

EMPLOYING CASH *WAQF* IN FINANCING MICRO, SMALL AND MEDIUM ENTERPRISES FOR SUSTAINABLE POVERTY ALLEVIATION – A GROUNDED THEORY APPROACH

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ABSTRACT

Waqf is the most effective way of expressing philanthropy for sustaining the welfare of the poor. It is a special mechanism through which constructive wealth is transferred from private ownership to public utility for servicing all sectors of life. So long as governments alone cannot cater for the basic needs of their peoples, philanthropic initiatives should be systematically exploited to tackle the menace of poverty. As an act of worship, *waqf* proves to be a prominent institution that caters for not only the poor but the entire community. About 75% of business opportunities in developing countries are proved to be provided by micro-, small- and medium-enterprises (MSMEs). Unfortunately, these vital job-providers are mostly underfinanced thereby leaving wide vacuums to be filled by ravaging poverty. This paper perceives the poor to be either active or inactive. The active poor are those who are physically and mentally capable of running dependable enterprises but are constrained by lack of, or inadequate, capital. The inactive poor, on the other hand, are those living in poverty while they are physically and/or mentally impaired. By adopting the *grounded theory* approach of qualitative research method, the researchers explore how poverty alleviation could be sustained through utilizing cash *waqf* to develop the earning potentials of the active poor for self-reliance and to provide decent social security services to the inactive poor.

Keywords: grounded theory, MSMEs, poverty alleviation, social security, *waqf*

INTRODUCTION

Cash *waqf* fund is established with money to render social security and financial services to mankind in the name of Allah (Iman & Sabit, 2014; Shirazi & Zarka, 2016). During the first century of Islam, buildings, lands and other immovable assets were mostly donated as *waqf* (Rashid, 2011; Ali, 2014; Shirazi, Obaidullah & Haneef, 2015). Subsequently, cash *waqf* continued to acquire greater momentum because it offers opportunity to people who do not have immovable properties to get the benefits of donating to *waqf* (Iman & Sabit, 2014; Khan & Jareen, 2015). Similarly, most of the *waqf*-based poverty-alleviation programs prefer cash *waqf* because of its flexibility in credit creation (Hassan & Siraj, 2016; Shaikh & Shaikh, 2017).

Moreover, as Ali (2014), Shirazi *et al.* (2015) and Suzuki *et al.* (2016) opined, the cash *waqf* fund is easily utilized on the basis of debt and equity financing techniques in form of *ijārah*, *salam*, *muḍārabah* or *mushārah* partnership. With these techniques, the earning potentials of the active poor are effectively developed through systematic financing of their micro, small and medium enterprises (MSMEs). The accrued net profit from these financed MSMEs will then be utilized in the provision of social welfare services to the inactive poor and maintenance of *waqf* assets (Cizakca, 2011; Haneef *et al.*, 2015; Mahamood & Ab Rahman, 2016; Hassan & Siraj, 2017). This is the best way through which poverty alleviation could be efficiently sustained in the Muslim community (Alpay & Haneef, 2015).

Poverty alleviation is a set of economic and humanitarian measures taken by governments, non-governmental organizations (NGOs) and institutions in order to remove people from the yoke of poverty permanently (Bhalla & Lapayre, 2016). From the responses of participants and the reviewed literature, this paper discovered that sustainable poverty alleviation can be achieved only with effective capacity-building strategies that will ensure proper development of earning potentials of the poor (Eichenaver & Khack, 2016; Majundar *et al.*, 2016; Ravallion, 2016; Farrarini *et al.*, 2016; Alkire *et al.*, 2017).

