

Islamic social finance: Mobilizing Zakah (almsgiving) funds to support refugees' microenterprises programs

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Abstract

This paper examines the prospects and challenges of using zakah as a source of funding in microenterprise support programs for refugees. According to the literature, lack of funds represents a fundamental obstacle in supporting refugees' livelihood in particular in microenterprises programs. Zakat is one of the five pillars of Islam. All Muslims have to pay 2.5 percent of their wealth every year to the poor and needy. Refugees represent one of the main beneficiaries of zakah. Recently the UNHCR has established zakah funds to mobilise zakah funds to help refugees. This paper argues that instead of giving the refugees cash money, zakah fund or at least part of the zakah funds can be used to provide microcredit grants to support the refugees and help them to help themselves. Despite all the challenges of microfinance programs in particular in the context of refugees, well-designed microfinance programs can provide a more sustainable solutions to refugees in particular those trapped in protracted situations.

Keywords: Refugees Entrepreneurship, *zakah* funds, Sustainable solutions.

Introduction

The last few years have witnessed an unprecedented rise in the number of refugees worldwide. In 2010, approximately 200,000 new refugees were registered by the UNHCR (UNHCR, 2012). In 2017 the number of newly registered refugees reached 2.7 million, more than thirteen times higher than it was in 2010 (UNHCR, 2018). The UNHCR report (2019) affirms that by the end of 2018 the total number of forcibly displaced populations worldwide had hit a new record high of 70.8 million including around 20.4 million refugees. Since 2012, the overall number of refugees under the UNHCR's mandate has nearly doubled (UNHCR, 2019).

An examination of this large number of refugees reveals two undeniably facts, fact no. one is that the majority of the refugees are Muslims. The UNHCR Report 2019 (Table 1), affirms that most of the countries generating the highest numbers of refugees are unfortunately Muslim-majority countries. These countries are Syria, Afghanistan, Somalia, Myanmar and South Sudan. More than two-thirds (67 per cent) of all refugees worldwide came from these countries (UNHCR, 2019).

Table 1. Countries of origin and numbers of Muslim refugees

Country of Origin	Total Number
Syrian Arab Republic	6.7 million
Afghanistan	2.7 million
South Sudan	2.3 million
Myanmar	1.1 million
Somalia	0.9 million

Source: (UNHCR, 2019)

As depicted in Table 1, except for South Sudan¹ and Myanmar, the remaining three countries are Muslim-majority countries. In addition, most of the refugees from Myanmar are Rohingya Muslims who have fled the military's large-scale campaign of ethnic cleansing against Muslims (Human Rights Watch, 2019). The percentage of Muslim refugees will significantly increase if we add 5.5 million Palestine refugees under UNRWA's mandate and refugees coming from other Muslim-conflict countries such as Iraq, Sudan, Yemen and Libya. An interesting question may rise here relates to the where these refugees are hosted? Again, according to the report of the UNHCR (2019), refugees are hosted in 127 countries on six continents, the vast majority of them (85 per cent) have remained in neighbouring countries. Turkey continued to host the largest population of Syrian refugees, to reach 3,622,400. Countries in the Middle East and North Africa with significant numbers of Syrian refugees included Lebanon (944,200), Jordan (676,300), Iraq (252,500) and Egypt (132,900). Outside the region, countries with large Syrian refugee populations included Germany (532,100), Sweden (109,300), Sudan (93,500), Austria (49,200), the Netherlands (32,100), Greece (23,900), Denmark (19,700), Bulgaria (17,200), Switzerland (16,600), France (15,800), Armenia (14,700), Norway (13,900) and Spain (13,800). As for the Afghanistan refugees, in 2018, over 88 per cent of Afghan refugees were hosted by neighbouring two Muslim countries, namely, Pakistan with 1,403,500 and the Islamic Republic of Iran with around 951,100 refugees. Apart from these two countries Afghan refugees are hosted by Austria (33,100), Sweden (28,200), France (18,500), Italy (16,900), Switzerland (12,300) and Australia (11,900). In regard to refugees from Myanmar, most of them have been hosted by Bangladesh (906,600). Other countries with sizable populations of refugees from Myanmar are Malaysia (114,200), Thailand (97,600) and India (18,800). Last but not least, Somali refugees are hosted by Ethiopia which is the largest host of them with 257,200 at the end of 2018. This was followed by Kenya (252,500), Yemen (249,000), South Africa (27,100), Germany (23,600), Sweden (21,000), Uganda (18,800), the Netherlands (14,000), Italy (13,400) and Djibouti (12,700). Over 80 per cent of Somali refugees have remained in countries close to Somalia (UNHCR, 2019). In Europe, according to the Pew Research Centre around 78% of refugees who arrived in Europe between 2010 and 2016 were Muslims (Pew Research Centre, 2017).

