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Hybrid Model of Zakah, Waqf, Qard-Hassan & Islamic Finance for a Just and Sustainable Microfinance

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Abstract

The failure of interest based programmes, such as micro-finance and anti-poverty programmes, in assisting the destitute, eradicating poverty and reducing income inequality encouraged the authors to study in depth the alternative financial institutions to interest/riba that can solve such problems rather than harming individuals, communities, societies and countries. This raises the question of whether the different Islamic financial institutions can provide microfinance with zero-interest to eradicate poverty and reduce inequalities.

This paper attempts to propose a hybrid model integrating four religious financial institutions to eradicate poverty within a very short period of time in a just manner and in a sustainable way for generations to come. We shall use both primary sources including text from the Quran and the Hadith, and data collected from secondary sources including books, articles and journals besides World Bank reports from the web sites.

The paper intends to create awareness of the meaningful approach of religion in terms of eradicating poverty, reducing inequalities and creating a fair and just society for all, rather than following man-made system which hurt all societies. Moreover, this paper also intends to open the door wider for more researchers and postgraduate students to explore their knowledge in depth on these religious institutions and to adjust them according to the current needs of different societies. We hope to revitalize four neglected Islamic financial institutions and

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integrate them into a hybrid model for a promising way to eradicate poverty in a just and ethical manner.

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1. Introduction

The last decades witnessed many anti-poverty programmes which had been implemented in many countries to eradicate poverty and to empower the poor and the needy through micro-lending. Although some of these anti-poverty programmes succeeded in reducing poverty to some extent, yet they fail to reduce inequality which is quite high in many regions around the world. According to the World Bank statistics of 2012 on Global Issues, more than 80% of the world's population live in countries where income inequality is very wide. For example 20% of the world's poorest population account for less than 2% of global income where 20% of the richest account for almost 77% of the world income (World Bank 2008). Besides, almost half of the world specifically over 3 billion live on less than $2.50 a day; 640 million live without adequate shelter; 925 million people suffer from hunger; 400 million have no access to safe water; 270 million have no access to health services; 10.6 million died before they reached the age of 5 and 1 billion are illiterate. Muslim countries are no exception, according to Statistical, Economic and Social Research and Training Centre for Islamic Countries (SESRIC) statistics 27.2% of the Organization of Islamic Cooperation (OIC) population i.e. 351.2 million people, live on less than $1.25aday. Moreover, the various microfinance programmes which are meant to assist the financially excluded people and which started with a very low interest rate between 4% -7%, has recently increased to 20% and in some cases to 50%.

The main objective of this paper is to revive four religious institutions which are meant to eradicate poverty, reduce inequalities and narrow the gap between the rich and the poor in an ethical and just manner. These religious institutions are the *zakah*, waqf, qard-hassan and interest-free institutions which are well known in all holy books that had been sent to man throughout history. Since the Quran is the last holy book which has been sent by Allah, it upholds all these institutions and discusses them in details. These were immediately put in practice by His final messenger (pbuh), the companions and the successors in more than thirteen centuries in the Islamic world. However, within the last century all these institutions had been replaced with man-made systems which led to the negligence of the Islamic institutions in the Islamic world. Consequently an unacceptable scenario, as highlighted above, has prevailed globally. To change this current scenario, it is highly recommended to revive these institutions and to put them in practice again for the benefit of the mankind. This can be achieved by integrating these four institutions i.e. the institutions of *zakah*, waqf, qard-hassan, and Islamic finance into a hybrid model as an alternative to the current anti-poverty programmes that deal with interest/riba, which is prohibited in the religion. This paper is divided into four sections including the introduction. Section two gives an overview on poverty; section three explains the Islamic approach of poverty eradication, while section four proposes a hybrid model for Islamic Microfinance followed by the conclusion.

2. Overview on Poverty

Currently the role of waqf, *zakah*, qard-hassan which are meant to eradicate poverty, eliminate riba and create employment for the majority of people in the Islamic world, have been neglected for over a century. Consequently, this has forced almost all Muslim countries to follow the conventional system in eradicating its poverty through many anti-poverty programmes, including the international and the national microfinance programmes, which are based on interest/riba. But instead of eradicating the poverty in some countries it initiated persistent poverty for generations to come due to compound interest.

