

SUMMARY OF THE VIRTUAL SEMINAR 2
“IMPLEMENTATION MECHANISMS OF ISLAMIC SOCIAL FINANCING”Agenda

Moderator Dr. Salma Abbasi, Chair and CEO of eWorldwide Group

		Speaker
2min	Welcome	<i>Dr. Salma Abbasi, Chair and CEO of eWorldwide Group</i>
20min	Mechanisms to Achieve the Goals of Zakat, Sadaqah, Awqaf	<i>His Eminence Sheikh Dr. Ali al-H.E. Qaradaghi, Islamic Scholar</i>
Case Studies		
10min	Malaysian Experience	<i>Dr. Kamaruzaman Bin Nordin, University of Malaya</i>
10min	Indonesian Experience	<i>Dr. Ahmad Juwaini, Director of Islamic Social Finance, National Committee of Islamic Economic and Finance (KNEKS)</i>
Discussion		
40min	Lead by the moderator	
5min	Closing	<i>Dr. Ahmed Al Meraikhi, Special Adviser to the UN Secretary-General</i>

Seminar Summary**Moderator's Introduction**

I welcome all participants. We have interesting discussions and presentations today from expert speakers who have the cumulative experiences we are all looking for to see innovatively how we can use Islamic social financing instruments, particularly Zakat, Sadaqah and Waqf to support the sustainable development goals 2030. I hope that the case studies at the country level will give us the insight to ignite practical questions for developmental agencies and all stakeholders.

Such webinars help us understand how to deal with the agile time we are living in. The focus of today is an in-depth look at the personal experiences and the role that the governments can play in ensuring Sharia compliance and optimize the benefits from Islamic Financing Mechanisms.

Dr. Sheikh Ali Al-Qaradaghi, Secretary General of the International Union of Muslim Scholars, Professor of Sharia and Islamic Economics

Helping those in need and removing them from poverty is a Sharia duty and a humanitarian obligation. We are all human beings from the same human race; we need to feel empathy towards each other. When the Prophet was asked regarding a non-Muslim person he said: “isn't he a soul



too?” The Quran confirmed that every human has something from the spirit of God and this fact gives every person’s life sanctity and the sanctity of humans outweigh the sanctity of the Kaaba Al-Musharafa, as in killing a person is worse than dismantling the Kaaba. Hunger kills, poverty can cause the bereavement of the human dignity and therefore the United Nations and all religious people (Christians, Muslims, Jewish or others) give utmost importance to this issue and attempt to combat poverty. We need to approach all politicians to implement what we are working on.

One of the principles of Islam: the importance of human life and the dignity of all human beings. Islamic Social finance is achievable through two programs:

- Zakat, Waqf, Sadaqa;
- Social banking finance system.

We need to call an integration of both aforementioned programs, so that to establish “social banks” by working with the United Nations agencies and governments.

We need to impose, legally on banks and companies that work in Muslim majority and non-Muslim majority countries, social responsibility and dues. It is our right. Islam says that all rights are intertwined and linked; there is no right without a duty and vice versa. These corporations benefit from the society/community and therefore the corporations have an obligation towards society/community: impose Zakat, Waqf, Sadaqa, social banks, taxes, social fees and duties on the corporations. We need to adopt a holistic approach.

The Quran says: “Take from their wealth a charity by which you purify them and cause them increase and invoke (Allah’s Blessings) upon them.” It cleanses their soul and morality, it develops them, gives them an added value.

Zakat is an integral pillar of Islam, it aims to ensure social solidarity by eradicating or decreasing poverty and unemployment. Governments can benefit from Zakat in dealing with inflation because Zakat can be collected in cash and goods. The central bank can also benefit from Zakat in expansionary monetary policy: if there was low liquidity, the central bank can impose on people to pay and use all their Zakat in cash. And in the case of inflation, the central bank can impose on corporations to provide goods and products in kind, this is known as contractionary monetary policy. We can therefore invest Zakat funds. Zakat is essential with regards to redistribution of wealth to combat absolute poverty and income inequality, which are important economic goals.

Redistribution happens through Zakat: if we take from the rich for example 2.5% in cash and from agriculture produce 10%, and from ores and minerals 20%, we will have a relative balance between various social classes. There won’t be a socially irresponsible extremely rich class of people nor a very poor class.

There are 3 main impending problems:

1. Bad collection mechanisms.

In recent years, the Zakat in the Muslim world was not lower than USD 300 billion-USD 400 billion per annum and these figures were calculated based on deposits base in banks, corporations, zakatable assets and stock markets capitalizations figures, investment portfolios, and in essence do



not include the money of states/governments and sovereign funds as well as secret/hidden accounts in Switzerland and other tax havens. So where are the 300-400 billion USD? We only find little and scant Zakat money spent annually.

