

## Modelling Zakat and Waqf Scheme for Empowering Across-the-board Refugees

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### Abstract

*The objective of this study is to propose a model of empowering global refugees by utilizing zakat and waqf through Islamic microfinance institutions. The model introduced is an extended model of the model developed by Kachkar (2017) and Indrawan et al. (2018). A thorough review of relevant literature is conducted to develop this model. The proposed approach, referred to as the Integrated Zakat and Waqf Model for Refugees (IZWMR), introduces the zakat element as an extension of the previous model. Additionally, the waqf component of the model includes not only cash waqf but also land waqf, thereby enabling the optimal utilization of idle waqf assets to empower refugees and support their livelihood. This study aims to raise awareness within society about the challenges faced by refugees, provide a comprehensive model to address the global refugee crisis, and create opportunities for the more effective and impactful utilization of Islamic social finance instruments, such as zakat and waqf. The extended model added the micro-takaful concept which provide insurance or risk management solution for micro enterprise operated by refugees who has get entrepreneurship training.*

*Keywords: Waqf, Zakat, Refugees, Economic Empowerment*

## INTRODUCTION

### Background

Besides poverty and the lack of educational opportunities, one of the pressing challenges faced by the Muslim world today is the significant influx of refugees resulting from factors such as war, racial conflicts, and natural disasters. According to data from the United Nations Refugee Agency (UNHCR), the number of refugees reached 84 million by the end of 2021. Notably, there are approximately 6.8 million refugees originating from Syria, 4.1 from Venezuela, and 2.6 from Afghanistan. Muslim countries contributed significantly to this large population of forcibly displaced individual. Consequently, the situation of Muslim refugees worldwide is deeply concerning. The existing system of providing basic necessities for refugees is both exhausting and unsustainable in the long run.

It is crucial to address this phenomenon, and it falls upon Muslim leaders to collaborate with Islamic humanitarian non-governmental organizations (NGOs) in order to tackle this issue. One effective approach is

to provide economic opportunities for refugees through income-generating activities. This can be achieved by partnering with Islamic microfinance institutions in various countries. Such collaboration has the potential to enhance the livelihoods and socio-economic conditions of refugees.

Zakat and Waqf, as faith-based models, hold significant potential for addressing the challenges currently faced by the Muslim community (ummah). These Islamic social finance instruments can provide crucial funding to tackle various problematic issues.

### **Objective of the Study**

Indeed, there have been numerous papers that discuss and elaborate on the integrated model of waqf as a means to alleviate poverty and improve socio-economic development. Among these, Kachkar (2017) introduced a specific model of cash waqf microfinance aimed at addressing the needs of refugees. However, Kachkar's cash waqf refugee microfinance fund (CWRMF) primarily focuses on individuals with marketable skills, leaving out those categorized as fakir, such as the disabled and elderly individuals. This paper aims to bridge this gap by providing an extended model based on Kachkar's cash waqf microfinance model. The proposed model, known as the Integrated Zakat and Waqf Model for Refugees (IZWMR), incorporates the zakat element as an extension of the previous model. Additionally, the waqf component within the model encompasses not only cash waqf but also land waqf. This expansion opens up opportunities for the optimal utilization of idle waqf assets, empowering refugees and supporting their livelihoods. The aim of this paper is to model the extended scheme of the Integrated Zakat and Waqf Model for Refugees (IZWMR), (Indrawan et al. ,2018)

### **LITERATURE REVIEW**

The Integrated Zakat and Waqf Model for Refugees (IZWMR) incorporates two main sources of funding: zakat and waqf.

#### **Zakat for Refugees**

Zakat is an obligatory form of alms-giving for Muslims. It is collected from specific sources of wealth and distributed to designated categories of recipients. The sources of wealth eligible for zakat include livestock, savings, trade goods, crops, and minerals. The Quran specifies the categories of individuals who are eligible to receive zakat, as mentioned in the following verse: "Alms are only for the poor and the needy, and those who collect them [zakat], those whose hearts are to be reconciled, captives, debtors, in the cause of Allah, and wayfarers..." (Quran 9:60). Refugees can be categorized as poor and needy, and those who have incurred debts among them can also fall under the category of debtors.

