

Review Article

POVERTY REDUCTION BY ISLAMIC WAQF SYSTEM

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Abstract

Human development progress involves the capacity to generate income and translate it into capabilities, including better health and education outcomes. This process plays out throughout the lifecycle. Each person’s development starts early—even before birth, with nutrition, cognitive development and education opportunities for infants and children. It continues with formal education, sexual health and safety from violence before entering the labour market. For the poorest people the lifecycle is an obstacle course that reinforces deprivations and exclusions. This article deals with such global problem as poverty and gives a solution to this problem from religious viewpoint, as the religion is one of the drivers of humanity and economic activity.

Key words: poverty, development, income, redistribution of income, wellbeing, welfare, waqf, waqf system.

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INTRODUCTION

Poverty is a worldwide socio-economic problem. Poverty is more than not having enough financial capacity, resources, and opportunities to secure very basic necessities such as food, accommodation and cloths. According to a report published by World Bank, poverty is described as: “Poverty is hunger. Poverty is lack of shelter. Poverty is being sick and not being able to see a doctor. Poverty is not having access to school and not knowing how to read. Poverty is not having a job, is fear for the future, living one day at a time.

Poverty has many faces, changing from place to place and across time, and has been described in many ways. Most often, poverty is a situation people want to escape. So poverty is a call to action—for the poor and the wealthy alike—a call to change the world so that many more may have enough to eat, adequate shelter, access to education and health, protection from violence, and a voice in what happens in their communities (World Bank, 1999).”

Today, about 600 million people live on less than \$1.90 a day. There has been considerable progress in the fight against poverty in recent decades. The extreme income poverty rate fell from 36 percent in 1990 to 8.6 percent in 2018. Despite this progress, the number of people living in extreme poverty globally is unacceptably high, and poverty reduction may not be fast enough to end extreme poverty by 2030. After decades of progress, poverty reduction is slowing.

METHODOLOGY

Overall, extreme poverty rates tend to be higher in low human development countries, but poor people can be found in countries at all levels of development. While poverty rates have declined in all regions, progress has been uneven, and more than half of people in extreme poverty live in Sub-Saharan Africa, where absolute numbers of people living in poverty are

increasing. If current trends continue, nearly 9 of 10 people in extreme poverty will be in Sub-Saharan Africa in 2030. Income poverty is only one form of poverty. Those furthest behind suffer from overlapping deprivations, discriminatory social norms and lack of political empowerment. Among countries that are off track, most are in Africa and more than one third exhibit high levels of conflict or violence. Together they pose some of the world’s most severe development challenges. They also share characteristics of low tax effort and low health and education spending. They are hampered by weak private sector development in the non-agricultural service sector and share a high dependence on natural resources. Increasing labour income is critical for those at the very bottom. Access to physical and financial assets is also important— land, capital and other inputs for production or services help as income-generating streams and buffers against shocks. Social protection in the form of a non-contributory minimum payment, providing for the most vulnerable is also important. Human development progress involves the capacity to generate income and translate it into capabilities, including better health and education outcomes. This process plays out throughout the lifecycle. Each person’s development starts early—even before birth, with nutrition, cognitive development and education opportunities for infants and children. It continues with formal education, sexual health and safety from violence before entering the labour market. For the poorest people the lifecycle is an obstacle course that reinforces deprivations and exclusions. Multidimensional poverty indices can shed further light on the people furthest behind by capturing overlapping deprivations in households and clusters of households in a geographic area. These are linked to income poverty, but with significant variations. Some people might be multidimensionally poor even if they live above the monetary poverty line.