2. Bad distribution.

We are not effectively distributing zakat funds.

3. Imbalance between wealthy countries with a wealthy population and poor countries with a big and poor population. Rich States and Poor states.

How to solve these problems while preserving the sovereignty of countries?

To improve the collection mechanism, the United Nations should reach an agreement with countries through negotiations, programs, memorandums, regulations and laws and establish a global law regarding Zakat. Every country must establish a zakat fund. We have 59 Muslim countries where we can establish 59 funds and we link them under an independent international and national supervision without meddling in the affairs of the states. These funds should be linked while preserving the sovereignty of each and all states.

Regarding distribution, the majority of funds should be distributed by the governments, while they can keep 10% of it to the individuals to distribute (to family, close people). These distributions should be made with legal and economic controls. We need to distribute the Zakat money through 3 fronts:

1. 33% of Zakat should be given to the poor consumers that do not have means, an amount that will suffice them for 1 year, in order to preserve their dignity.
2. 33% of Zakat should be given to production tools such as agriculture, commerce, machinery.
3. 33% to deal with national pandemics, problems and/or disasters

Part of these funds would go to protect and guarantee the funds available for benevolent loans (al qard al hassan)

Case Studies of the Malaysian and Indonesian Experiences (Attached)

Dr. Sheikh Ali Al-Qaradaghi, Secretary General of the International Union of Muslim Scholars, Professor of Sharia and Islamic Economics

I am familiar with the case studies in Malaysia and Indonesia and they come to us for advice. In my opinion, these experiences are still diffident in terms of Fiqh and economic thought. There is still a lot to be done. Many of these are based on Hanafi and Shafi'i schools. The issue of Zakat cannot be used as a solution unless considered under the Sharia and economic pillars. These experiences are still in the beginning. Many initiatives are not yet full-fledged institutions. We were able to find solutions to absolute poverty through ISF and Zakat products, and there is a problem related to the establishment of private institutions or facilities such as private schools and hospitals for the poor.

Everyone in the International Community was convinced but it still needs to be expanded.

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With all respect, to all the schools of jurisprudence of Islam, when we talk about the finances in the Shafi'i school, this experience is not existent. Although the Quran is very clear when it says take from their money, however this application is not generalized.

We cannot achieve our objective if we do not discuss the products and mechanisms. The value of zakat is very limited, in Indonesia, it is 10 Billion USD, we need international acceptance by everyone and then we can reach those through discussion and sharing ideas.

Discussion

Adel Abdurashid (Yemen)

Sheikh Dr. Qaradaghi, spoke about International Zakat Fund in co-operation with the United Nations and the role of the State. I am confused: Zakat is a sovereign issue, because the State collects it, and I don't know if this suggested fund will collect the Zakat. At the time of Abubaker AL Siddeeq, they gave the power to the State to collect the Zakat. If the State collects the Zakat it becomes a charity or a fund but is not related to Zakat. Zakat is not only collected, it is usually used to help the poor in a certain region, of a certain country. How can we do this if there are international and global funds to cater to needs of this specific community in this country.

Dr. Sheikh Ali al-Qaradaghi, Secretary General of the International Union of Muslim Scholars, Professor of Sharia and Islamic Economics

The government and UN continue to fight poverty, within fighting poverty we can include the rule of Zakat. We must have a binding text, these States can approve these articles, and the State will establish a special zakat fund. While Yemen addresses the poor in Yemen, Qatar collects 10 billion dollars of Zakat annually, we can use part of this amount to help the poor outside Qatar also. We can use zakat fund from one country to help the poor in other countries. We will be helping our brothers in Yemen or Syria or other needy countries. We must use specific mechanisms that will regulate funds disbursement. The problem is that collection is not sufficient and transparency of distribution is not adequate. The OIC should help in the distribution. The uses of funds must be regulated and properly monitored.

Dr. Ahmed Al Meraikhi, Special Adviser to the UN Secretary-General

We launched the dialogue on Islamic social finance with the purpose of generating such questions. This platform aims to get opinions, raise questions. The scholars and experts of this dialogue will carry on this dialogue for 6 months to find a mechanism that is suitable for everyone: for UN agencies and the state. A mechanism that is feasible and used by United Nations Organizations and is compliant with the Islamic Sharia'.

Dr. Salma Abbasi, Chair and CEO of eWorldwide Group

There is great potential to use this platform and walk away with a framework. There is a need for overarching framework to achieve the goals of the SDGs and to help the most marginalised. Helping humanity and not only Muslims. In addition, it is important to bring in the private sector.

We have global pandemic, tech companies made billions of profit. How are we going to utilize them for social good? The example of Qatar Foundation and beyond is very important.