METHODOLOGY

Grounded theory approach was adopted in conducting this *qualitative* research due to its exploratory nature (Creswell, 2014; Lewis, 2015; Taylor *et al.*, 2015). Having conceived the

research problem, the researchers began the data collection by asking series of *generative questions* designed to generate a *grounded theory* of poverty alleviation by employing cash *waqf* in financing small-scale enterprises. The raw data for this research was obtained through interviews, focus group discussions, literature review and observation. Using the *NVivo 10* computer software, the data was systematically analyzed through *constant comparative analysis* that goes along the open, axial and selective coding processes (Glaser & Strauss, 1967; Charmaz, 2006; Strauss & Corbin, 2008; Creswell, 2014; De Coster, 2016). It was along this *iteration* that a grounded theory was eventually generated at the point of *data saturation* (Guest *et al.*, 2006; Denzin, 2009; Bernard, 2012; Creswell, 2014). Considering the socio-economic similarity of developing countries, the *survey area* of this research covered some parts of Sokoto and Kedah states of Nigeria and Malaysia respectively.

STATEMENT OF THE PROBLEM

This research was conducted out of the concern over the alarming prevalence of poverty in Muslim countries. According to Alpay and Haneef (2015), out of the one billion people estimated to be in absolute poverty across the globe, 400 million are living in 31 of the 56 Organization of Islamic Conference (OIC) member-countries (i.e. 40% of the world's poor live in the Muslim countries). Thus, in relative terms, out of the 975 million people living in these countries, 400 million or 40 % are below the absolute poverty line. In other words, the incidence of poverty in these 56 OIC member countries is double the average of the developing world (Ferrarini *et al.*, 2016). For many centuries, *waqf* has been playing significant roles in poverty alleviation in the Islamic world (Cizakca, 2011; Rashid, 2011; Mahamood & Ab Rahman, 2016). Thus, in order to curb this menace, there is need for effective exploitation of *waqf* institution.

RESEARCH OBJECTIVES

To discover the capacity of cash *waqf* in sustaining poverty alleviation.

To justify the effectiveness of financing MSMEs with *waqf* funds for sustainable poverty alleviation.

To generate a *grounded theory* from the raw data that stimulates poverty alleviation initiatives with *waqf* funds.

DATA ANALYSIS

All the transcribed raw data collected from various sources were systematically analyzed and imported into *NVivo Version 10* software. This software has facilitated the process of sorting, coding, categorization and graphical presentation of data. Every relevant segment of data went through the subsequent stages of *open*, *axial* and *selective* coding system (Creswell, 2014).

Poverty prevalence in the Islamic World

Poverty prevalence constitutes the first *category* of the research *central phenomenon*. Thus, through *theoretical sampling*, the researchers interviewed many participants on nine relevant *concepts* shown in Figure 1.1 below.

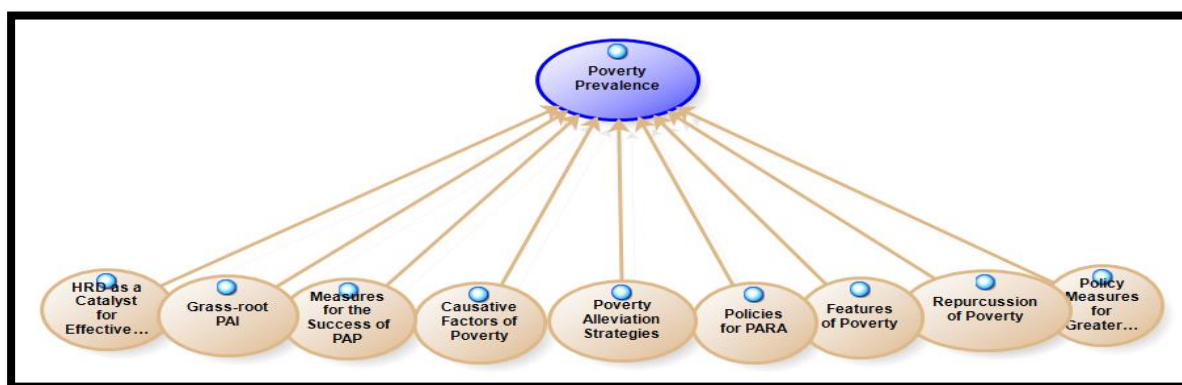


Figure 1.1
Poverty Prevalence: Causes and Preventive Measures

With their numerous *memos* on the participants' responses, the researchers discovered the extent of poverty prevalence in Muslim community and its causative factors. The most notable factor, however, is continuous isolation of the active poor from available sources of wealth generation thereby leading to rampant unemployment.