The other more disturbing fact is that most refugees have no chance of returning home soon. Millions of people spend many years in exile. They become stuck in camps or temporary settlements and found themselves trapped in a long-lasting state of limbo known as "protracted situations". This term refers to situations where 25,000 or more refugees of the same nationality have been in exile for five years or longer in a given asylum country. By the end of 2018, it is estimated that approximately 15.9 million refugees are considered in protracted situations. That is around 75% of the total 20.4 million refugees. Approximately, 5.8 million of them were in a situation lasting 20 years or more. These refugees are hosted by 27 countries, representing 32 protracted situations. In 2018 NINE additional situations become protracted, and NONE of the previous protracted situations were resolved in the same year (UNHCR, 2019).

To address the crisis of refugees in protracted situations, three solutions have been proposed by UNHCR as durable solutions. These include voluntary repatriation, local integration in the host country of first asylum and, finally, resettlement in a third country (UNHCR, 2006). Although repatriation would be a preferable solution, for many refugees it seems impossible due to ongoing conflict in the country of origin or due to the loss of homes, livelihood and basic services (UNHCR, 2012).

¹ Muslims represent only 6% of the population in South Sudan.

<https://www.worldatlas.com/articles/religious-beliefs-in-south-sudan.html>

As for integration in host countries, many countries have resisted this solution for various political, economic and social considerations, to the extent that some commentators have called this solution as a “forgotten solution” or “non-solution” that may have been used in the past but is rarely put into practice nowadays (Jacobsen, 2001).

The third durable solution proposed by the international community has been ‘resettlement of refugees in a third country’. This solution has been ineffective for a number of reasons including the high costs of processing, transporting and integrating refugees (UNHCR, 2008). Additionally, the limited number of resettlement places offered by third countries can by no means solve the plight of millions of refugees in protracted situations. For instance, in 2018, UNHCR estimated that out of 1.4 million refugees who needed resettling globally, only 81,300 places were provided by 29 resettlement states (UNHCR, 2019).

Against this background, durable solutions proposed by UNHCR remain a dream for the majority of refugees (Slaughter and Crisp, 2009). UNHCR has acknowledged that “securing sustainable durable solutions is a long-term undertaking that exceeds the mandate and resources of UNHCR” (UNHCR, 2004a).

As a result, the issue of economic engagement of refugees has recently gained great importance. In fact, investing in the refugees’ potential and supporting their microenterprises (MEs) and business activities were recognized long ago as an effective approach for improving refugees’ livelihood and enhancing their socio-economic situations. The Handbook of Self-Reliance of UNHCR 2005 affirms in the Annex 1.13.8 the need to promote micro and small enterprise for refugees (UNHCR, 2005).

However, one major challenge that is currently hindering the development of microfinance and microenterprise programs for refugees, that is lack of funds. According to the UNHCR about \$8,636 million has been projected as the total UNHCR budget for 2019, the UNHCR has received only \$ 3,908 million with an estimated funding gap of about 4,728 that is a deficit of approximately 55% of the total projects current budget (UNHCR, 2019a).

Zakah is the second most important pillar in Islam and it is considered one of the fundamental tools in Islamic economic system that plays a remarkable role in poverty alleviation throughout the Islamic history. Estimation of total zakah amounts payable by Muslims around the world ranges from US\$ 76 billion UNHCR (2019) to as much as US\$600 billion (UNICEF, 2019) and in between several estimation are found in the literature including the estimation of Shaikh al-Qaradaghi, (2014) that reaches about 137.5 billion and the estimation of the Islamic Development Banks that estimated zakah at to reach \$230 - \$560 billion (Mod er, 2018)

In endeavour to leverage on zakah, recently the UNHCR has established zakah fund to utilise zakah payments in humanitarian aids. Since its inception in 2016 the fund has managed to raise and distribute around \$14.4 million to approximately 6,888 families located in Lebanon, Jordan and Yemen, (UNHCR, 2019)

This paper is an additional effort in the field of refugee economic engagement and empowerment. It particularly focuses on the viability of using zakah funds in supporting microenterprises (MEs) and microfinance programs for refugees. It attempts to achieve the following objectives:

- a) To underscore the state of art of refugee microenterprises support programs in particular advantages and challenges,
- b) To examine the analyse the latest literature on zakah in the context of microfinance and microenterprise support programs,
- c) To propose a viable model based on zakah; and

d) To highlight best practises in offering microenterprise support programs based on zakah

Overview of refugee microenterprises

Unlike the widespread stereotypes, refugees are economically active and enjoy the “essential qualities” of successful entrepreneurs such as flexibility, determination, resourcefulness and hard work (McDonnell, 2012). In fact, entrepreneurship for refugees stems from the necessity they face in the new home when they arrive with almost nothing but entrepreneurial experience, professional skills and talent. They find themselves in desperate need to find or develop a source of income, to improve their socio-economic situation or, in many cases, just to survive, in particular when refugees are subjected to employment discrimination in the new country.