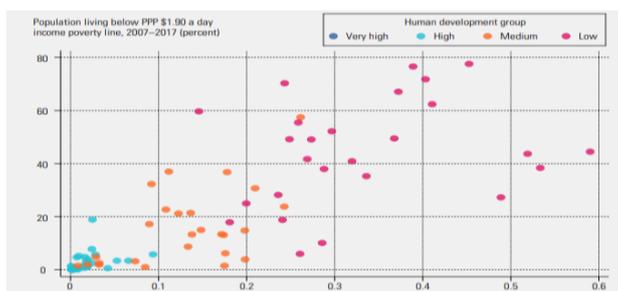


Figure 1. Multidimensional Poverty Index value, 2007–2018

Source: Human Development Report Office estimates

The global Multidimensional Poverty Index (MPI) covers 101 countries, home to 77 percent of the world’s population, or 5.7 billion people. Some 23 percent of these people (1.3 billion) are multidimensionally poor. The MPI data illustrate the challenge of addressing overlapping deprivations: 83 % of all multidimensionally poor live in South Asia and Sub-Saharan Africa, 67 percent in middle income countries, 85 percent in rural areas and 46 percent in severe poverty. Poor people in rural areas tend to have deprivations in both education and access to water, sanitation, electricity and housing. But the challenges extend nutrition are more common in urban areas. Sub-Saharan Africa has the most overlapping MPI deprivations—with more than half the populations of Burundi, Somalia and South Sudan experiencing severe multidimensional poverty, with 50 percent or more of overlapping deprivations. As countries develop, people tend to leave poverty, but the process is neither linear nor mechanic. It comprises both an upward motion (moving out) and a risk of downward motion (falling back in). The very definition of a middle-class threshold can be computed by thinking of the threshold as a probability rather than an absolute line. That is, a person might be considered middle class when he or she is not poor and is at very little risk of becoming poor. For dozens of countries that have reduced poverty, the stakes of not losing the progress of the past 15-20 years are significant. Many low-income individuals are just one illness away from poverty. Even relatively well-off households can drop below the poverty line after personal (such as severe health problems) or communal shocks (such as a disaster or the termination of the main source of employment). Another study shows that just 46 percent of Ugandans who were in the bottom quintile in 2013 had been there two years before. In Indonesia 52 percent of households with children were new to the bottom quintile from one year to

the next. Between 2003 and 2013, tens of millions of people moved out of poverty in Latin America. Yet, large numbers of people remain vulnerable to falling back in poverty. In Peru having the head of the household covered by a pension increased the probability of exiting poverty by 19 percentage points and reduced the probability of falling back into poverty by 7 percentage points. By contrast, access to remittances reduced the probability of falling back into poverty by 4 percentage points. Horizontal inequalities also have dynamic effects. Between 2002 and 2005 ethnicity reduced the probability of transitioning out of poverty in Mexico by 12 percentage points and increased the probability of falling back into poverty from vulnerability by 10 percentage points.

Analysis

Poverty simply refers to a living condition in which an individual is unable to take care of his basic needs like clothing, food, shelter, inability to meet social and economic obligations, lack of gainful employment and other environmental opportunities at his disposal. Poverty encompasses, lack of income, lack of productive assets, lack of education and quality entertainment, ill health, inadequate housing, unsafe living environment, and poor social and cultural life. Islam defines poverty as a state whereby an individual fails to fulfill any of the five basic human requirements of life: (a) Religion, (b) Physical self, (c) Intellect or Knowledge, (d) Offspring, and (e) Wealth. (Hassan, M. K., 2006). In an economy, when the members of the society are facing challenges of meeting their basic biological needs, or unable to meet social and economic obligations/welfare, unemployment, poor flow of income, poor education, health care etc. then definitely the economic stability is poor or is in danger.

Table 1. Uneven distribution of income of the population by 10 percent of the population of the Republic of Uzbekistan (based on the results of a sample survey of households) %

	2010	2011	2012	2013	2014	2015	2016	2017	2018
I Decile	2,9	3,0	3,1	3,2	3,4	3,7	3,8	3,9	3,9
II Decile	4,8	4,9	5,0	5,0	5,1	5,3	5,4	5,5	5,4
III Decile	6,0	6,1	6,1	6,0	6,0	6,3	6,4	6,4	6,4
IV Decile	6,9	7,0	7,0	7,0	7,0	7,2	7,3	7,2	7,3
V Decile	7,9	7,8	7,9	7,9	7,7	8,0	8,1	8,1	8,1
VI Decile	9,1	9,0	8,9	9,0	8,8	9,0	9,1	9,1	9,1
VII Decile	10,5	10,4	10,2	10,3	10,2	10,0	10,2	10,2	10,3
VIII Decile	12,2	12,2	12,2	11,9	11,9	11,4	11,5	11,6	11,7
IX Decile	14,9	14,9	15,1	14,4	13,8	13,5	13,8	13,9	14,1
X Decile	24,8	24,7	24,5	25,3	26,2	25,6	24,4	24,1	23,7
The coefficient of differentiation of the population according to 10% groups	8,5	8,2	8,0	7,9	7,8	7,0	6,4	6,2	6,1

Source: <https://stat.uz/en/181-ofytsyalnaia-statystyka-en/6385-living-standards1>

According to the table, from 2010 to 2018 overall income of the households in Uzbekistan increased by one present and poverty also decreased in this period of time for the same amount. As a result, differentiation of the population according to 10% groups decreased. But still the amount of low income households is high. Nowadays according to statistics of Uzbekistan population living in poverty is more than 5 mln.