The UNDP (2017) referred to poverty as an “unacceptable human deprivation in terms of economic opportunity, education, health and nutrition, as well as lack of empowerment and security (p. 13).” Thus, poverty can be understood to be deprivation of wellbeing or isolation from the sources of income generation (Ali, 2014; Shirazi *et al.*, 2015).

Over a long time, poverty has been a global problem and it was estimated that more than half of the world population live below USD 2.50 per day in 2010 (Shah, 2013). But the level of

poverty in Muslim countries is considered relatively very high compared to non-Muslim countries. A survey conducted by Alpay and Haneef (2015) discovered that 15.6 % of the total OIC population is still living on less than USD 2.00 a day which is well above the world average of 11.6% and developing countries average of 11.7% in the 2010-2013 periods.

Role of Cash Waqf in Poverty Alleviation

The researchers held series of interactive sessions with stakeholders on nine *concepts* pertaining to *waqf* and its role in poverty alleviation which eventually constituted the second *category* of the analyzed data, as shown in Figure 1.2 below.

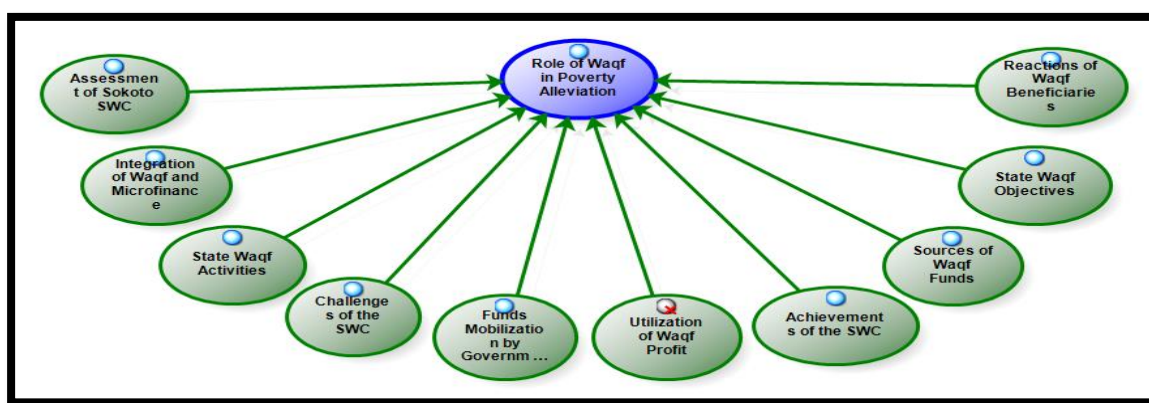


Figure 1.2
Role of Waqf in Poverty Alleviation

The outcome of the *constant comparative analysis* of the data revealed that despite the numerous activities being carried out by local *waqf* commissions over the years, adequate priority is not given to the development of earning potentials of the active poor. Most of the interviewed participants expressed their dismay over rampant misutilization of *waqf* funds while poverty is rapidly gaining ground in the Muslim society. Their responses clearly support the disbursement of *waqf* funds in the creating viable capacity-building schemes. With this, the active poor will not only be financially empowered for self-dependance but will acquire functional entrepreneurial skills.

Going by the predominant views of Muslim scholars, *waqf* assets should not be subjected to total consumption by beneficiaries because it is counter-productive (Hunt-Ahmad, 2013; Adnan & Ajiya, 2015). Rather, as Ali (2014) and Shirazi *et al.* (2015) clarified, in order to achieve sustainable alleviation of poverty, the assets should be put into profit-generating

investments. The proceeds of such investments should be used in the provision of social security services to the inactive poor and developing the earning potentials of the active poor.

