator within the takaful fund
- The operator is required to sow a “seed” money as waqf to generate the said waqf account

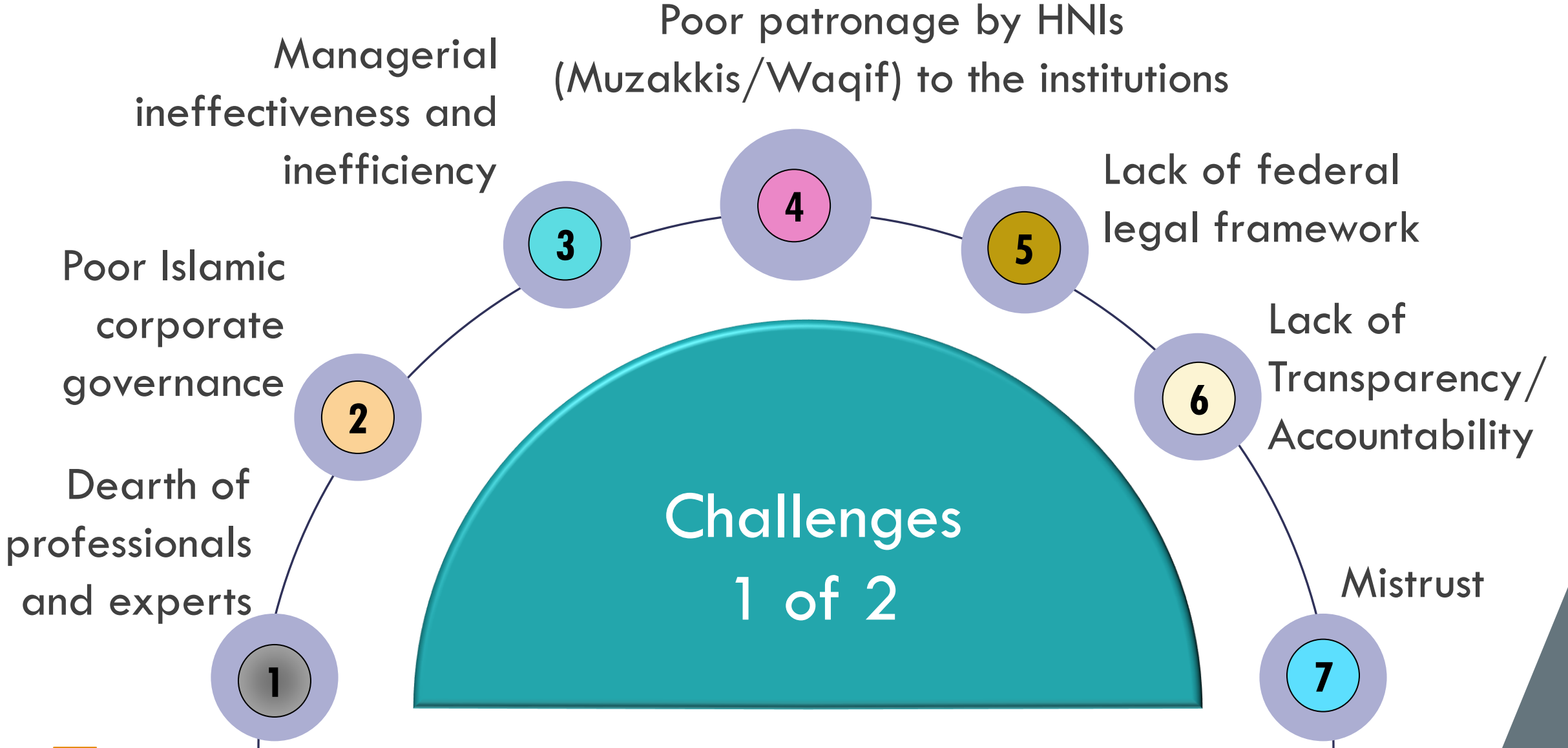
WAQF SUKUK MODEL

- Waqf account of the takaful fund will be invested similar to the three business models (Wakalah, Mudharabah and Hybrid)
- All underwriting expenses and operational cost shall be charged to the Waqf fund
- The takaful operator charges Wakalah fee to be deducted from the contribution paid by the participants for services and the operations of the Waqf
- As Mudharib (Manager), the operator manages the investment of the takaful fund including its Waqf account in Shariah-compliant investment portfolios and will share its returns on the investment at an agreed ratio similar to the profit sharing structure under the Mudharabah contract