To overcome this, we believe that the Islamic approach to anti-poverty programmes is the best scheme for eradicating poverty in a just way if *zakah*, *waqf* and qard-hassan are integrated into a hybrid model for Islamic microfinance. Accomplishing this will not only eradicate the poverty of the poor and needy, but

will shift them to be among the active and well-off members in their societies. The basis for this shifting is found in the Sunnah of the Prophet (pbuh) as narrated by Anas ibn Malik:

> *"An Ansari (native of Madinah) man approached the Prophet (pbuh) seeking for his generosity. The Prophet (pbuh) instead asked him to bring whatever he has from his home. The man returned with a rug and an old mug. The Prophet (pbuh) then asked his companions seated with him if any of them would buy them. One of the companions offered to pay one dirham. The Prophet (pbuh) then asked if anyone would offer two dirhams and one of them did. He then gave one dirham to the man to buy food for his day and asked him to buy an axe with the other dirham. When he came back with the axe, the Prophet (pbuh) personally fixed a wooden handle to the axe and asked him to get firewood to sell at the market. A few days later, the man met the Prophet (pbuh) and told him he has been getting some fourteen dirhams selling firewood within the last few days". Then Allah's Messenger said, "This is better for you than begging, for begging would come as a stain on your face on the Day of Resurrection" Narrated by Abu Daud, (H/1398) and al-Termizee (18410).*

In the above hadith, the Prophet (pbuh) taught the beggar to earn his livelihood through his own skills in order to make a livingandearn respect in society rather than begging. This is followed by another Hadith of the Prophet (pbuh) as narrated by ibn Hakim ibn Hizam: "The hand that gives is much better than the hand that receives." (Sahih Muslim).

Hence, Islam promotes a developmental approach which enables the poor to use their skills with whatever they have in hand in order to earn their living and be independent of society as long as they are healthy and fit to work. Nevertheless, for those who cannot afford to work due to lack of skills or because of age or health problem, Islam provides regular income from those who have to support those who have not. This income comes from Bait al-Mal/Public Treasury which draws its resources directly from *zakah* (Alhabshi, 1992). According to the teaching of Islam, *zakah* is a compulsory due which has to be taken from the rich to be given to the less fortunate on yearly basis. *Zakah* scheme is a remarkable national annual programme which is meant not only to eradicate poverty, but also to reduce the gap between the rich and the poor and at the same time to eliminate riba from Muslim societies. Beside *zakah* there is also another national scheme, the *waqf* scheme; which provides goods and services to societies and which also benefits the less fortunate at large. In addition to these, the Islamic loan, al-qard

al-hassan and the Islamic way of finance have great impact on eliminating riba which is the main cause of poverty and all evil corruption in the world.

3. Islamic Institutions to Eradicate Poverty

Islam defines poverty as a state whereby an individual fails to fulfill any of the five basic needs such as protection of religion, protection of physical self, seeking of knowledge and education as well as protection of the family and wealth (M. Kabir, 2010). Moreover, Islam classified poverty according to the differences among people and according to the levels of human abilities. Even though individuals are provided with equal opportunities, Islam acknowledged that their economic status may differ according to their capability and needs which may be divided into three categories:

Category 1: Unhealthy individuals and incapable to work, they lack both skills and the capital.

Category 2: Healthy individuals but lack both the skills and the capital.

Category 3: Healthy and skilled individuals but lack the capital.

For those categories Islam provides four approaches of anti-poverty schemes each according to the above mentioned categories. These schemes are: compulsory scheme/*zakah*, voluntary scheme/waqf, Islamic Finance Scheme and al-qardal-hassan scheme.

3.1 Compulsory Scheme: Zakah

The basis for this compulsory scheme is stated in the following Quranic verse in Surah al- Surah Al-Taubah (9:103);

> *Of their goods (wealth), take alms, that so thou mightest purify and sanctify them; and pray on their behalf. Verily thy prayers are a source of security for them: And Allah is One Who heareth and knoweth.*

Hence what is *Zakah*? *Zakah* is a compulsory due upon all eligible Muslims to give part of their wealth to the state to redistribute it to its recipients.