The Organization for Economic Co-operation and Development (OECD) defines entrepreneurs as “people who sense opportunities, innovate, take risks and develop new goods and services. They drive business dynamics...and fuel overall economic growth” (OECD, 2000). With millions of refugees around the world, it would definitely be very safe to argue that, according to the above definition, many refugees are considered real potential entrepreneurs.

Microenterprises carry several advantages, not only for refugees but also for other stakeholders involved in the crisis of refugees, namely humanitarian agencies, donors and host countries. Table 1 underscores these advantages.

Table 2. Advantages of MEs for refugees and main stakeholders

Stakeholder	Advantages of Microenterprises
Refugees	Dignified way of survival Economic self-sufficiency Enhance livelihood Better education Better health care
Relief Agencies	Less financial burdens Less responsibilities
Host Countries	Economic contribution More job opportunities Less social and political challenges
Donors	Less financial burdens Less asylum seekers Less ethical pressure

Source: UNHCR (2005); Slaughter and Crisp (2009); Stevens (2006); Silverman (3013).

As depicted in Table 1, many advantages of microenterprises for refugees can be enumerated, particularly with scarce job opportunities in most host countries. In fact, promoting refugees’ microenterprises constitutes a vital element in achieving self-reliance and self-sufficiency, as has been promoted by UNHCR. Unfortunately, however, supporting microenterprises for refugees has not been given the required attention in practice compared to the emphasis found in the literature. This lack of support is discussed in the coming section.

Lack of Funds as a major challenge in microfinance and microenterprise programs

Many challenges are encountering supporting refugees’ microenterprises from the refugees’ perspective as well as from the NGOs and institutions perspective. From the refugees’ perspectives the challenges include the legal challenge, low level of outreach of microfinance and micro credit programs, lack of access to finance, lack of access to markets, high financing

cost due to high interest rate Language barrier. As for the NGOs and humanitarian agencies major challenges include lack of funds, legal constraints Lack of human capital among refugees Forward mobility of refugees Language barrier Passive attitude of host countries Uncertainty of the future Uncertainty about the future Hostile environment in exile. These challenges are summarised in the table below (Kachkar et.al, 2016; Kachkar, 2019).

Table 3 Challenges facing refugees and microenterprises supporting institutions

Challenges facing Supporting Institution	Challenges facing refugee
lack of funds	Legal constraints
Legal constraints	Lack of access to finance
Lack of human capital among refugees	Lack of access to market
Forward movability of refugees	Language barrier
Passive attitude of host countries	Uncertainty of the future
Uncertainty of the future	Hostile environment in exile

Source: (Kachkar, 2019)

As in the table above, lack of funds represents the top serious challenge for the UNHCR, NGOs and aid agencies that hinders their efforts to support refugees and help them to help themselves. in 2019, out of \$8,636 million projected budget, the UNHCR has received only \$ 3,908 million with an estimated funding gap of about 4,728 that is a deficit of approximately 55% of the total projects current budget. (<http://reporting.unhcr.org/financial>) When humanitarian agencies do not have enough funds to feed refugees, they will suspend or delay any development and livelihood programs. The recent report of UNHCR on Africa (2014, p.161) clearly expresses this fact and states that since it had to dedicate most of the resources to emergencies and life-saving activities; only 15% of the expenditure went toward solutions and livelihood activities (UNHCR, 2014).