WAQF SUKUK MODEL

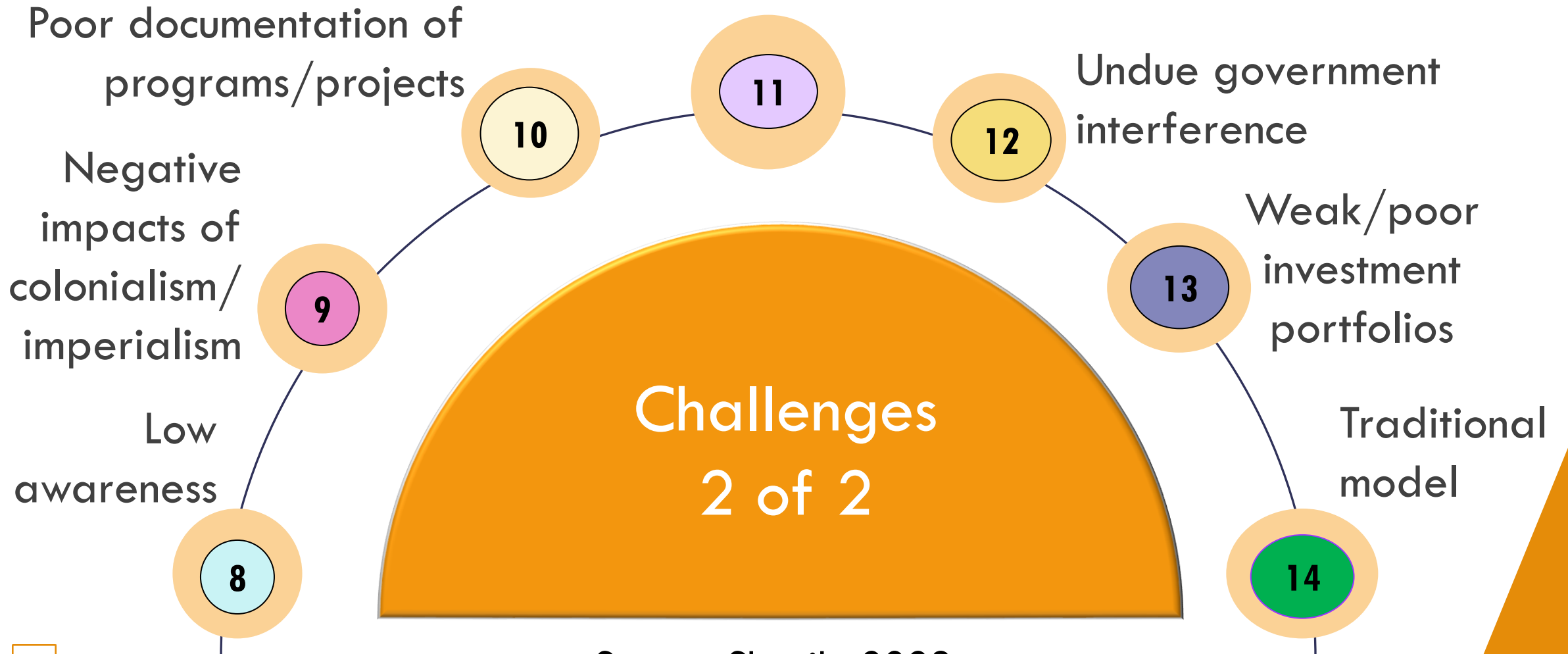
- In contrast to the Waqf Model, the other three models applied the principle of tabarru to the contract
- The Waqf Fund sets the rules for distribution of its proceeds to the beneficiaries and also determine how much compensation be paid out to a participant
- In addition, the Waqf owns the contributions and has the right to act as a legal entity and dealing with its surplus
- The operator, whilst managing the Waqf Fund, assumes two different functions at the same time – Manager and Mudharib or Entrepreneur
- A modified form of Wakalah model where the relationship of the participants and of the operator is direct with the Waqf fund

- The operator is the Wakeel of the Waqf fund and the participants pay one sided donation to the Waqf fund unconditionally
- The Waqf fund rules may define the sharing of surplus and other rules under which it would operate but without having any obligation to distribute surplus



Source: Shuaib, 2023

Lack of jurisdiction/constitutional conflicts on
Waqf 262(1) 262(1)(c); 39(1), 41, CAMA 2020



Source: Shuaib, 2023

ZAKAH, SADAQAH & WAQF: PROSPECTS AND POTENTIALS (1 OF 4)



Muslim
population



Abundance
of Masajid
and Islamic
organizations



Abundant
Human
Resources

Source: Shuaib, 2023

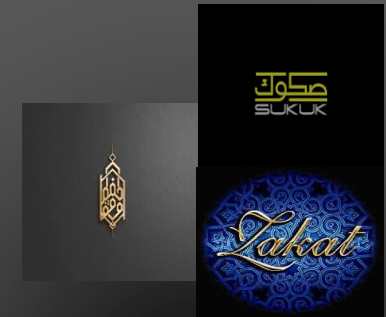
ZAKAH, SADAQAH & WAQF: PROSPECTS AND POTENTIALS (2 OF 4)



Enabling legal
and institutional
frameworks for
IFIs



Emerging
growth of
Islamic
Institutes



Under
optimization of
Waqf-Sukuk,
Waqf-Zakah &
Waqf-Takaful

Source: Shuaib, 2023

ZAKAH, SADAQAH & WAQF: PROSPECTS AND POTENTIALS (3 OF 4)



Reducing poverty, hunger and closing inequality gap between the rich and the poor



Promoting economic growth of the poor & needy



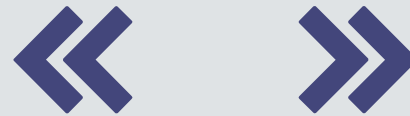
Effective financial instrument to fill funding gap

Source: Shuaib, 2023

ZAKAH, SADAQAH & WAQF: PROSPECTS AND POTENTIALS (4 OF 4)



Leveraging on
FinTech to
actualize the UN
SDGs



Facilitating a
prosperous,
harmonious and
peaceful society

Source: Shuaib, 2023

CONCLUSION

A white rounded square icon containing the year '2020' in white, with a colorful, abstract brushstroke background in shades of purple, blue, and yellow.

Among the top IFDI Market & Global Average IFDI Values, Nigeria came 4th Under Governance and Corporate Social Responsibility (CSR) sub-indicator behind United Arab Emirate

A white rounded square icon containing the year '2021' in bright green, with a solid black background.

Under Governance and CSR sub-indicator, Nigeria moved from the 4th position to the 3rd position behind Jordan

Source: IFSI Stability Report, 2022

Thank You

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