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How to address those gaps and leakages in system? Why don't we have correct amount of zakat? What would be best management, framework? How Islamic financial institutions including banks in Malaysia, respond to the Zakat obligations as required by business entities?

Dr. Kamaruzaman Bin Nordin, University of Malaya

In Malaysia, each and every business entity whose owners are Muslims or who is considered as Sharia' compliant is required to pay Zakat under State Fatwa. Especially Islamic finance institutions: we have Islamic banks, Takaful companies. According to the Central Bank, each Islamic finance Institution needs to declare the amount of Zakat. There is a resolution for the Zakat to be paid by the business entity, but according to the Central Bank, the financial institution needs to declare Zakat. So indirectly, Islamic financial institutions, including Islamic banks, takaful, they have to pay Zakat. Zakat is acceptable by the Islamic Financial Institutions even though the shareholders are not Muslims.

Dr. Ahmad Juwaini, Director of Islamic Social Finance, National Committee of Islamic Economic and Finance (KNEKS)

In Indonesia, some corporations pay Zakat. There are 2 types of institution: Zakat institutions established by the government, and the second one is the Zakat institution established by the benevolent society. There are many corporations, especially owned by Muslims and institutions that use various types of mechanisms to pay the zakat, where there is an option to choose how to pay the Zakat by an electronic mechanism. The use of technology to accommodate the development, the growth and change in society.

Dr. Salma Abbasi, Chair and CEO of eWorldwide Group

We need to have a global overarching framework. How do these regulations work? How do the regulations and policies in Indonesia governing Islamic Social Finance? How do they support the optimization of collection? We are not collecting enough money, so how do you make that work in Indonesia?

Dr. Ahmad Juwaini, Director of Islamic Social Finance, National Committee of Islamic Economic and Finance (KNEKS)

In Indonesia, there are a Zakat Law and a Waqf law accompanied by several implementation regulations. The law contains guidelines of the management of Zakat and Waqf, so that they can be managed and trusted, transparent, beneficial in improving the welfare of the community. there are Waqf and Zakat accounting guidelines that are applied nationally, issued by Indonesia Chartered Accountants in a credible and accountable manner. Indonesia also has a National Zakat index which is a guideline in the performance of Zakat institution managing zakat. There are also regulations and guidelines for the management of Zakat to help improve the management of Zakat and Waqf funds that have real benefits in helping in overcoming poverty and improving societal welfare in Indonesia.

Dr. Salma Abbasi, Chair and CEO of eWorldwide Group

There is a question in the chat by Fatima: there are no forms of Islamic financing/social financing in many countries and the initiative that the UN-ESCWA and the IDB has started will be very beneficial. How can we fast track these things?

Brother Lawal from Nigeria: in the context of Nigeria, with a large population of Muslims in the North, is there any such activities or mission from Sultan of Sokoto? Is he driving such programs?



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Mr. Lawal Maidoki

We are very content with this seminar. We hope to make life easy for the whole world. In Nigeria, there were remarkable achievements in terms of social justice. In Nigeria, the constitution recognizes Waqf and the fundamental rights of the Muslims to practice their religion. On that basis, many states have elected laws with respects to Zakat and Waqf collection and administration. In Nigeria, we have 3 Islamic Banks in operation. The Central Bank has agreed to non-interest banking and financial transactions. The Nigerian government through the ministry of finance have raised the issue of Sukuk: more than 20 roads who needed to be repaired are now being repaired through Sukuk. Many regions have accepted to reintegrate Islamic Social Finance. We have one of the most vibrant Zakat and Waqf institution in Nigeria. We have been able to bring all kind of Zakat and Waqf institutions together under the Association of Zakat and Waqf Operators in Nigeria. We are reaching out to many universities to try to come up with a curriculum for high school and university students. The Sultan is supporting us. Our systems are being used to address the issue of education in Nigeria. we are happy with the progress and are ready to share our experience and learn from other experiences.

Dr. Salma Abbasi, Chair and CEO of eWorldwide Group

The interaction is wonderful and we are all moving towards collaboration and creating a higher level framework and bringing all these thoughts together, so that other countries, members and participants can learn from each other and make something collectively richer and more effective that can fast track the effective utilization of this money and understand the mechanism. Our talk today aimed at focusing on the implementation.

Dr. Ahmed Al Meraikhi, Special Adviser to the UN Secretary-General:

The mechanisms presented could be the base from which to start.

From Indonesia, Malaysia and Nigeria, who presented effective mechanisms that could be a guide for us to the international mechanism that we aspire to.

This is an opportunity to find the mechanism we aspire to with this strong partnership supported by the United Nations through the Islamic Development Bank.