According to the Senior Scholars' Council of Morocco, Zakat can be distributed to eligible recipients within its locality, but it is also permissible to send it to another location, especially if that location is in greater need. As one of the pillars of Islam, zakat plays a significant role in eradicating poverty and improving livelihoods. However, there have been limited research studies conducted to measure the impact of zakat on poverty alleviation. One such study was carried out by Ayuniyyah, which utilized various models including the CIBEST Model, Decil Model, Gini coefficient, and Atkinson index. Interestingly, the CIBEST model used provided a more comprehensive analysis by examining not only material poverty but also spiritual aspects. After analyzing the economic and religious data of 1,309 respondents in different cities and regencies, the study found that zakat distribution programs can effectively alleviate poverty and reduce income inequality.

### **Cash Waqf**

The concept of cash waqf has a historical basis dating back to the early second century of the Islamic calendar. The fatwa of Imam Zufar (d. 158 H) is commonly referenced as the basis for the permissibility of donating measurable or weighable properties, including money, as waqf (endowment) (Cizakca, 2011). However, there are earlier accounts discussing the issue of cash waqf among scholars. Imam al-Bukhari reported that Imam Ibn Shihab al-Zuhri (d. 124 H) was asked about the permissibility of establishing a waqf of 1,000 dinars in perpetuity for trading purposes, with the profits assigned to the poor and underprivileged (al-Bukhari, 2002). Another account related to cash waqf can be found in the renowned Maliki book 'al-Mudawwanah al-Kubra', which documented Imam Malik's (d. 179 H) fatwa affirming the obligation of giving zakah on 100 dinars offered as waqf, to be given as loans to people (Imam Malik, 1994).

### **Previous Studies**

Several scholars have proposed integrated cash waqf models to enhance the livelihoods of financially disadvantaged Muslim individuals. Asmy (2014) introduced the Integrated Cash Waqf Micro Enterprises Investment (ICWME-I) model for micro businesses in Malaysia. This model calls integrated cash waqf micro enterprises investment (ICWME-I). Author develops ICWME-I model as a source of financing for micro enterprises. This scheme is projected to deliver financial services by using cash waqf fund and involved the participatory agreement between non-profit organization and micro business. Astonishingly, there will be no guarantee requirement, interest rate and other requirements which usually levied by conventional financial institutions.

In addition, Haneef (2015) proposes the integrated waqf-based Islamic microfinance model (IWIM) model with the aim of dealing with challenges such as lack of capital, inadequate human capital and absence of takaful

covering default. Firstly, waqf funds can be utilised to lessen the cost to do Islamic microfinance activities, then, Islamic microfinance can propose takaful program, project financing and HRD programs. Thirdly, waqf funds can complement project of implementation. Therefore, the successful of program perceived could contribute to eradicate poverty. On the other hand, takaful coverage can mitigate the risk situation.

Furthermore, Haneef (2015) proposes an integrated waqf-based Islamic microfinance (IsMF) for poverty alleviation in Bangladesh. The research utilises qualitative by surveying 381 respondents. The integrated model, known as the Integrated Waqf-Based Islamic Microfinance Model (IWIMM), consists of six key elements: waqf resources, IsMF, takaful, project financing, human resource development, and poverty alleviation. The study reveals significant relationships between IsMF and takaful, waqf resources and human resource development, takaful and human resource development, IsMF and human resource development, as well as waqf resources and project financing. The findings suggest that poverty alleviation can be achieved through the integration of these constructs.

Another relevant proposal is put forth by Kachkar (2017), who introduces a conceptual model of cash waqf that can be utilized to expand microfinance opportunities for refugees. There are two types of waqf which are utilised in this model, namely temporary and perpetual. Temporary cash waqf targets to those who donate fund for temporary basis whereas perpetual will be invested in business with low-risk shariah-compliant. This scheme will link directly to reserve fund with the aim to cover cost of operational. This model also considers risk management by integrating takaful unit to deal with classical problem which is collateral. Henceforth, it would guarantee each other.

The conceptual model of Cash waqf which is introduced by Kachkar is well-prepared to be implemented. This is because it takes probability to be default into account, which is non performing financing. When NPF happen, Takaful unit which has been incorporated before would guarantee the default. In addition, it also allocates reserve fund contributing to the operational expenses like salary of staff, building rent and others. However, the model could not afford the very low level of refugees who cannot do the business activities. As such, the microfinance landing is only for those who have marketable skill to do. It cannot reach people like fakir who are, for instance, disable or elderly. Therefore, there is suggestion to integrate cash waqf model with zakat since zakat fund can connect with all economic level of people/refugees.

