



THE ROLE OF CASH WAQF IN POVERTY
REDUCTION: A CASE STUDY OF SOMALIA

BY

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ABSTRACT

Poverty is one of the problems affecting many countries in the Muslim world. Fighting against poverty and alleviating it from the societies is imperative. The issue of poverty does not only rely on economic and social policies, population size and resource endowments, but also on the types of economic undertakings that are being embarked upon. What is important is the kind of policies, that are put forward to eliminate poverty, and to what degree their executions are adequately fruitful in achieving the objectives. With that, one of the primary objectives of the *shariah* is poverty alleviation, establishment of socio-economic justice and equitable distribution of wealth. Cash *waqf* is a viable type of Islamic endowments whose objective is to provide relief to the less fortunate citizens among societies. This research explores that, the faith based endowments potential to reduce the poverty level in Somalia as was the case in the glorious ages of Islamic civilization. *Waqf* in Somalia, throughout the history has not contributed to the development in all sectors. There are no functioning endowment institutions in Somalia, that take care waqf properties and register it legally. Even though, waqf history in Somalia is as old as the arrival of Islam, the perception of the society towards waqf is solely for religious purposes. This study adopts qualitative method, it relies on information sourced from previous literature, Quran, Hadith, working papers and internet sources. It critically analyzes the existing cash waqf models in some Muslim and Muslim minority countries in relation with the socio-economic situation of Somalia. In line with this, the study adopted the *waqf* shares scheme. This scheme seems to be fitting Somalia for several important reasons. It is relatively easy to raise fund from public via traditional way of collecting money by cash or by mobile payment system, which is widely used in Somalia. It is argued that, the fund generated can be used for creation of employment opportunities and as a result, many poor Somalis will be empowered financially, socially and educationally. Finally, the result of this study shows that, cash *waqf* is viable and able to reduce poverty among less-privileged Somalis.

ملخص البحث

الفقر هو أحد المشاكل التي تؤثر على العديد من البلدان في العالم الإسلامي، كما أن مكافحته وتخفيفه من وطأته عن المجتمعات أصبح أمرا حتميا لدى تلك البلدان. ثم إن تقليل درجة الفقر لا يعتمد فقط على السياسات الاقتصادية والاجتماعية، وحجم السكان، والموارد الطبيعية، بل وقد تعتمد على أنواع المشاريع الاقتصادية التي يجري الاضطلاع بها. وأهم من ذلك كله هو نوع السياسات التي تُطرح للقضاء على الفقر، وإلى أي مدى تكون عمليات مكافحة الفقر مثمرة بشكل كاف في تحقيق أهدافها، كما أن أحد الأهداف الرئيسية للشريعة هو التخفيف من وطأة الفقر، وإقامة العدالة الاجتماعية والاقتصادية نحو توزيع الثروة المملوكة. وعلى الرغم من أن تاريخ الوقف في الصومال قديم يتزامن مع وصول الإسلام إليه، إلا أنه لم يحظ مساهمته في التنمية نحو جميع القطاعات الاجتماعية، وهذا ما سبب أن ليس هناك أي مؤسسة وقفية في البلد التي تهتم بخصائص الوقف وتسجيلها قانونيا، كما أن تصور المجتمع تجاه الوقف هو فقط لأغراض دينية. ومع هذا فإن هذه الدراسة سوف تُبرز بأن الوقف يمكن أن يُقلل من مستوى الفقر في الصومال كما حصل لغيره في العصور المجيدة للحضارة الإسلامية. وتعتمد هذه الدراسة على منهجية البحث التي تعتمد على المعلومات المستمدة من الدراسات السابقة، والقرآن، والحديث وأوراق المؤتمرات والإنترنت، وقد تم تحليلها مستندا على نماذج وقف النقود الموجودة في بعض البلدان الإسلامية وكذلك الأقلية المسلمة في غيرها مقارنة بالوضع الاجتماعي والاقتصادي الصومالي، كما تعتمد الدراسة على نظام أسهم الوقف. وقد يلائم هذا النموذج بالصومال لأسباب عدة، منها: من السهل نسبيا جمع الأموال -نقدا- من الجمهور عن طرق تقليدية أو عن طريق نظام الدفع بواسطة الهاتف النقال الذي يستخدم على نطاق واسع في الصومال. وكونه من أنواع الاستثمار يُرجى خلق فرص للعمل ثم نتيجة لذلك سيتم تمكين العديد من الصوماليين الفقراء ماليا واجتماعيا وتربويا. وأخيرا، فإن وقف النقود -كجزء من الأوقاف الإسلامية- هو قابل للتطبيق فيما يهدف إلى توفير الإغاثة للمواطنين الذين هم الأقل حظا في المجتمع.