The Role of MSMEs in Poverty Alleviation

According to Suzuki *et al.* (2017), micro, small and medium-enterprises (MSMEs) are generally identified by the amount of their respective fixed capital, number of workers and economic activities in three broad categories; production, distribution and consumption. Empirical studies have shown that there is no effective and sustainable poverty alleviation without full involvement of MSMEs (Georgiadis & Pitelis, 2016). These grass-root enterprises provide suitable avenues where the potentials of *waqf* can be effectively harnessed for sustainable poverty alleviation. Through the *constant comparative analysis* of numerous responses of participants on the role of MSMEs in poverty alleviation and job-creation, three *concepts* eventually emerged to constitute the third *category* of the analyzed data as illustrated in Figure 1.3 below.

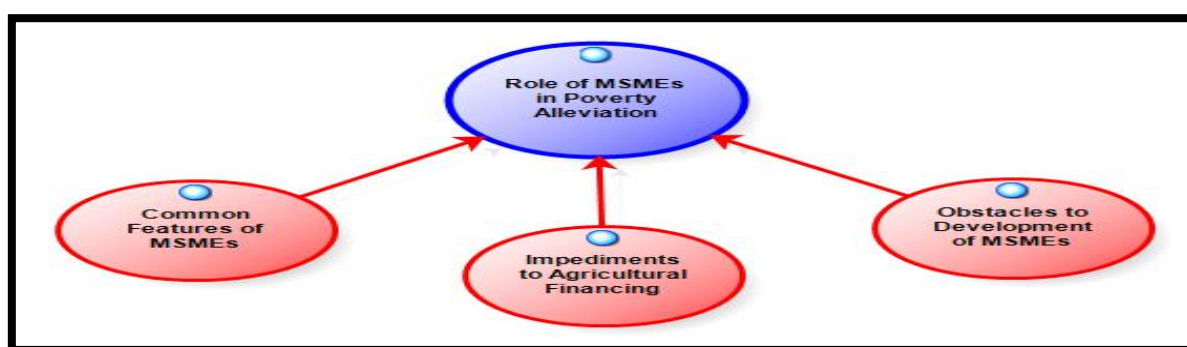


Figure 1.3
Role of MSMEs in Poverty Alleviation

From the *emic reporting* of the data, this paper discovered that financing MSMEs with cash *waqf* funds facilitates effective capacity-building of the active poor. The income generated from the varieties of financed enterprises will be used to preserve the perpetuity of *waqf* corpus, cover operational costs, finance more MSMEs of the active poor and render social security services to inactive poor (Ismail *et al.*, 2013; Ali, 2014; Shirazi *et al.*, 2015; Alpay and Haneef, 2015). The raw data collected and the literature reviewed in this respect have fully supported the development of earning potentials of the active poor for sustainable poverty alleviation (Aslam, 2013; Ali, 2014; Malik *et al.*, 2014; Hanif *et al.*, 2015; Shirazi *et al.*, 2015; Alpay & Haneef, 2015).

Therefore, as depicted in Figure 1.3, for functional development of earning potentials of the poor, the management of cash *waqf* fund should embark on executing the following functions:

- i. Mobilization of various *waqf* funds from individuals, groups, governments and corporate organizations.
- ii. Organizing and financing vocational courses and skill-acquisition training programs for vibrant capacity-building of the poor.
- iii. Disbursement of revolving loans to the economically-active poor for investment in profitable enterprises in order to make them self-reliant.
- iv. Liquidation and/or revitalization of dormant *waqf* assets for optimum utilization of their corpuses
- v. Provision of basic social security services to the poor that are economically inactive on the ground of old age, sickness, physical and mental invalidity.
- vi. Provision of emergency relief aid to the victims of flood, fire, drought, insurgency or acts of terrorism.