## RESEARCH METHOD

Before presenting the analysis and discussion, the author takes the opportunity to discuss the chosen methodology employed in this study. This study utilizes a descriptive qualitative method to design expanded model

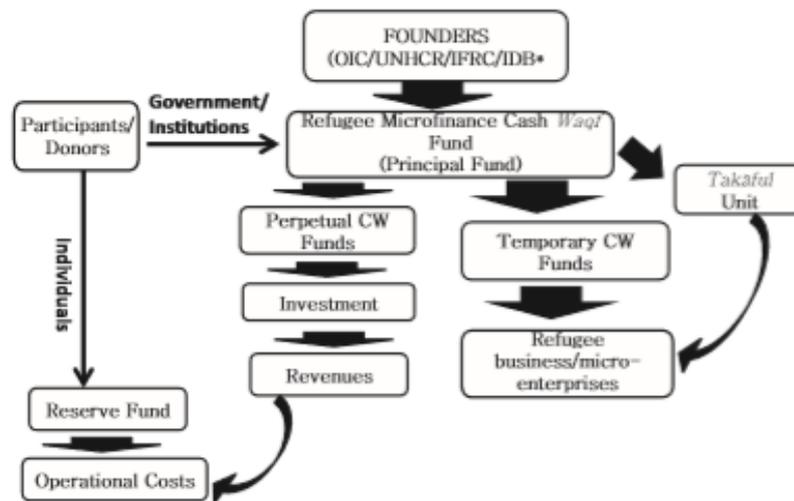
from propose the Integrated Zakat and Waqf Model for Refugees, (Indrawan et al., 2018). The research paper utilizes a quantitative approach through a literature survey, discourse analysis, and critical content analysis. According to Denzin and Lincoln (2008), qualitative research is an intentional endeavor that places the researcher in a world of interpretable texts such as books, articles, manuscripts, and interviews, making the world understandable, influencing thoughts, and shaping the world. Qualitative methods enable researchers to engage in a scholarly, nuanced, sophisticated, holistic, and comprehensive understanding of research objectives through systematic and rigorous data collection and analysis. According to Ritchie and Lewis (2003), the outcome of this process yields reliable and validated synthesis of inputs as context-specific solutions, which may not be generalizable like other types of studies.

Qualitative research focuses on exploring questions that start with "Why? How? In which way?" It aims to understand a problem from the perspective of the local population being studied. This type of research is particularly valuable for obtaining specific information about the beliefs, opinions, behaviors, and social context of specific populations. Qualitative methods also assist in identifying intangible factors, such as social norms, socioeconomic status, gender roles, and others, which may not be immediately apparent in research. (Radović-Marković & Alecchi, 2016).

Furthermore, the author documents some previous cash waqf integrated models which have been developed by scholars, then, compares, accommodates and introduces the new model combining zakat and waqf, which is perceived, can solve the refugee's problem.

## **RESULT AND DISCUSSION**

Before heading to the proposed model, first there will be examination of Kachkar (2017) model on waqf based microfinance scheme for refugees. As stated by Kachkar (2017:83-84), there are some features within the scheme which aimed to help refugees. First, source of fund for the scheme can come from institutional donors and individual donors. While the individual contribution will be channeled to reserve fund, big contribution from institutional donors will form the principal fund for the scheme. Second, the cash waqf fund is obtained from principal fund. It consists of two types waqf, temporary cash waqf which is utilized for financing the refugee's business. On the other hand, the perpetual cash waqf will be channeled to sharia compliant low risk investment in order to generate return. The return will be part of reserve fund. Third, there is takaful unit to provide financial guarantee for refugee's microenterprise since refugee does not have any financial collateral.



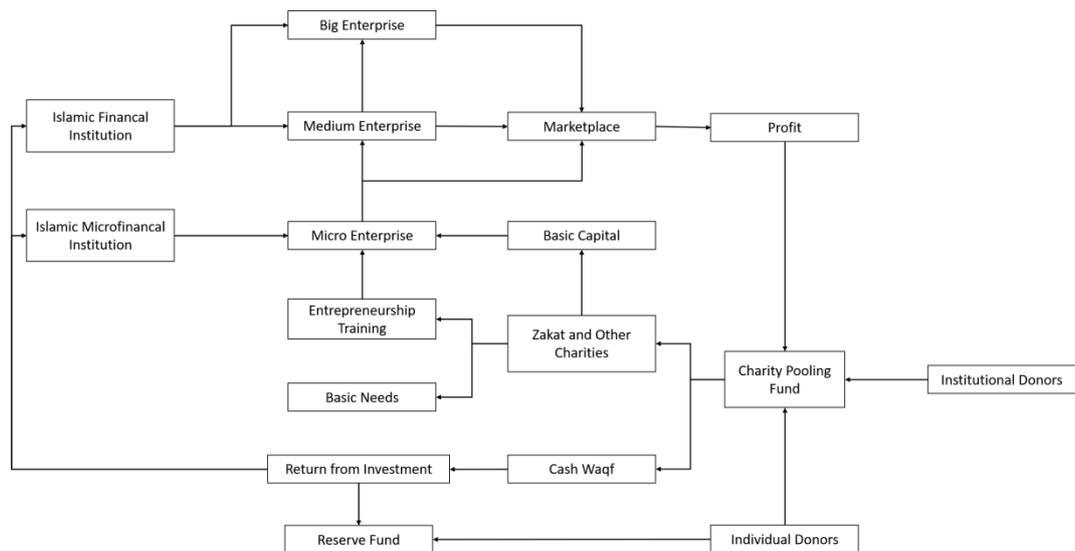
**Notes:** \*OIC (Organisation of Islamic Cooperation); UNHCR (The United Nations High Commissioner for Refugees); IFRC (The International Federation of Red Cross and Red Crescent Societies); IDB (Islamic Development Bank)