Waqf

As discussed above the main objective of waqf is to support the less privilege members of the society, poor and needy people, orphans and widows, wayfarers, students, etc. to improve their living standard, economic status, health and education, water supply, equitable redistribution of wealth, socio-economic welfare and to enhance their economic resources, economic opportunity, community participation empowerment, security social protection, social and other standards of their well-being, influence over their environment, and deprivation from other things that make a difference between truly living and merely

living as well as to make arrangements for provision of basic needs to the less fortunate members of the society based on the Maqasid al-Shari'ah (Usman, 2018). Waqf had played a kind of vital and significant roles through its varied and wide contributions to the economic and social life of the people. Its roles were like a network, which penetrated all sectors such as the agricultural, the industrial and the socio-economic sector. Waqf contribute towards the economic growth in various ways such as:

1. Poverty alleviation/reduction
2. Enhancing economic progress
3. Reduction of government expenditure
4. Restoring distribution of income
5. Preventing deficit financing and decreasing rate of interest
6. Social welfare
7. Waqf creates employment opportunities
8. Funding for small business

9. Sustainable development projects
10. Creates skills and entrepreneurship centers
11. Improve agricultural farming
12. Generates more income to government

The main and the first function of waqf is poverty alleviation or poverty reduction, so this is done by following ways:

Firstly, food and healthcare are supported by waqf funds. As a hadith (prophetic saying or tradition) of the Prophet Muhammad goes, "One of those who God's shade will cover, on the day where there is no shade but His shade, will be one who gives sadaqa [charity] and conceals it so that his left hand does not know what his right hand gives." So, this simple charity system protected both the rich and the poor. It preserved poor people from turning to begging on the streets and facing humility, while allowing the rich to give in secret without anyone knowing how much they were giving or enabling them to boast that they were being generous. The reason why the stonies are generally located in a discreet corner of a mosque or courtyard is so that people would not be noticed when leaving, donating or taking what was offered. For six centuries, the Ottomans widely succeeded in eliminating poverty through the waqf (foundation) system. Waqf is a non-transferable religious donation governed by Islamic law, typically involving a building or property for religious or charitable purposes. The donated assets are held by a charitable trust and the profits from the assets are distributed to help the poor. In modern times waqf provide shelters, deliver water to a locality, and supplying foods to Great Mosque of Beirut (Lebanon) there was an office called a 'basket of bread' from which food used to be distributed to poor men on Friday by the end of the Ottoman period. In modern days, waqf provides shelters and food to some internally displaced persons (IDP) in places where peace is facing challenges such as Syria, Yemen, in Nigeria IDP camps. Food and medicine were provided to some of those IDP camps while others only food and shelter. While quoting examples that even as early period, hospital for children treatment was built in Istanbul out of the waqf fund. In Spain hospital facilities were available for both Muslims and non-Muslims alike.

Secondly, education is supported by waqf. According to Abattouy & Al-Hassani (n.d), education is the second social institution attracting Waqf support and investments (after mosques). Though waqf usually covered, religious education in the mosques, the second largest beneficiary of waqf revenues has been education proper. Education has been financed by voluntary contributions since the beginning of Islam. Even governments have been financing education by constructing schools and assigning certain property as waqf of the schools. Al-Azhar University the best known madrasa in the Muslim world, throughout the ages founded in 972 C.E. in Cairo (Egypt) is an example which was founded, like every madrasa with the endowment of a charitable trust and financed by its waqf revenues until 1812 C.E. when government of Muhammad Ali in Egypt took control over the waqf. Education financing of waqf has freedom of education approach which means it was not restricted to religious studies and usually covered books, libraries, stipends to students and salaries of teachers and other staff so this financing helped to create a learned class separate from the ruling and rich classes.

2. Enhancing economic progress through waqf system. It has been proven in the past, particularly during the Ottoman Empire, that as the Waqf institution was flourishing, the country's economy was also performing. The bigger the size of waqf properties, the bigger the size of private sector participation in the economy. There is a positive correlation between active private sector's participation in the economy with national economic progress. In the present era, Muslim scholars and economists should be creative and innovative to bring about relevant and dynamic mechanisms and instruments to develop the waqf institution to be very active and effective in social development. In the present reality there are ample Muslims who are willing to donate their wealth for religious activity through waqf, if the institution of waqf are properly managed and effectively organized. The confidence of the general public in the waqf institution can be the starting point

for bigger Muslim participation in donating their wealth for society development. The Prophet (P.B.U.H.) himself set an example by following the principles of waqf for the economic betterment of the Arab society. The companions of the Prophet (P.B.U.H.) kept this trend alive. The Prophet (P.B.U.H.) encourage spending in the way of Allah to such an extent that the believers were convinced that the wealth was not a thing to be hoarded, but wealth was to be spent in the way of Allah.