Literally it means blessing, purification, increase and goodness. *Zakah* is the third pillar of Islam, it is obligatory upon all Muslims to give part of their wealth

and assets once it reaches al-nisab/the minimum or threshold assigned on annual basis or once harvested. It is also important to note that *zakah* has to be paid from lawful wealth and assets, and cannot be calculated on prohibited or unlawful wealth, such as income from interest, stolen property or wealth acquired or earned through unlawful means. There are two types of *zakah*, *zakah* al-Fitrah which has to be given by every Muslim in the month of Ramadan before Eid prayer and *zakah* on wealth. *Zakah* on wealth includes more than fourteen types of wealth that man possesses such as livestock, gold, silver currency and jewellery, commercial assets, agriculture, honey and animal products, mining and fishing, rented buildings, plants as well as fixed capital and lately italso includes salary, wages, bonuses, grants, gift and dividend income which if collected and distributed efficiently and according to the teachings of Islam, is more than enough to eradicate total poverty within a very short duration(A. Mohsin, 2013).

Scope of Zakah as Financial Tool for Poverty Eradication

The recipients of *zakah* are very clearly stated in the following Quranic verse in Surah al-Tauba (9:60);

> *"Zakah is for the poor, and the needy and those who are employed to administer and collect it, and the new converts, and for those who are in bondage, and in debt and service of the cause of Allah, and for the wayfarers, a duty ordained by Allah, and Allah is the All-Knowing, the Wise".*

As highlighted above *zakah* is a compulsory financial tool to be given to eight recipients. Although eight recipients of have been mentioned in the above Quranic verse there is a general agreement that the first priority is to be given to eradicate the poverty of the poor, the needy and to assist the debtor (M. Kabir, 2010).As defined by Muslim scholars (al-Qaradawi, 1999) a poor person is a person who is without any means of livelihood and material possessions. The needy isa person who is without sufficient means of livelihood to meet his basic necessities. And the debtor is a person who has financial difficulties in repaying his borrowed loan to meet his basic necessities.

Zakah is an Alternative Institution to Riba

One of the objectives of *zakah* is as an alternative institution to riba (A. Mohsin, 2013) as mentioned in Surat al-Rum, (30:39)

> *“And that which you give in gift (to others), in order that it may increase*

(your wealth by expecting to get a better one in return) from other people's property, has no increase with Allah; but that which you give in Zakah seeking Allah's Countenance, then those they shall have manifold increase."

Therefore, by giving *zakah* to these three categories of people they will be prevented from borrowing with interest/riba under any anti-poverty programme to meet their crucial needs.

Zakah for Elimination of Corruption

Besides the above objectives of *zakah*, it is also one of the tools for material and spiritual purification, i.e. elimination of any sort of corruption in a society. For example, with regards to the giver of *zakah*, it not only purifies his wealth but it purifies his heart from selfishness and from greed for wealth. On the other hand, *zakah* also purifies the recipient's heart from envy and jealousy, from hatred and uneasiness; and it fosters in his heart instead, goodwill and warm wishes for the giver. In a large scale *zakah* purifies the society from any class warfare and suspicion, from ill feelings and distrusts, from corruption and disintegration and from all such evils. Hence, an automatic and an ethical strategy for poverty eradication will be realized on a regular basis through circulating the wealth from the have to the have not in a kindly and ethical manner eliminating all sorts of corruption.

Current Practice of Zakah on Monthly Salaries

At present income is the most important source of taxes today. It includes wages, salaries, rents, profits, dividend and other forms of earnings received in a given period. Therefore, people earning income including salaries cannot be excluded from the payment of *zakah*. Recently some Muslim countries enacted laws for the collection of *zakah* on income on obligatory basis such as in Sudan and on voluntary basis such as in Malaysia. Huge amount of money has been collected from this scheme and if managed according to the teachings of Islam it will eradicate poverty within a short duration. (A. Mohsin, 2013).

3.2 Voluntary Institution: Waqf

The basis for this voluntary institution is found in the following Quranic verse:

"By no means shall ye Attain righteousness unless Ye give (freely) of that Which ye love" (Al-i-Imran 3:92)

Moreover, the Prophet (s) said: "When a man dies his acts come to an end, except three things, recurring charity, knowledge (by which people benefit),

and pious offspring, who pray for him" (Narrated by abu-Hurraira, Sahih Muslim No. 1631).