APPROVAL PAGE

I certify that I have supervised and read this study and that in my opinion, it conforms to acceptable standards of scholarly presentation and is fully adequate, in scope and quality, as a research paper for the degree of Master of Science (Islamic Banking and Finance).

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DECLARATION

I hereby declare that this research paper is the result of my own investigations, except where otherwise stated. I also declare that it has not been previously or concurrently submitted as a whole for any other degrees at IIUM or other institutions.

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CHAPTER ONE

INTRODUCTION

1.1 BACKGROUND OF THE STUDY

Somalia is in east Africa; together with Eritrea, Djibouti and Ethiopia, they form what is known as the horn of Africa. With a land mass of approximately 637,000 square kilo meters, Somalia is bordered with Djibouti in the northwest, Indian ocean to the east and Gulf of Aden in the north. It also shares borders with Kenya in the southwest and Ethiopia in the west. Having the longest coastlines of about 3,300 kilo meters on the continent, the country's strategic location has been a vital trade route to neighboring countries and Middle East (Omar alomari,2010). The cities are blessed with virgin land and fertile soil, surrounded by a river as well as plenty of water resources that enable productive agriculture in the country.

The geographical feature is different from one region to another. Regions in the north are mainly mountainous while the southern part enjoys fertile land. The major part of Somalia is savannah grassland and that makes nomadic life easier to graze their animals. In addition, there are four main zones: the north-eastern mountains, the coastal plain, the fertile area of southwest and the central plateau of the Hawd Land with the last one being densely populated due to its promising condition for livestock rearing and farming (Noor, 2011). Somalis live mainly in what is known as Federal Republic of Somalia; there are, in addition, large population of Somali decent living in Ethiopia and Kenya. On the other hand, Somalia has a small population compared to the size of the country. The total population of Somalia is 12 million, according to the 2012 census by the Federal Government of Somalia.

1.1.1 Economic condition in Somalia

Livestock and its products represent about 80% of all Somali exports and that is more than 40% of the country's GDP, while agriculture delivers the staple and cash crops (security council report, 2011). Recurrent droughts will even worsen the situation due to low productivity, hence, poor life condition and poverty will be obvious. In addition, the prices of food will rise and as a result most of the population will be unable to afford to buy the necessities to sustain themselves. Therefore, the question that arises is why is the country in this shape? Are there any attempts made to tackle the poverty? The Somali government and international community have done some initiatives to less the burden of droughts in Somalia, but have not been successful over the years.

According to African Development Bank Group, Somalia has been regaining its political stability after it concluded its political transition on 20 August 2012. The country has been working towards nation-building, and restructuring of its failed institutions. There is a new federal government in place, a provisional constitution and parliament. The overall structure of the current government is one that is appealing to the public, and the support of the citizens is more positive than it has been in the past. Nevertheless, things would not change the status quo overnight, it requires joint effort of the government, the international community and more importantly the Somali intellectuals and business community to do their part to re-build their country as foreign aid alone cannot solve the multidimensional problem of poverty. In addition to that, social finance initiatives can play a vital role to overcome this financial stress that Somalis are experiencing by establishing *Waqf* institutions and proper *Zakat* collection. Zarqa (1998) points out that to ensure equitable distribution of wealth or to

fulfill the basic needs of society, *Islam* has developed several viable solutions and among these are *Waqf*, *Zakat* and *qard hassan*.