3. Economies can reduce government expenditure with waqf funds. If the waqf institution is properly and effectively organized, a significant amount of wealth can be collected from the private sector for public purposes. This voluntary contribution of the private sector can reduce the size of government expenditure which eventually lessens its participation in the economy. The public goods made available through the waqf institution can replace the government's burden and responsibility (Hassan, 2008). The government responsibilities include providing public goods (social welfare), managing public institutions, provision of public good, and promotion of developmental/infrastructural projects. The institution of waqf is also providing public goods and developmental projects in society such as mosques, schools, hospitals, roads, water supply, and construction of dams to dry ease irrigation farming. For government to budget the provisions of those welfare amenities, waqf funds can be used to finance such projects, new constructions, reconstructions and rehabilitations of public goods. This help government to minimize her expenditure or diverts the funds in other economic activity.

4. Restoring distribution of income by waqf system. Another extremely important function of the waqf becomes apparent not only does it help reduce government expenditure and consequently the rate of interest, it also achieves another modern economic goal, a better distribution of income in the economy. Hassan (2008), considers that through voluntary contributions of the rich for the public purpose, waqf can have a positive implication on the redistribution of wealth in the society. This voluntary approach has a far positive reaching than the redistribution through taxes and government transfer expenditure since the instrument of taxes has a greater costs implication in its implementation. Sometimes due to a lack of proper tax formulation, the costs of collecting taxes can be a great burden to the government. A great cost is also involved in the transfer of government expenditure. Conversely, in the form of waqf, the costs of collection will be very marginal and in most cases it will involve no costs at all. As waqf is made by the rich and the society in general and the poor in particular benefit from the endowment, this feature serves to alleviate the effects of income and wealth inequality. Unlike the short-term impact of government budgetary policies, the institution of waqf over time counteracts the tendency towards concentration of wealth (Siddiqi, 1996).

5. Governments can prevent deficit financing and decreasing rate of interest by waqf system. Government policy around the world (including large expenditure) is often viewed as ineffective in improving conditions for many indigenous and minority groups. Social and economic outcomes remain significantly worse for many minority groups as compared with their majority counterparts (Cooke et al. 2007, Department of Finance and Deregulation 2010, Hursh, 2007, Williams and Johnson, 2010) and government programs and expenditure have been described as ineffective, appalling, incompetent, neglectful, stonewalling and off-putting to those who needed help the most.²

Government borrowing through deficit financing basically can be prevented by active society's commitment to social economic requirements. Deficit financing normally has a negative financial implication for the government. In the present volatile and globalized world economic condition, the public sector should involve in less public borrowings. The previous financial crisis that affected this East Asian region has serious implication on countries which had undertaken huge borrowings by the public and private sectors, particularly from external sources (Hassan, 2008). As such, Cizacka, (1998)

asserts that waqf system can significantly contribute to massive reduction in government expenditure, which in turn leads to a reduction in the budget deficit, which lowers the need for government borrowing thus curbing the crowding-out effect and leads to a reduction in the rate of interest consequently reining a basic impediment for private investment and growth. Cizakca, (1998) also provides serious attention to role of waqf to lower interest rate by providing the most essential social services without any cost to the government. This important contribution of the waqf system towards the gradual elimination of riba is not yet recognized by the Islamic economists. It will be proposed here that it should be. Put differently, a reestablishment and revitalization of the waqf system should be considered as a vital step in the struggle to eliminate riba. It can be argued that Islam demands an immediate and not such a gradual elimination of the interest. This is certainly true and yet utopia. No country has ever succeeded in eliminating interest abruptly by law.

6. Social welfare is increased with waqf system. In the Muslim community endowments as ongoing charity in the field of social welfare played a large role and importance of this role has been increased by the fact that the issues of social welfare did not have a specific state policy in, as was the case in the whole pre-contemporary world. When famous traveler Ibn Batuta visited Damascus, he was surprised by the wealth and variety of local Waqf. There were endowments for supplying wedding outfits to girls of poor families unable to provide them and others for the freeing of prisoners. There were endowments for travelers, for giving them food, clothing, and the expenses of conveyance. Then there were endowments for the improvement and paving of the streets. The waqf institution to a great extent in the Islamic history, had been relied upon for the provision of goods and services necessary for the comprehensive development of the community, ranging from various social institutions such as schools and hospitals to religious objects such as mosques, and welfare schemes like water supply and highway facilities. Waqf institutions helps in providing or construction of social amenities that immediate members of societies are in dire need of such as construction of boreholes, dams to aid the irrigation activities, cemeteries, street fountains.