**Figure 1: Waqf Based Microfinance Model for Refugee**  
Source: Kachkar (2017)

The fund for the takaful unit is sourced from both the principal fund and refugees who wish to participate in the program. To become part of the scheme, refugees interested in joining must submit an application for the takaful unit and receive approval from senior members of the refugee community involved in the scheme. Lastly, there is reserve fund which formed from individual donors and return from investment and intended to finance the operational cost of the scheme. This includes staff salary, utility cost, etc.

Above is a good effort to provide solution for refugee's problem. Especially today when many Muslim countries are weakened due to long period of conflicts, refugee problem is a serious problem in Muslim World today. However, when we take a look at the model, this model will only help refugees with entrepreneurship skill. This is problematic because in reality, not all refugees have such skill and thus need some training before making businesses. At the same time, there are some refugees who cannot make business due to illness and/or physical disability, so fulfillment of basic needs is more urgent for them.

On the ground of above problem, this paper is proposing Integrated Zakat and Waqf Model for Refugees (IZWMR) as improvement of Kachkar's model to cover wider issue of refugee's welfare. The scheme is shown on figure below:



**Figure 2. Integrate Zakat and Waqf Model for Refugee (IZWMR) Scheme**

Source: Indrawan et al. (2018)

The IZWMR scheme is initiated when both institutional donors and individual donors contribute their funds to the scheme's manager. The funds from institutional donors are exclusively directed to the charity pooling fund, while funds from individual donors are allocated to both the charity pooling fund and the reserve fund, following the model proposed by Kachkar (2017). The charity pooling fund comprises two main components: the zakat and other charities fund (*infaq, sadaqa*), and the cash waqf fund. The zakat and other charities fund serve three purposes:

1. To address the essential requirements of refugees in sustaining their daily lives, particularly those with disabilities and elderly individuals who are unable to establish businesses due to their limitations.
2. To support the funding of entrepreneurship training for refugees, aiming to enhance their skills and capabilities.
3. To offer initial capital for graduates of entrepreneurship training programs, which can be provided through grants (*hibah*) or interest-free loans (*qard al-hasan*).

Notice for zakat fund utilization, it is used on the basis that refugees are considered as two groups of *asnaf*, the *faqir wa miskin* (the poor) and the *ibnu sabil* (somebody who do not have livelihood and deprived on way home).

After entrepreneurship training, the refugees will be provided with basic capital to set-up microenterprise. This microenterprise must be operated mainly to serve the needs of refugee community, thus make them better-off and gradually independent from external aids. To expand the business operation, this microenterprise can request financing from Islamic Microfinance Institution (IMFI). Once the microenterprise is getting bigger into medium enterprise, the enterprise can request financing from Islamic Financial Institution (IFI), such as commercial bank.