Poverty is the most severe, great and oldest problem known to peoples and societies; it is the most serious challenge to a country and its stability as explained by Brian (2009). Many historical evidences have shown that many revolutions in many countries of the world were a product of social problems like poverty. In Somalia, like many Muslim countries around the globe, poverty is rampant. It is believed that inequality and low productivity in the country has contributed to the poor standard of living. This has made the country to be among the least developed countries (LCD); it is among a group of 48 countries that UN has termed Least developed due to their GDP per capita that is very low (UN, 2016). Poverty is categorized into absolute poverty and relative poverty. According to Oxford English Dictionary (1994), absolute poverty refers to a state in which an individual or society lacks the basic human needs such as food, cloth and shelter, while the latter exists in the absence of minimum standard of living on culturally or socially recognized criteria. Based on this theory, it is clear that Somalia faces both types of poverty.

1.1.2 Financial system in Somalia

Somalia has been without a proper functioning financial system for two decades due to civil war that broke out after the president Siyad Barre-led government was overthrown. UNDP (2004) states that prior to the civil war, Somalia's formal financial sector was composed of:

- Central Bank of Somalia;
- Commercial and Savings Bank (in itself created through government's forced consolidation of a number of banks);

- Somali Development Bank; and
- State Insurance Company

The Central Bank of Somalia was re-established in 2009 and resumed its role in the country although it has not fully been doing all the work that a central bank should perform, like overseeing and controlling the overall financial activities. The Somalia financial system under the new constitution is still ambiguous. This is because the country has not indicated whether it will adopt dual banking system or not. However, Islamic banking system is more suitable for the financial services needs of Somalia due to its dire need for a financial system with strong inclination to social justice and financial inclusion (Warsame, 2016).

1.1.3 Islamic finance in Somalia

The Islamic Banking and Finance (IBF) industry has been growing at an exponential pace generally, with assets displaying a robust growth of about 15-20 percent annually. As Somalia endeavors to reconstruct its shattered economy, a viable commercial banking sector will be crucial. Many studies propose that a well-developed financial system plays an independent role in encouraging a long-run economic growth. Somalian financial system is one that has been growing faster since the last few years. As of now, there are six licensed Islamic Banks in Somalia (CBS); five of them are from Mogadishu and one from Garowe (Amal Bank). It is believed that there are more than these registered ones since the other autonomous states have their own central banks. Somaliland, which is a self-declared state, has its own central bank that runs and regulates its financial affairs. In addition, there are 14 Hawalas, which is a method of transferring money without any actual movement. Transactions between Hawala brokers are done without promissory notes because the system is

heavily based on trust. Another institution which is prominent in Somalia is *Takaful* company (Islamic insurance).

1.2 WAQF AS POVERTY ALLEVIATION MECHANISM

This research explores the faith-based endowments' potential to reduce the poverty level in a country as was the case in the glorious ages of Islamic civilization. As the needs of the societies are growing and getting complex, the waqf institution can play a key role to uplift a community. It has contributed in the past to all aspects of life, and improved the wellbeing of both humans and animals. If authorities take advantage of the endowments, it can assist them in countless state-responsibilities and cut down government expenditure. The unfortunate reality is that its importance is yet to be recognized by the countries (Sazak, 2009).

Waqf is a religious endowment, which represents a perpetual charity of a revenue-generating property. The benefits of a *Waqf* property are solely used for specific goals as regulated by Islamic law (Zarqa, 1998). It has an economic importance as its idea is based on the development of socio-economic encounters. Waqf has aims and benefits that highlight its effects in various fields, whether economic, social, scientific or educational. The revenue generated can be directed to the poor and needy, schools, mosques, orphans and even to the overall wellbeing of the society. The beneficiaries of waqf are not confined to any specific category of the society, the donor can determine the individuals or groups of beneficiaries as long as the purpose is in line with objectives of Islam.

Waqf has a great role in building the social solidarity which is considered an important element in development of the society, guided by the Islamic principles. The *Holy Quran* encourages believers in many verses to do good and help one another for the prosperity and success of humanity. Islamic economy, unlike conventional

system, is a value-oriented, and emphasizes the core values of social justice and benevolence. These two values are considered as the philosophical foundation of the Islamic economic system (Khan, 1997). Chapra (1985) highlights that the objectives of Islam, as one of its goals, is to alleviate poverty; that can be demonstrated through socio-economic justice and guaranteeing distribution of wealth as per Islamic economic system.