Historically speaking the institution of waqf, which is voluntary in nature provided goods and services to all categories of people; the poor, needy middle class people and even the rich in terms of shelter, food, cloth, education, health as well as jobs and even providing qard-hassan/ benevolent loan through cash waqf. Similar to the institution of *zakah*, the institution of *waqf* is one of the alternative institutions to interest/riba as mentioned in Surat al-Baqarah (2: 276);

> *Allah will deprive usury of all blessing, but will give increase for deeds of charity…*

Parallel to the above mentioned compulsory scheme of *zakah* by providing voluntary goods and services to the poor and needy in terms of education, training, healthcare, these people will not be forced to borrow from any anti-poverty programmes which lend with riba to meet their basic and crucial needs.

What is Waqf?

In Arabic language, the word means to stop, to withhold the thing. Hence it is a financial charitable institution established by withholding one's property to eternally spend its revenue on fulfilling any need that might arise in the society depending on the choice and conditions made by the founder. Once the property has been declared as waqf, it becomes perpetual, irrevocable and inalienable which means it can never be given as a gift, neither to be inherited nor sold, it belongs to Allah and the *waqf* property always remains intact while providing perpetual goods and services to the society.

Kinds of Waqf

Waqf can be classified into different kinds based on its purpose or usage. The following is the classification in terms of the *waqf* property itself. In this case *waqf* is classified into two, *waqf* ghair manqul and *waqf* manqul. *Waqf* ghair manqul means immovable *waqf* which includes immovable properties such as land, fields, farms or buildings such as mosques, schools and hospitals, orphanages and agricultural lands. *Waqf* manqul means movable waqfs which includes movable properties such as cattle and animals, books, crops, weapons, medical instruments, jewellery and cash. Both are important tools for poverty eradication.

Scope of Waqf as tool for Poverty Eradication

Since *waqf* is voluntary in nature through centuries, *waqf* has served its role as poverty eradication tool. Through creating immovable waqf, it serves the beneficiaries in terms of providing them with the much needed goods and services. For example, by creating immovable *waqf* in the form of agriculture land, schools, hospitals and factory it serves the poor and the needy not only in terms of feeding them, providing them with free education and free treatment but in terms of providing them with jobs too. Through creating movable *waqf* in terms of cash waqf, it provides funding for many services including the financial support for small entrepreneur, without riba. The most important implication of cash *waqf* is that it allows continuous accumulation of capital with time as more and more capital will be made into *waqf* (Alhabshi, 2013). This means that the proceeds of the *waqf* pool of funds will increase infinitely and which, if managed according to the teachings of Islam, can solve all the above mentioned economic problems.

Current Practice of Waqf

The last two decades has witnessed the revival of the institution of *waqf* and the creation of cash *waqf* in almost all Muslim countries and Muslim minority countries. Nine cash-*waqf* models have been practiced successfully providing many goods and services for the poor and the needy. Among these models are *waqf* shares model, *waqf* takaful model, direct model, mobile model, corporate cash *waqf* model, compulsory model, deposit product model, co-operative model and *waqf* mutual fund model (A. Mohsin, 2009), which can be adopted easily as anti-poverty programmes.

3.3 Islamic Financial Institutions

As mentioned earlier the issue of interest/riba is the main cause of persistent poverty in the developing countries (A. Mohsin, April 2014). And since it is not allowed in Islam, Islam provides alternative means of financing as mentioned in the following Quranic verse:

> *"…Allah hath permitted trade and forbidden usury…" (Surat al-Baqarah2: 276)*

Hence, under trade (Alhabshi, 2014) many Islamic financial modes are allowed to finance any activity in the society including financing small entrepreneur through any of the following; murabaha, salam, istisna, mudharabah or musharakah.

What is Islamic Finance?

Islamic finance is a financing activity that is consistent with the principles of shari'ah/Islamic law where the element of interest/riba is not involved.

Current Practices of Islamic Finance

Almost all of the current practices of Islamic finance is done through Islamic banking which is one of the fastest growing sectors at the present time in Muslim and non-Muslim countries. Since the ethical nature of Islamic finance means that businesses should provide some sort of positive benefits to the society in terms of goods and services, its investment has to be done through any lawful financial products mentioned above.