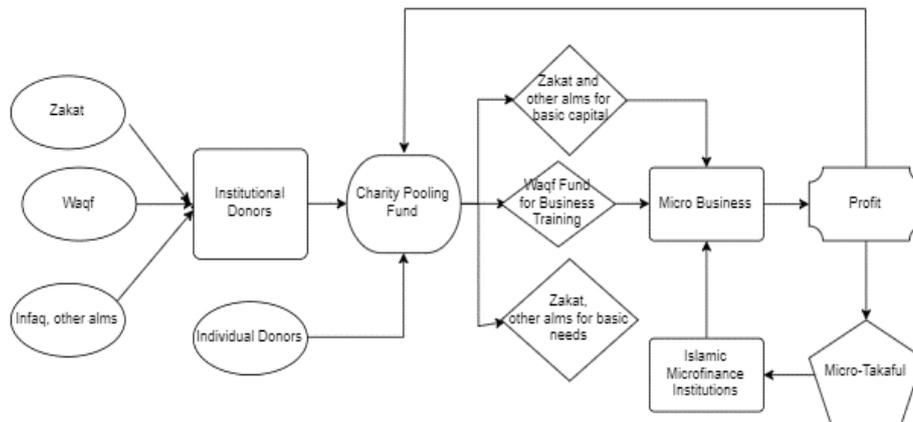
To help stimulate the business of refugees, cash waqf fund will play important role. The manager of the scheme will allocate the cash waqf fund towards investments, including real investments and low-risk sharia-compliant financial instruments, with the objective of generating returns. The returns will build-up the reserve fund of the program, but more importantly, the returns will subsidize the profit-margin on IMFI and IFI financing. For instance, financing by using *murabahah* scheme will consist of two components within the repayment, the principal and the profit-margin. The returns generated from the cash waqf fund will be utilized to subsidize the profit margin. In this arrangement, businesses will only be required to repay the principal amount, similar to the concept of *qard al-hasan*, which is an interest-free loan. This will ensure the operational of IMFI and IFI but stimulate the expansion of the refugees' enterprises. Nevertheless, the subsidy derived from the cash waqf returns is exclusively applicable to micro and medium enterprises. Once a refugee's enterprise surpasses a certain threshold in terms of asset value and is categorized as a large company, no further subsidies will be provided.

The refugees' enterprises should enter the marketplace to conduct their business. This marketplace may within refugees' community only, or extend beyond their community within the host country. So, host country has obligation to provide proper marketplace for the refugees' enterprises. It can be in form of cooperation between refugees' enterprises and local enterprises to produce and distribute products for host country's citizens. This will enhance economic growth of the host country, and help limit the social tension between local citizens and refugees.

Once the refugees' enterprises gain profit, they have moral obligation to give some charity, either zakat or waqf to the IZWMR program manager to finance and sustain the program as well as help other refugees as well. This will create "vicious cycle" of refugee's betterment.

Differently, IZWMR program does not include takaful unit because its role can be conducted by using reserve fund. But, as in Kachkar (2017) scheme, this program is better if complemented by supervision from prominent international institutions such as OIC, IDB, and UNHCR.

The IZMWR (Islamic Zakat, Waqf, and Microfinance Refugee) scheme aims to address the needs of refugees by not only fulfilling their basic requirements but also promoting self-actualization through entrepreneurship skills. This approach utilizes both zakat and waqf, incorporating both the social and commercial sectors of Islamic finance. By upgrading the capabilities of refugees and fostering sustainable efforts, the scheme aims to support their independence while also contributing to the economic growth of the host country. In a broader context, this model has the potential to contribute to solving the global issue of refugees, emphasizing the importance of humanity coming together to provide comprehensive support and opportunities for those in need.



**Figure 3. Extended Model of Integrated Zakat and Waqf Model for Refugee (IZWMR) Scheme**

Source: Author's illustration

This study proposes the extended model of Integrated Zakat and Waqf Model for Refugee (IZWMR). This model added the micro-takaful concept which provide insurance or risk management solution for micro enterprise operated by refugees who has get entrepreneurship training. This is a cooperative system of mutual assistance based on the principles of solidarity and shared responsibility. The role of micro-takaful is to address the insurance needs of financially vulnerable populations who may not have access to traditional insurance services. It aims to protect individuals and communities against various risks and provide them with a safety net in times of need. Micro-takaful will be managed by Islamic Micro Finance Institutions.

## CONCLUSION & RECOMMENDATION

The issue of refugees is a pressing global concern, particularly in nations experiencing conflicts within the Muslim world. While previous schemes, such as the one proposed by Kachkar (2017), have made commendable efforts to raise awareness about this issue, a more comprehensive scheme is required to effectively address the problem. The IZMWR scheme is designed to integrate waqf, zakat, and various sectors of Islamic finance, both commercial and social, to assist refugee communities in meeting their basic needs and enhancing their entrepreneurial capabilities.

The scheme aims to facilitate the transition of refugee businesses to larger scales, contribute to the growth and sustainability of the Islamic financial industry, foster collaboration with the host country, and ensure the long-term viability of the program. To bring this scheme into fruition and make it applicable in the real world, a more technical paper outlining its implementation is necessary. A more technical paper for the scheme applicability is needed to realize the scheme into real world.

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