Although the areas of endowments are expanding, we have not found those developments and their diversity in areas of cash waqf. Most of the people limit the *Waqf* to immovable properties. This limitation has prevented many good-hearted individuals from participating in, and developing the great potential of endowments. As result, the waqf institutions' performances are low in most cases, and they become unfunctional in some jurisdictions. Therefore, the only type of *Waqf* that has developed over the years is immovable property such as buildings and real estate. Since its establishment, waqf has faced many challenges in improving the properties, investment plans, and repairing the old *Waqf* properties or its substitutions to better income generating projects. The good news is that lately there some initiatives have been undertaken to change the status quo. These institutions benefited from advancement of knowledge, and the contemporary business and investment models to improve the waqf institutions. It is interesting to know that some countries have established specific cash waqf funds and these have yielded positive results. Kuwait and Saudi Arabia are good examples of Muslim countries, while Singapore has also been a successful case, regardless of it being a non-major Muslim country.

Waqf in Somalia, throughout the history has not contributed to the development in any sectors. There are no functioning endowment institutions in the country that take care of *Waqf* properties and register them legally. Even though *Waqf* history in

Somalia is as old as the arrival of Islam, the perception of the society about *Waqf* is that it should solely be used for religious purposes like building mosques, boreholes, and *Holy Quran* deliverance to the mosques. Therefore, *Waqf* institutions remain weak as they neglect the social development projects that can sustain the economy and arrest the unfortunate poverty that strikes every now and then. For *Waqf* to play a vital role in promoting poverty alleviation and job creation, a new legal framework is mandatory. Promotion of the human value of giving and cooperation is needed to take these institutions to the second level.

Therefore, the novelty of this study, besides raising the awareness about *Waqf* in Somalia, is that it will emphasize the nobility of *cash Waqf* as an alternative sustainable method to Somalia's recurrent droughts and the way it can reduce the severity of these catastrophic moments. This study will focus on the adoption of *cash Waqf* model as a sustainable social development which can contribute to poverty reduction in Somalia. Furthermore, it will propose a framework for its implementation in Somalia, which in turn will be valuable to regulators when framing solutions.

1.3 PROBLEM STATEMENT

Endowments cover various types of wealth from agriculture to other aspects of life, such as weather, religion, economy, socio-cultural and political aspects. In addition to the *Waqf* on places of worship, there were places to receive knowledge, housing for the needy, poor people and many other areas of endowments. As development is an essential requirement for all societies, *waqf* is one of the pillars of the contributions that underpin the development process, which leads to the advancement of economic development. It contributes to the creation of many functions that have played a prominent role in achieving the principle of solidarity (Sazak & Ersen, 2009).

Cash waqf can play a key role in eradicating, or alleviating the poverty level in the country. Somalis have a heterogeneous society, support the less fortunate people, who are affected by the drought. In this year's drought only, the Somalis in diaspora as well as inside the country have gathered \$5 million and the government has set up the Somali committee assigned to be the trustee of this fund. Some other countries donated mainly foodstuff to assist the internal displaced people (IDP). Most of the population depend on agriculture and livestock as their primary means of livelihood. When these sources are affected by lack of rains, it will force the inhabitants of the rural areas to flee to the major cities as refugees and hence, need a helping hand.

Having said that, despite the huge sum of money donated by the people, there was no transparency in how this amount was spent. This was attested to by the fact that few months after the drought the victims were still in the same condition. As a result, people started questioning how this fund was managed. It is apparent that the current system has been criticized by many although the perception of the contributors was that the fund was benevolence or sadaqah. It could rightly be argued that introduction of waqf will be a game changer, and encourage the community to make waqf, the benefits of which will be continuous for ages. Although the people donated in cash in small denominations, it is believed that *cash waqf* can be developed from it; cash will be raised and with it viable projects that can generate income to develop the social status will be initiated. In case of dire need of water and food shortage, a portion of the raised amount could be invested in digging boreholes for the deadly rural areas so that they can sustain their lives and their animals.