3.4 Interest-Free Institution: Al-Qard Al-Hassan

This is another tool to eradicate poverty through lending needy people qard-hassan/benevolent loan without any interest/riba. This is the only lending institution which is allowed in Islam in order to assist needy individuals who are facing crucial needs or trying to find lawful living. Since it is more to help others who are in crucial needs, the lender must not expect any return but seeks multiple rewards from His Creator as mentioned in Surat al-Baqarah (2:245):

> *Who is he That will loan to God A beautiful loan, which God Will double unto his credit And multiply many times?*

4. Proposal for A Hybrid Model of Islamic Microfinance (HM-IMF)

For more than 60 years, the World Bank Group has partnered with governments worldwide, reducing poverty by providing financial and technical help through many anti-poverty programmes. Since 2000, some developing countries have reduced extreme poverty by half, achieving Millennium Development Goals (MDG 1) five years ahead of schedule. However, milestone was not met in much of Africa and South Asia, and a billion people worldwide still live in extreme poverty. Many more experience hunger and are vulnerable to environmental or price shocks (World Bank). Among these anti-poverty programmes is the microfinance programme which is meant to give small loans to low-income

individuals who lack access to banking and related services to start their small businesses and to lift them out of poverty. In these programmes, small loans will be given to the poor for the purpose of generating additional income or to expand their business. This is usually done through short term financing and repayment can be made on daily or weekly basis. Additional capital can also be given after the full settlement of the previous loan. In general the main objectives of microfinance programmes are to eradicate poverty and to improve the lifestyle for the regional societies. However, these microfinance programmes have been criticized of its conventional nature which does not suit Muslim countries. The following are some of the criticisms of the conventional approach compared to the Islamic microfinance approach.

Islamic Microfinance vs. Conventional Microfinance

Recently some of the microfinance institutions managed to reduce poverty in Muslim countries while others failed. The failure was due to the conventional approach in seeking profit even from the moderate poor through interest based lending, which is prohibited in Islam. The following are some of the differences between conventional microfinance and Islamic microfinance (Al-Harran & others);

- The conventional microfinance assets are interest bearing debts while Islamic microfinance assets consist of diverse types of non-interest financial instruments such as qard-hassan, *zakah*, cash *waqf* and Islamic finance.
- The conventional microfinance is more towards enhancing the role of women in society by provide them loan which they have to repay with interest/riba, while Islam empowers women by providing them with regular income from Bait al-Mal/State Treasury.
- Usually the main target for conventional microfinance institutions are those from the moderate poor, thus neglecting the poorest segment of the society whereas this segment is the priority of the Islamic microfinance to tackle them through both *zakah* and *waqf* institutions.
- In conventional microfinance framework, the borrower will not receive the whole principal since a portion will be deducted from the beginning as a reserve. Besides, the borrower will have to pay interest for the whole amount that has been borrowed. On the contrary, under the Islamic microfinance the whole process is not acceptable as it is against the Islamic principles.
- In cases of default the conventional institutions will use its power to collect

the defaulted amount from the other group members who are essentially poor whereas Islamic microfinance institutions use the share of *zakah* which is meant for such cases, without harming other groups.

Hybrid Model of Islamic Microfinance Institution HM-IMF

As mentioned above, Islam provides many anti-poverty schemes each according to individual's capabilities and needs. For the success of this Hybrid Model of Islamic Microfinance (HM-IMF) we will integrate the above mentioned four schemes, each according to the categories of individual and their needs as mentioned above. Two anti-poverty schemes; *zakah* & *waqf* schemes have to be implemented directly as poverty eradicating schemes in order to tackle the basic needs for the first two categories of individuals before joining the HM-IMF. The other two anti-poverty schemes, qard-hassan and Islamic finance scheme have to be implemented after the third category of individuals join the HM-IMF. This will be explained in details as presented below:

Zakah Scheme for Poverty Eradication

For individuals who belong to the first category of people mentioned above, i.e. unhealthy and lack both skills and capital due to old age, widowhood or orphanhood; Islam makes it mandatory for the institution of *zakah* to take care of this category of people in order to provide them with a regular income that covers their basic needs. Doing so will eradicate their poverty and will prevent them from borrowing with riba to meet their crucial needs.