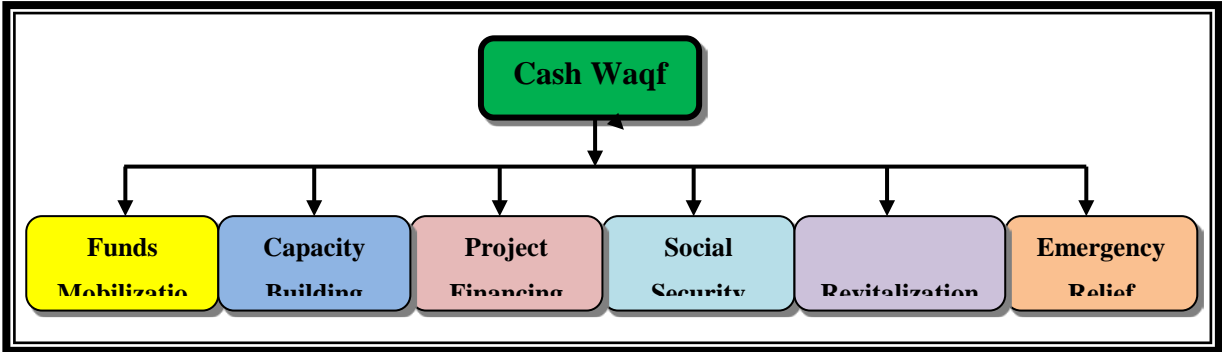


Figure 1.3
Functions of Cash Waqf Fund

During the long process of *discriminant sampling* of the whole data this paper discovered that capacity building of the poor must be an inherent part of any viable poverty-alleviation initiative to be devised by the *waqf* institution. *Capacity building* is an evidence-driven process of strengthening the abilities of individuals, organizations, and institutions to perform core functions sustainably, and to continue to improve and develop over time (UNDP, 2017).

Therefore, as illustrated in Figure 1.4, the *capacity-building theory* of poverty alleviation generated by this paper requires appropriate poor-based activities in vocational and skill-

acquisition fields to be subsequently followed by financial empowerment of trainees. Imperatively, such activities should also be community-oriented in order to cater for the socio-economic needs of the society. Moreover, in order to achieve sustained improvements in capacity and performance, capacity building must continually focus on supporting ownership of the process. Otherwise, the acquired capacity will diminish once the *waqf*-backed financing stops.