In line with above mentioned concept, this study examines the role of *Waqf* on poverty reduction in Somalia. It aims to test the new development approach in

Somalia. Above that all, the study aims at finding ways to improve this approach or model to achieve a bigger role of *Waqf* institutions and poverty alleviation in general.

1.4 OBJECTIVE OF THE STUDY

The main objectives of this study are to:

- Identify the current condition of Somalia in terms of poverty
- Identify the impact of *cash waqf* in alleviating poverty in Somalia
- Propose *cash waqf* model for sustainable development

1.5 RESEARCH QUESTIONS

The study will find answers to the following research questions:

- What is the current situation of poverty in Somalia?
- What is the impact of *cash waqf* on poverty alleviation in Somalia?
- Which *cash waqf* model can be adopted for sustainable development in Somalia?

1.6 SIGNIFICANT OF THE STUDY

To the best knowledge of the researcher, this study is its first kind in *Waqf* and its major role is to reduce the poverty in Somalia. The importance of this study lies in the fact that it sheds light on the charitable endowment and its role in the economic development. If waqf funds are utilized to the fullest, this can improve the socio-economic situations of the Somali society. The effect of this study is reflected in its ability to encourage the community to create more *Waqf* and thus develop opportunities to benefit from the endowment resources in various aspects of socio-economic development. Hence, the study will test the suggested *Waqf* model and its viability.

The other significance of the study is that it contributes to the body of knowledge on waqf and public awareness especially in Somalia. This area of research has not been given the required attention by researchers and academics. The perception of the public towards endowments is only confined to narrow understanding of religious obligations such as building mosques. The countries with developed systems of *Waqf*, e.g. Malaysia, too have challenges when it comes to public awareness. Having said that, Somalia needs huge efforts on how to educate people on the importance of *Waqf* to the wellbeing of the society. Therefore, the present study will also benefit potential or future researchers, who may extend or even replicate the study in other countries.

Thirdly, the study will assist the Somali government, which is now re-building its institutions, to make informed decision on what kind of *Waqf* institutions it will adopt, and its relevant regulations as this research will present the *Waqf* strategies and rules of successful countries. Somalia had no functioning waqf institutions for few decades due to political instability that the country underwent. It is apparent that even during the former Somali government, before the collapse of the state, adequate attention was not paid to regulation of waqf property by the authorities. With this initiative, the government will play its role in putting in place appropriate and conducive environment for waqf to grow, which will reduce the government's expenditure from the perspective of macro economy.

1.7 SCOPE AND LIMITATION OF THE STUDY

This study is meant to propose a suitable cash waqf model for Somalia at large since the country has no functioning *Waqf* institutions. The study will go through previous models done by some Muslim countries, given the fact that they have recorded great success in the sector. Although there are other types of *Waqf* that can be covered, the

researcher feels that it will be suitable to focus on proposing a *Waqf* model that can help sustainable development in Somalia.

1.8 ORGANIZATION OF THE STUDY

Chapter 1: introduction: This study is organized into five chapters. The first chapter provides the background of the study. It also presents the problem statement, followed by the objectives of the study and the research questions. Moreover, the significance of the study and limitations are also highlighted in the chapter. The chapter concludes with the organization of the study.

Chapter 2: Literature review: In this chapter, relevant literature on *Waqf* is reviewed. The historical overview of *Waqf* will be discussed; *Waqf* types and its rulings in Islamic law, characteristics of *Waqf*, *Waqf* administration and the role of waqf in developing society are all examined in the chapter.

Chapter 3: Research methodology: This chapter describes the methodology used for the study. It presents the conceptual framework as well employed. The data collection procedures are also explained.

Chapter 4: This chapter discusses the proposed *cash waqf* model for Somalia and existing cash waqf models in some selected countries.

Chapter 5: The chapter presents the overall conclusion of the study. Some recommendations are also made.