Zakah & Waqf Schemes for Poverty Eradication

For the second category of people who are healthy but lack both skills and capital, two schemes have to be implemented to provide them with the funds and the skills before joining the HM-IMF and start their small business. These two schemes are:

- *Zakah* Scheme: For individuals who fall under this group, *zakah* has to be given to them in cash and in kind (but for a short duration). This is done by giving them some cash in order to satisfy their basic needs (like for 3-6 months) and giving them in kind to provide them with the tools to start their small business in terms of providing them with necessary equipment and tools such as grass cutters, small boats, sewing machines, food stalls, etcetera.
- *Waqf* Scheme: *Waqf* scheme is meant to provide the free training for this

category of individuals in order to provide them with the skills to use the above mentioned equipment and tools as well as to teach them how to generate their own income in the future. In addition, a very close monitoring on this group has to be done on daily or on weekly basis for a quick result in eradicating their poverty. In case some individuals from this group fail to generate their own income within the proposed short duration of 6 months, extension of another 6 months can be given to them. For those individuals who succeed in earning their income within this short duration and hope to earn more income, they become eligible to register as participants in the HM-IMF through joining either the Islamic financial scheme or al-qardal-hassan scheme to get more funds to expand their small business.

Islamic Finance Scheme for Microfinance

For the third category of people who are healthy and have the skills to work but lack the capital, in this case the HM-IMF has to finance them through the Islamic financial modes such as Murabaha, Mudarabah and Musharakahto start their own business each according to their capabilities and skills. Similar to the above schemes, for individuals in this group, have to attend a training programme to qualify for financing. After passing the training they become eligible to participate in this scheme. As a beginner, the HM-IMF can finance them through any of the low risk modes each according to his/her capabilities and skills, with a minimum financial amount, for example, $3000 and the maximum of $5000 anda repayment period ranging from 150 to 250 weeks. Examples of low risk modes are murabaha, salam and istisna‘. Again a very close monitoring has to be done on weekly and monthly basis for the success of this scheme in eradicating poverty. For those participants who have successfully repaid the full amount of money in the specified duration, they can either ask for higher finance up to, perhaps $10000 or they may ask to join the high risk finance such as mudarabah and musharakah as explained below.

Qard Hassan Scheme for Microfinance

After this short duration of satisfying participants’ basic needs and passing the training needed, individuals in this category are only allowed to get qard-hassan/ benevolent loan in small amount to buy the equipment or tools to start their small business. The maximum amount of first loan can be up to, $3000 and the repayment period must not exceed 50 weeks. Similar to the above scheme a very close monitoring has to be done on daily or weekly basis. For individuals who have successfully repaid the full amount of loan, which is free from any interest/

riba, they would be eligible to apply for a bigger loan amount for the following year in order to increase their income. The minimum loan size can be $5000 and the maximum can go for $10000 with repayment period ranging from 50 to 150 weeks.

In cases of default according to the teachings of Islam, beneficiaries will be categorised as gharim/debtors, thus they will be entitled to receive *zakah* money to cover thedefault.

5. Administration, Modus Operandi and Structure of HM-IMF

The following are the set up of the administration, modus operandi and the structure of the HM-IMF.

5.1 Set Up of the Administration of HM-IMF

Similar to the Amanah Ikhtiar Malaysia, the proposed HM-IMF can be established under the Trustee Incorporation Act 258 in 1988 and as an independent legal entity according to which it is capable of entering into contracts and has the right to litigate under its name. The main objective of HM-IMF is to be established as a poverty-oriented microfinance scheme that provides Qard-Hassan loans to the poorest household to enable them to undertake viable economic activities to upgrade their household income.

Additional Administrative Income

The administrative cost of the HM-IMF cannot be covered with the 20% as highlighted below, since the management will involve upgrading the skills and training the staff, training the small entrepreneur and close monitoring. All these need huge amount of money. Similar to Amanah Ikhtiar Malaysia (AIM) part of the cost can be borne by government, banks, financial institutions and donations in the following manner:

- Direct or indirect government support. Directly, the government can allocate funds on yearly basis for the running expenses of HM-IMF. Indirectly, the government can provide *waqf* land in which a huge commercial tower can be built and all the revenue generated from its rent to be channelled directly for the running expenses of this scheme.

- Through encouraging banks, financial institutions and the private sector,to donate from their profit on annual basis as part of their CSR for the running expenses of the HM-IMF scheme.
- In addition, the HM-IMF can be opened for donation to the public in terms of sadaqh for the running expenses of this institution.