Overview of Islamic Social Finance

In its simplest forms social finance can be defined as “An approach to managing investments that generate financial returns while including measurable positive social and environmental impact.” (Deloitte, 2019)

according to the European Commissions (2016) social finance should have the following characteristics:

- is at least nominally repayable
- pursues an accountable social, cultural or environmental purpose
- is autonomous of the state
- has the mission of the investee as the principle beneficiary of any investment
- is transparent about assessing, measuring and reporting the social impact it seeks to create
- is structured to create financial value or organisational or community capacity over time, e.g. by helping the investee invest in growth, acquire an asset, strengthen management, generate income and/or make savings, and by providing wider non-financial support
- is inclusive. (p.11)

Features of social finance are not strange to the Islamic economic system including Islamic financial instruments. In fact, many of them are among the intrinsic components of Islamic

economic system. Islamic social finance instruments like *waqf*, *zakah*, *qard hasan* and *sadaqah* have played a crucial role in providing for the basic needs of Muslim communities throughout the Islamic history. As such. These roles can be revived to address the increasing budget deficit of humanitarian programs including economic engagement and financial inclusion of refugees. Shaikh Ali al-Qaradaghi estimates that annual zakah funds may reach around 400 billion (Al-Taher, 2017). In the same context, the Islamic Development Bank has estimated that figure to reach between \$230 and \$560 billion globally. (Mod er, 2018).

Shariah issues in using zakah funds in development projects

Bearing in mind the great potential of zakah funds in relief and humanitarian operations and projects, there a wide spread misconception on the permissibility of using zakah funds in development projects, due to the well-known condition of *tamlik* (full entitlement of the funds to the beneficiary and possession by the beneficiary) many scholars believe that zakah funds may not be used for development projects. However, this research argues that in microfinance and microenterprise programs, *tamlik* is achieved through two forms:

- a. The grand of funds provided to the microenterprises
- b. The equipment that is provided to the microentrepreneurs,

At this juncture we might have a shariah issue in relation to paying zakah in kind goods and commodities not in cash which is permissible according to the famous opinion in Malikiyyah Mazheb (school of thought) and one account in the hanabilah *Mezhab* the permissibility of using zakah funds to purchase army tools and equipment and grand them to the military individuals.² Additionally, according to imam Abu Hanifah as reported by Ibn ‘Abidin in his famous book *Radd al-Muhtar*, in general it is allowed to pay the value of zakah, furthermore, the *Hanafiyyah* allowed for the Imam to borrow the money of zakah from the zakah House, to settle the expenses of the state and to return the money back as a borrower. (Ibn ‘Abidin (2/369). Even the *Malikiyyah*, Shafi’yyah and *Hanabilah* allowed the sale of zakah commodities and goods in the cases of necessity or to convert the zakah funds or properties according to the *maslaha* and interest of the poor. Such as in the case of risk on the sheep cattle on the way etc. (Al-Uthman and Hamzah, 2012). Last but not least, the International Islamic *Fiqh* Academy allowed using zakah funds in profit generating projects as early as 1986 in its third session held in Amman, Jordan and issued the resolution that states:

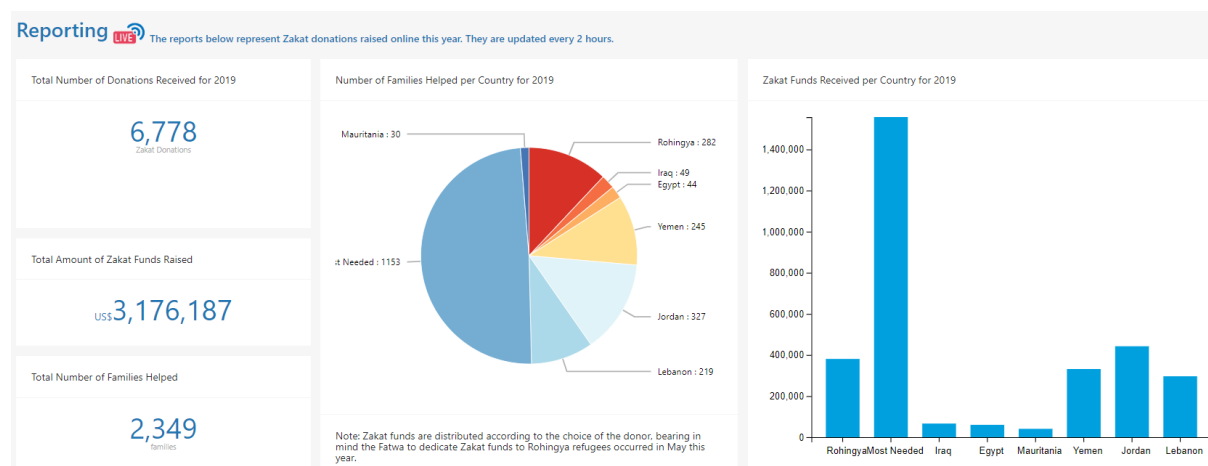
“It is permissible, in principle, to put *Zakat* funds in investment projects which eventually lead to be owned by those who are deserving of *Zakat*, or which are under the control and administration of the entity which is responsible and has the jurisdiction over collecting and distributing *Zakat*, provided that it is done after satisfying the basic and immediate needs of the beneficiaries and with proper guarantees against loss.” (Resolutions and Recommendations Of The Council of the Islamic *Fiqh* Academy 1985-2000, 2000:27).