7. Waqf creates employment opportunities. Waqf is a cumulative and ever increasing investment. This is supported by the historical development in the Muslim lands that ended up making a considerable proportion of cultivable lands and metropolitan real estates in the domain of waqf to the extent that Waqf properties were estimated at over one third of the agricultural land in several countries including Turkey, Morocco, Egypt, and Syria (Kahf, 1998). Waqf system had a significant role in the economic development for several reasons. Firstly, the waqf facilitated renting shops with low prices in the markets that had Waqf, which led to the decrease of prices and, in turn, activated the commercial movement in these markets. Besides, the markets that had no Waqf had to decrease their prices in order to be able to compete with the waqf markets to maintain their businesses. Secondly, the waqf helped the decrease of the unemployment rate and the creation of job opportunities. Chepkwony, (2008) narrated referring Sadeq, (2002), that shrines, and Eid prayer grounds which are also used for many other meetings and social occasions are attributed to waqf. Through waqf commercial centers and shopping complexes have been established, which helped to generate some income for financing target projects. For example, in Dhaka city Baitul Mukarram shopping complex finances a large auditorium for many sorts of activities a publication house, and the national mosque, provides employment to a large number of people.

8. Funding for small business. According to Ahmed, (2007), the provision of financing to the poor is indeed the real application of the social role of Islamic financial sector as well as its unique feature which should be enhanced even further. In this light, many scholars suggest the creation of intermediary institutions to help small and medium enterprise to grow based on zakat, waqf and sadaqa. It is the returns from productive waqf and sadaqa that could be channeled to finance productive Muslim

small and medium enterprises (SMEs Empowering needy Muslims in profitable and lucrative businesses will vehemently and significantly reduce poverty among Muslims. The endowment institution can utilize the integration of zakat, sadaqa, cash waqf, and public funding to support needy Muslims through small and medium enterprises. This is based on the effective cause and reason behind giving all those charities which is to support poor people in society. The cash waqf with its commercial and finance aspect will be more productive for the benefit of SME particularly, and for the society in general especially at macroeconomic level. Cash endowment creates a great opportunity for SME by getting financial reward and profit which can be channeled to their needs according to their terms during the establishment of the cash waqf. Cash endowment increases the accumulation of liquidity and capital in the industry and creates more business opportunity

9. Sustainable development projects. Sustainable development goals, otherwise known as the global goal, are universal call to action to end poverty, protect the planet and ensure that all people enjoy peace and prosperity. Waqf is one of the greatest economic practices that is offers, it is a long-term investment for the whole community benefits. Waqf assets producing goods and service, development and construction of (mosques, schools, hospitals, farmlands, fountains bridges, public utilities, construction of roads, bridges, railway, sometimes hydropower in many of the Muslim countries in the world right from its inception to date.

10. Creates skills and entrepreneurship centers Waqf may also be formed purposely to disseminate knowledge and coach skills in entrepreneurship development among the poor as microfinance alone cannot create wealth unless combined with entrepreneurial skills. Indeed, all technical assistance programs including for poverty alleviation can be organized as waqf (Obaidullah and Khan, 2008). Waqf cash or revenues generated from waqf can be used to established skills acquisition and entrepreneurship centers in society. Unskilled members of the society, orphans and others from underprivileged families can seized that opportunity of attending skills acquisition and entrepreneurship centers to acquire professional skills and at the end of the program they should be empowered with capital to start practicing what they had learned to empower themselves and for self-reliance.

11. Improve agricultural farming. Waqf funds can be used to purchase modern farm equipment and machineries, seeds especially hybrid seeds, fertilizer, insecticide, pesticides, sprayers, and other farming tools that would be useful for agriculture or farming in order to empower the less privileged in society. If the farmers are in need of equipment and machineries such as modern tools or tractors and other equipment that will make their cultivation easier and more convenient for them to cultivate widely and easily. The institution can make such machineries and equipment available and accessible for rent where a certain amount will be charged. Of course, if the farmer cannot avoid the payment, a certain percent of the harvested product can be given to the institution as rent. The given farm product can be used to empower other needy Muslims to sell in the marketplace. It can be used also to construct dams or canals to aid irrigation farming to dry season farmers.

12. Waqf generates more income to government. Waqf institutions helps government to generate more revenues as government's expenditure reduces in an economy where such institutions are in existence so government save more in reserve. Moreover, if economy is growing, the people in economy are employed and have income to buy what they want and consume, the investment is flourishing, the production is active, and then more revenues to the government is generated (Mohsin, 2013).

CONCLUSION

There is need to revive the waqf institution in this 21st century to meet its goals and serve its purpose effectively. The

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