5.2 Modus Operandi & the Structure for HM-IMF

As mentioned above this Hybrid Model for Islamic Microfinance combines *zakah*, cash-waqf, qard-hassan and Islamic finance which is based on interest-free finance or interest-free loan. The huge amount of capital accumulation for this Hybrid Model can be created through creating cash *waqf* by the different founders for the sake of financing the poor and needy individuals and to help them out of poverty. Using the concept of *waqf* many founders will be motivated to create cash *waqf* for this Hybrid Scheme which is meant for poverty eradication through microfinance. Since this is a *waqf* based scheme, both the perpetuity of the cash *waqf* and the HM-IMF scheme has to be ensured for generations to come. For an effective and an efficient management of HM-IMF, transparency, commitment, integrity and teamwork has to be established between staff and participants similar to Amanah Ikhtiar Malaysia AIM (Hassan, 2013), where both have to pledge for the success of this scheme in eradicating poverty. For example staff pledge can be in the following words:

> *"We will strive to work harder to help the poor and needy families to get out of poverty through any of the Islamic schemes without any interest/ riba. We will train them and motivate them to work harder with honesty and discipline regardless of race, religion and political affiliation. In this work we are not allowed to receive arbitrary, anything from members and prospective members. We pledge we will carry out our work with full dedication".*

And participants pledge can be in the following words:

> *"It is our/my responsibility to strive, to work harder to increase our/my income and to improve our/my lives and the lives of our/my family and children and to send our/my children to school to gain the knowledge which will help them to find jobs in their future. We / I pledge to repay the qard-hassan loan or any finance we/I get on time and to abide by all Islamic financial conditions and fulfill them".*

Modus Operandi for the Hybrid Model of Islamic Microfinance (HM-IMF)

The following is the process flow or the modus operandi for the proposed hybrid model in financing the poor and needy people:

i. Capital, in the form of cash *waqf* can be collected from different founders, such as organization, companies, corporations, NGO, financial institution, government and individuals in order to finance small entrepreneurs, the poor and needy, through HM-IMF.
ii. The HM-IMF acts as a trustee that manages the accumulated cash-*waqf* according to the legal conditions of waqf. To ensure its perpetuity it is highly recommended that a portion of the accumulated cash *waqf* will be kept intact and the other portion, as decided by the trustee, will be invested in financing the small entrepreneurs through low or high risk investment depending on the capability of each individual.
iii. The responsibilities of the HM-IMF institution in its role as a trustee will closely monitor the small entrepreneurs, equip them with the knowledge needed and provide them with the training required as well as to meet them on weekly basis before joining such scheme.
iv. The proposed amount to finance the small entrepreneur can vary from $3000 up to $10000 according to individual's ability, skills, knowledge and the selected mode of finance with low or high risk investment.
v. Target investor: Small entrepreneurs
vi. Mode of Finance: Low risk investment (Murabaha, Salam or Istisna)
    - In case of Murabaha financing the trustee will buy the equipment for example, with $3000 then will sell it to the small entrepreneur with cost plus profit ($3000 + $500). The small entrepreneur will pay the total amount in installments for 2 years.
    - In the case of salam financing, the trustee will buy a commodity from a farmer, the HM-IMF institution will make the prepayment for example, $3000 for future delivery of a specified quantity on a specified date, for example 1st January 2014. On 1st January 2014, the HM-IMF institution will then sell the asset to a small entrepreneur, for example ($3000 + $500). Then the small entrepreneur will pay the whole amount of $3500 to the HM-IMF institution.
    - In the case of Istisna' financing, the trustee will buy a commodity from a manufacturer and make the prepayment for example, $3000 for future

delivery of a specified good, on a specified date, for example 1st January 2014. On 1st January 2014, the trustee will sell the asset to a small entrepreneur, for example ($3000 + $500). Then the small entrepreneur will pay the whole amount $3500 to the H-IMF institution.

vii. Mode of Finance: High Risk Investment (Mudarabah)

- In the case of Mudarabah financing, the trustee acts as rab al-mal. It gives the mudarib/small entrepreneur the capital for a specified period of time with an agreement to share the profit according to an agreed proportion, for example 30%:70%. In case of loss, the HM-IMF institution will bear the loss and the small entrepreneur will lose his time and effort and will not get anything. In case it is a profitable business, then the profit would be shared between rab al-mal and the mudarib according to the agreed ratio.
- In the case of Musharakah financing the trustee will enter into a contract of partnership with a small entrepreneur in which both of them provide capital but not necessarily participate in the business. In case of loss in the investment both partners will bear the loss according to their shares. In case of profitable investment, the profit would be shared between the partners according to the agreed ratio.