UNHCR Zakah Funds

As a result of the increasing interest in Islamic social finance, the UNHCR has launched in late 2016 a zakat program with the aim of “expanding the impact of Zakat funds to thousands more eligible refugee and internally displaced families who desperately need support worldwide”. (<https://zakat.unhcr.org/en/about-zakat>) according to the UNHCR refugee zakat fund report 2019 “100% of Zakat donations goes to those who need it the most” with no fees deducted from the principle zakat amount. Donors can select the beneficiaries of their zakat from a list of

² See Ibn Qudamah, ibn al-Humam, 2/264, *Radd al-Muhktar* by Ibn ‘Abidin ,2/375-6, Mughni al-Muhtaj, by al-Sharbini. 3/142. Mawaheb al-Jalil by Al-Hattab, 3/234 and al-Furu’ by Ibn Mufleh,4 /345-6.
file:///C:/Users/omar.kachkar/Downloads/document_ecbc6d104dd11edb0115c2f9367c6b67.pdf

projects including internally-displaced populations in Iraq and Yemen, Malian Refugees Rohingya refugees and Syrian refugees. Since its inception in 2016 to 2018, the Zakat program, has distributed around \$14.4 million to 6,888 families located in Lebanon, Jordan and Yemen. Approximately \$11.4 million was donated by Institutions, and about \$3 million was raised by the wider public. (UNHCR, 2019) the program has a live online website that is updated every two hours to report the amount of donations with the number of families helped and funds received by country 2019 as in the Illustration below.



Source: (<https://zakat.unhcr.org/en/reports>)

Overview of using Zakah funds in microfinance and microenterprises programs (Two Case Studies)

Zakah is considered one of the key tools in poverty alleviation in the Islamic economic system. Likewise, microfinance as well has merged as recently microfinance has emerged as an important tool for poverty alleviation in the developing countries. (Yonis, 2012). The World Bank has highlighted three dimensions of poverty; 1- lack of income and assets 2- voicelessness and powerlessness in the institutions of the state and society and 3-the inability to cope with unexpected shocks such as sudden changes in currency values or market forces (Loescher and Milner, 2005). Needless to assert that majority of refugees suffer from all these conditions of poverty.

Microfinance as a poverty alleviation tool is more appreciated when it is used to improve the socio economic situations of refugees who suffer the worst forms of poverty. As rightly put by Antonio Guterres, the former UNHCR Secretary General “When leaving is not an option but a necessity, this is more than poverty.” (UNHCR, 2007). In the literature, numerous success stories can be highlighted for using zakah in microfinance and microenterprises support programs. The following discussion will underline three case studies in which zakah has been used in microfinance and microenterprise programs.

Malaysia- Selangor Zakah Board (Lembaga Zakat Selangor- LZS)

Selangor Zakah Board (LZS) is the official authority that is in charge of managing zakah affairs in the state of Selangor in Malaysia. The eighth categories of zakah recipient in the state of Selangor have been classified by the board (LZS) into two main categories productive and non-productive zakah recipients according to their physical ability. accordingly, the distribution of funds has been classified into consumption and productive purposes the latter one is known as Zakah microfinance (Ibrahim and Ghazali, 2014).

Interestingly, the zakah microfinance program contains not only capital seed but also training on business management and monitoring throughout the business course. The following procedures have been implemented in the program:

1. Provision of start-up fund for potential business project.
2. Rigorous examination is undertaken to the applicants to ensure the eligibility criteria which include proper skills, business interest and desire to learn along with the physical capabilities.
3. Providing the knowledge and guidance to the recipients before and during the conduct of business.
4. Capital is given in the form of equipment and working capital such as machinery and rental premises.
5. Recipients will be given a basic course of business, including financial management and motivation before starting a business.
6. LZS would provide spiritual knowledge and religious practices such as trust, honesty, sincerity, and
7. Monitoring of applicants and their business. Each 40 recipients is assigned to one zakah officer. Monitoring will include not only business performance but also spiritual aspects, daily necessities, housing conditions and income. (Ibrahim and Ghazali, 2014).

From 2008 to 2010 the total number of recipients reached 1054 and the funds distributed reached RM 6.862.938 the details are in the table below.