CHAPTER TWO

LITERATURE REVIEW

2.1 INTRODUCTION

The issue of poverty does not concern only socio-economic policies, population size and resource endowments, but also the types of economic undertakings that bring about them. One important factor is the kind of policies that are put forward to eliminate poverty, and another is the degree they are properly executed to be fruitful and achieve the set objectives. For these reasons, diverse communities have employed different methods for poverty alleviation over the time, subject to their religious beliefs or philosophy, the level of political commitment, the degree of poverty, resource donations etc. (Munshi, 2010).

Islam is committed to worldwide brotherhood, and socio-economic justice. Though the teaching of Islamic brotherhood and social justice would not be significant except supplemented by economic justice to facilitate everyone in order to get his due for his support to the social product or to society and without any individual taking advantage of another. To expressively understand social justice thus, all the resources in possession of human beings must be used proficiently and justly to meet the needs of all and to produce even distribution of wealth and income (Hassan and Ashraf, 2010). Nevertheless, different strategies and policies have been accepted in diverse countries sometimes ago to reduce the poverty; however, the point is that poverty perseveres in Africa, particularly, in Somalia.

Cash *waqf* plays a better role in alleviating poverty among the generality of the population. *Cash waqf* is one of the several instruments introduced by Islam to fight

poverty and improve welfare in the society. Consequently, cash *waqf* is a more essential type of *waqf* since it is more useful than cattle, buildings, land, books, etc. Although *Zakah* assists to produce movement of funds, and employs the essential manpower, cash *waqf* offers the material infrastructure, and produces a basis of revenue for use in social welfare to improve the undertakings both at family, community and regional levels. Cash *waqf* is presumed to be the best institution to cater for the less privileged across the nation (Hassan and Ashraf, 2010).

2.2 THE TREND OF POVERTY IN THE MUSLIM WORLD

Poverty is rampant and common in the Muslim world. Inequality and low productivity have contributed to poor standards of living. The large number of Muslims in Africa, Asia and Middle East are living below \$2 a day due to their abject and absolute poverty. In fact, the Muslim communities account for a significant number of poor and less privileged globally. This increases numerous questions that need answers to solve the problems threatening the Muslim world (Munshi, 2010).

The current condition of some Muslims is deteriorating because of their financial restrictions and poverty due to unrestrained corruption. The economic collapse leads to the adoption of physical and practical methods to cut the poverty rate. The economic challenge affecting numerous Muslims has an undesirable impact on their lives religiously, morally, socially and mentally, and needs a mutual solution. The motive is that the bulk of them cannot afford basic necessities for their immediate families because of financial problems (Ali, 2012).

With the current financial situation of several Muslims around the world, there is an urgent need for poverty alleviation through *waqf* properties, *sadaqat*, and public funding. Poverty alleviation requires financial systems such as micro

financing, lawful businesses, agriculture, investment, large scale enterprises, small and medium enterprises. Others include commercialization, gifts, interest-free loans, partnerships, factories, construction, and other lucrative investments (Adebayo, 2008).

2.3 FACTORS AFFECTING POVERTY ALLEVIATION THROUGH CASH WAQF

There are numerous factors that influence cash *waqf* as a solution to poverty. Poverty is widespread and there is a great number of poor Muslims. Their financial circumstances need joint efforts to, at least, reduce their sufferings. Due to the widespread in the whole world, even in the developed countries, the survival of many children and adults are stressed because of too much deprivation.

Poverty can be classified into absolute and relative poverty. Absolute poverty covers lack of minimal living standard, which, is stated in terms of nutritional level, outfit, and the income needed to support an individual. Relative poverty has been understood and defined concerning the normal living standard of a society, identifying clearly the interdependence between the entire income distribution and poverty line (Ba'adiyoow, 2013).

Based on the theory of poverty, many Muslims in Africa, Asia and the Middle East, to mention a small number of places, are confronted with both absolute and relative poverty because of the rate of poverty and many of them cannot have enough money to feed themselves and their families sufficiently because of their little incomes and the number of the family. Numerous people are living in frustrating situations due to their meagre family incomes. The rate of poverty in some Muslim nations is disturbing; innumerable men, women, and children are incapable to eat and drink well. Lots of people are involved in unlawful and prohibited businesses as a result of need, while some little children troop into the