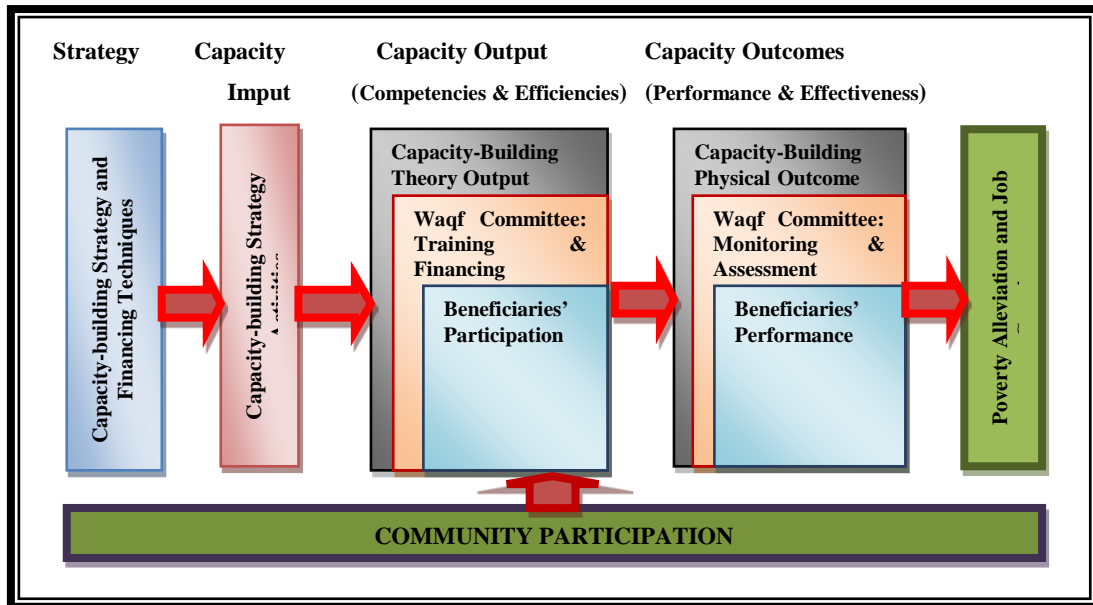


Figure 1.4
Framework of Capacity-Building Theory of Poverty Alleviation

However, as illustrated in Figure 1.5, this paper discovers poverty alleviation to be a sequential process that deals with various categories of the poor up to the final stage of graduation from poverty

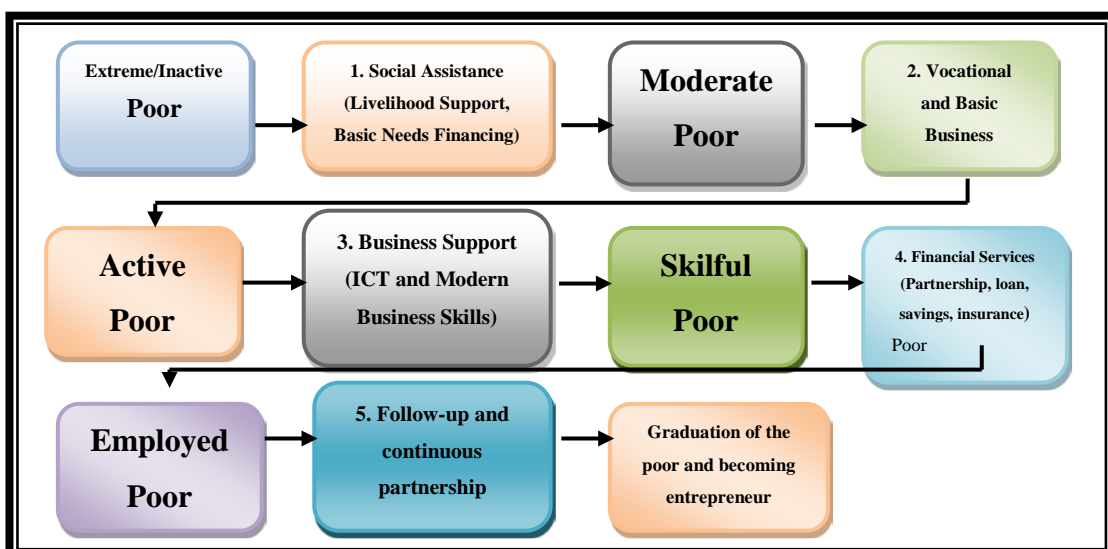


Figure 1.5

Capacity-Building Processes (IRTI/IDB: Poverty-Alleviation Strategy, 2015)

CONCLUSION

By adopting the *grounded theory* approach, the analyzed data was composed of 21 *concepts* which were grouped into 3 *categories* based on their respective commonalities. Findings from the analyzed data have empirically portrayed poverty as isolation from the sources of income generation. This isolation can be due to political, geographical, societal or traditional factors. Over a long time, poverty alleviation programs are being carried out at international, national and local levels without the desired result. To achieve the desired goal, this paper discovered the imperatives of proper exploitation of cash *waqf* funds for developing the earning potentials of the poor. Ultimately, *waqf* funds are meant for continuous utilization rather than immediate total consumption by beneficiaries. Therefore, there is need for revolving the funds through debt and equity financing of micro, small and medium enterprises (MSMEs) of the active poor. This brought about the *capacity-building theory* of poverty alleviation advocated by the research participants. Similarly, the reviewed literature has clearly shown how the proceeds of the financed enterprises could be used to render social security services to the inactive poor.

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