Programme	Number of Recipients			Total 2008 – 2010
	2008	2009	2010	
Business Capital Assistance	299	234	356	889
Fishery Capital Assistance	21	8	50	79
Livestock Capital Assistance	8	12	11	31
Agricultural Capital Assistance	15	22	18	55
Total Recipient	343	276	435	1054
Total Distribution (RM)	1,806,753.	2,593,854	2,462,331	6,862,938
Average amount of distribution per recipient	5,267.50	9,398.02	5,660.53	6,511.33

Source: (Ibrahim and Ghazali, 2014).

Unfortunately, there is no an official publication of the performance of the recipient (Ibrahim and Ghazali, 2014).

Baitul Maal Muamalat Indonesia (BMMI)

The second case study to be highlighted in this section is the program of Baitul Maal Muamalat Indonesia (BMMI). BMMI is a licensed zakat organization in Indonesia that collects Islamic charities (zakat, shadaqa and waqf) and disburses the funds for the society purposes. It was established in 2000 as a social subsidiary of Bank Muamalat Indonesia that collects Islamic charity from Bank Muamalat's clients and distributes this charity for social purposes. Seventy percent of its funds are distributed for economic empowerment through microfinance programs. (Yumna, 2019) BMMI in Indonesia has three major programs to include the poor within the microfinance system. One particular program for microentrepreneurs called Komunitas Usaha Mikro Muamalat Berbasis Masjid (Micro entrepreneur community based on mosques/KUMMM), were initially developed in 2007. This KUMMM program is especially designed for micro entrepreneurs who actively participate in the local mosque. The key objectives of the program are firstly, to work toward economic empowerment of the poor and secondly to support religious education for society. This second objective is translated into the institution's mission statement as an intention to develop an individual character with strong religious beliefs, a determined commitment to grow, and with the capacity to empathize with others. all BMMI KUMMM microfinance program activities, are conducted in the mosques including client selection, mentoring and loan repayment arrangements. (Yumna, 2019) the main objective of conducting the activities in the mosque is to By centralizing these activities in the mosque, the institution believes that it will be able to choose clients who are motivated towards and committed to the adoption of positive attitudes and values. These client characteristics may go some way to reduce asymmetric information and moral hazard problems. (Yumna, 2019). One interesting feature of the program is that it has a graduation concept for participants. successful graduates manage their own cooperatives and begin to participate in commercial microfinance. (Yumna, 2019)

The data on the program is available for the year 2011 and 2012. It indicates that in 2011 the program has dispersed around 6,101,367,487.54 (\$435,811) and in 2012 it dispersed about 3,309,973,000.00 (\$236,426) (\$1=14,090). as for the repayment rate and non-performing financing, the data reveals that in 2011 around 56% with a non- performing financing 43% however the rate was even worse in 2012 with a repayment rate of about 20% and performing financing about 80%. The low repayment rate in fact undermines the whole idea of mosque centralisation and commitment etc. however it is believed that low repayment rate is attributed to:

1. lack of human resources
2. public perceptions of *zakat*

In fact, this is very low repayment rate compare to other similar microfinance institution such as Amana Ikhtiar Malaysia which reported in 2012 very high repayment rate of 99.35%. (Abdul Rahman et.at. 2013) at this is one of the challenges that encounter humanitarian agencies when providing commercial services, the misperception is even doubled in the context of refugees when such people have been used to free services. Therefore, disclosing the source of funds to refugees may need serious consideration for the success of the project.

Proposed Refugee Microenterprise Zakah Support Model (RMZSM)

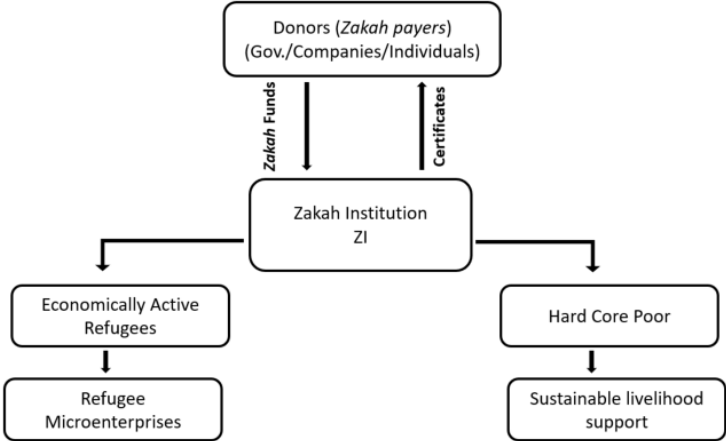
Before going into the model few points must be highlighted on any microfinance and microenterprise support program:

1. Microfinance is not a viable tool for all refugees (must differentiate between the types and capabilities of refugees mentally and physically)
2. The second point is part of the first one, in the sense that zakah cash assistance is not the right solution for all refugees,
3. Microfinance programs is not all about giving the start-up capital, non-financial services are essential for the success of such programs (micro-Takaful, safety net, substance provision, training, marketing, legal advisory, mentoring and monitoring).