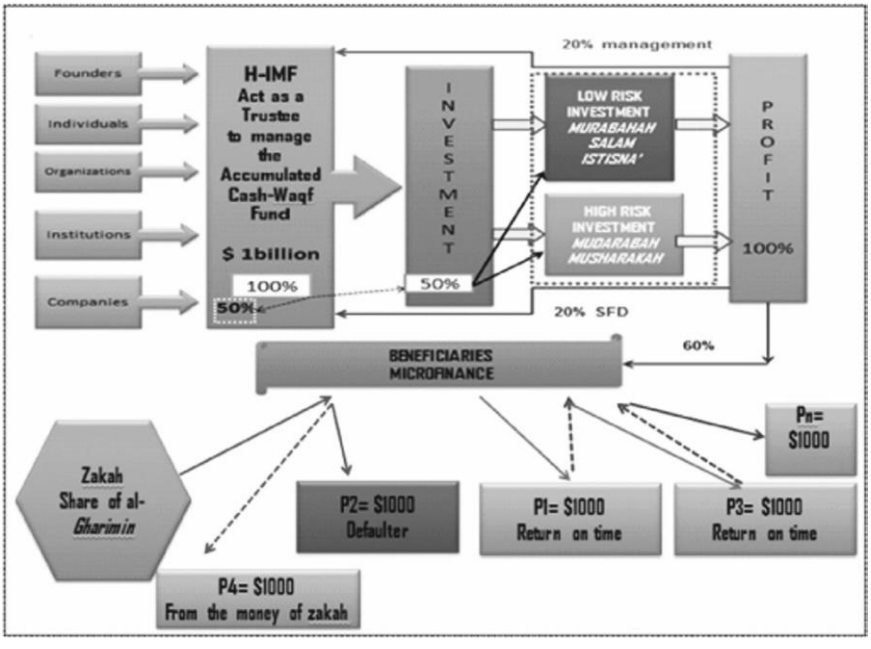
viii. Profit generated from this investment can then be channeled in parallel to:

- Management Team: 20% of the generated profit can be allocated for the management team in terms of collecting, investing, giving training and closely monitoring the whole process, in addition to other sources as mentioned above No. (4.2- additional administrative income).
- Beneficiaries: 60% of the generated profit can be allocated for the beneficiaries. Since this is a microfinance scheme, the beneficiaries are the recipients of qard-hassan. Since all banks are reluctant to provide benevolent loans in this case the large portion of the revenue generated has to be channeled to finance the less fortunate with the qard al-hassan. For example, $1000 has been given as qard-hassan to participant 1. After full payment, it can be given to another participant and so forth. Participant who succeeds in repaying their loan will be eligible to join the Islamic finance scheme. However, in case of any defaults, the institution of *zakah* has to help these defaulters from al-gharimin share, so that new participants will not lose their chance in getting qard-hassan loan.

- Self-Financing Device: 20% of the generated profit can be added as a Self-Finance Device (SFD) in order to increase the capital of the cash *waqf* on one hand and on the other to ensure its perpetual services in funding the less fortunate.

ix. Similar to AIM of Malaysia (Hassan, 2013), this scheme can encourage participants to develop saving culture through compulsory savings with the minimum amount of $1 to $5 per week depending on the total loan or fund taken. Compulsory savings can also be collected during compulsory weekly meetings.

Figure.1
Hybrid Model of Islamic Microfinance (HM-IMF)



6. Conclusion

From the above discussion we realize that for an optimal result in eradicating poverty, reducing inequalities and eliminating riba from society in an ethical and just way, the need to revive the religious institutions of *zakah*, waqf, qard-hassan and interest-free financial institutions, integrate and adjustthem according to the current needs of the different societies in a hybrid model is much recommended..

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