Conceptual Framework of RMZS Model

The structure of RMZSM model conceptual framework largely focuses on addressing the major challenge of supporting refugee enterprise, i.e. lack of funds. As shown in figure 1 below, the model introduces the use of zakah as a source of funds to provide a start-up capital for refugees.

Figure 1: Conceptual Framework of RMZS Model



As depicted in the above figure, zakah Institution must differentiate between two types of poor refugee, the economically active refugees who potentially the targeted population with the microenterprises program and the other type that cannot participate in such programs such as sick and elderly. As such ZI should divide the available funds to cater for both types of refugees in a proportionate way. In regard to the economically active refugees, zakah funds should also be divided into three sub funds, a. micro-takaful fund, b. microcenturies seed capital fund and the subsistence fund these three sub funds are depicted below in Figure 2

Figure 2: distribution of zakah funds on economically active refugees

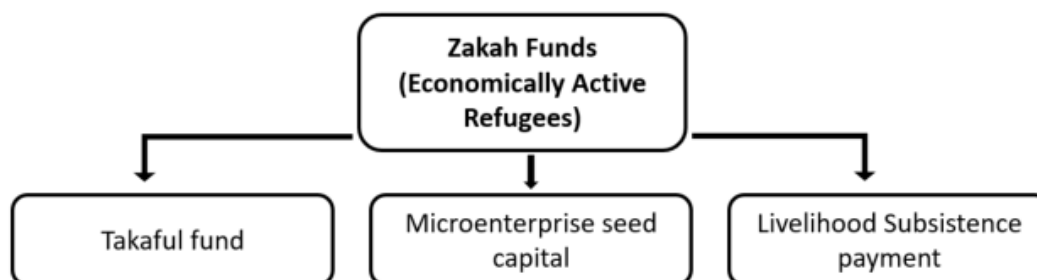
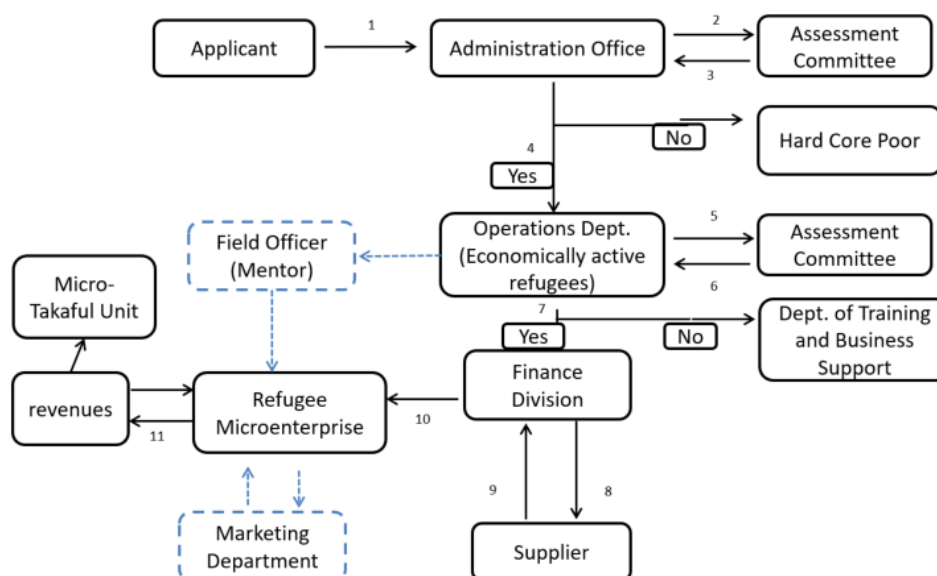


Figure 3: Operational Structure of RMZS Model



Model outflow

1. The applicant approaches the Administrative Office (AO) and applies for equipment, raw material or capital to be used in the project
2. AO sends the applicant's application containing all the necessary documents to the Assessment Committee (AC), which assesses the capabilities of the applicant against the eligibility criteria
3. The documents are then returned by AC to AO. Hard-core poor are directed to the relevant unit for assistance.
4. Successful applications (economically active candidates) are forwarded to the Operation Department (OD),
5. The Operation Department (OD) send the candidates to the Assessment Committee for a further assessment of professional and business administrative skills and needs.
6. Assessment Committee send the assessment results with their report
7. Based on the report from AC, the applicant is sent by the Operations department either to the Department of Training and Business Support (DTBS) to provide the required

training, or would be directly sent to the Finance Division to evaluate and process with the equipment's and financial needs,

8. The applicant is sent to the supplier for the required equipment. It is worth noting that cash money is intentionally avoided to be handled over to refugees. It is feared that needy refugees may spend the cash money on personal needs or for purposes other than income generating activities.
9. The applicant (refugee) acquire the equipment from the supplier as an agent on behalf of the NGO/agency, the applicant must report back to Finance Division to sign a formal low risk Islamic financing contracts such as *Murabahah* (cost-plus sale), *Ijarah*, (lease) Diminishing *Musharakah* (partnership) and *al-Bai' Bithaman Ajil* (forward sale) to purchase and own the equipment or raw material from NGO/agency to himself.
10. The applicant now begins operating his or her Refugee Micro-Enterprise (RME) business to offer products and services, at this juncture two units will be offering advice and assistance to the refugee microentrepreneur, the Operations department shall assign a field officer to supervise the entrepreneur as well as to provide the required advice, marketing department shall advice in the marketing needs of the entrepreneur.
11. The revenue generated from the microenterprise is shared in three portions. Part of it goes to the applicant, another portion to NGO/agency through its Finance Division (FD) and the applicant is encouraged to donate a small third portion to a Micro-Takaful Unit (MTU) or fund.

The MTU is integrated into the model in order to provide guarantee for refugee microenterprises. Each and every interested refugee should join this unit before applying for any financial assistance. This unit is considered essential in the absence of any financial collateral and with the considerable ineffectiveness of social collateral in the refugee camp setting. Members of this unit will actually depend on the recommendation of participants. In the sense that any new individual should have a signed recommendation from a member or more of old members of the MTU. Additional function of MTU will include providing financial assistance for refugees in emergency situations such as illness or unexpected accidents or death of any MTU member.

Suggested Eligibility Criteria of Microentrepreneurs

Considering the size of risky elements in the proposed model of Zakah microfinance for refugees, it is suggested that the eligibility criteria for economically active refugees to benefit from the *Zakah* financing must be very strict. These strict criteria are designed to target only potential economically active refugees who meet the minimum level of administrative and professional criteria. Refugees who do not meet these criteria may join other programs offered to refugees such as administrative and professional training. The eligibility criteria for the applicant to participate and become a member of the *Zakah* Fund are elaborated as follows. Applicants must:

1. Be between 25-45 years old;
2. Married with at least two children;
3. Not recipient of any other grand or financial assistance;
4. Have at least three years' working experience in the suggested profession or enterprise;
5. Acquire the basics of accounting and business administration;
6. Provide three recommendation letters from community leaders or religious authorities;
7. Have at least a high school education;

8. Obtain a valid ID such as a passport or to be registered by the UNHCR or the local authorities;
9. Be allowed to operate and own a business in the country.

Best practices in implementing Microenterprise Support Program for Refugees Based on Zakah (IBRAHIM AND GHAZALI, 2014).

Several success factors can be identified from the earlier cited programs of microfinance for refugees and of microenterprise support based on *Zakah*. These factors are summarised as follows:

1. Provision of living allowances to beneficiaries in the early implementation stages;
2. Adoption of group lending as well as individual lending;
3. Careful selection of beneficiaries; not all refugees are ready to receive funds and undertake enterprises;
4. Integration of a mutual, cooperative reserve fund (*micro-takaful*);
5. Provision of non-financial assistance such as professional training and marketing;
6. Collective cooperation among stakeholders including hosting authorities, aid agencies and other supporting institutions;
7. Allocation of a considerable portion of intervention to the hosting community;
8. Supporting short-term enterprises;
9. Linking the program with future engagement after refugee repatriation;
10. Adoption of technology to monitor beneficiaries;
11. Avoidance of direct cash advances to beneficiaries; alternatively, direct communication with suppliers;
12. Usage of different packages/arrangements for different types of beneficiaries.
13. Don't be so much optimistic as the success rate is around 30% (Ibrahim and Ghazali, 2014).

Conclusion

This paper has explored the possibility of using zakah funds in microfinance and microenterprise programs for refugees. This paper argues that despite the importance and effectiveness of using zakah funds in cash intervention, such programs are not sustainable and does not represent the best solution for all refugees. This argument is supported by highlighting two microfinance and microenterprise program that are based on using zakah funds. The first one is from Malaysia managed by Selangor Zakah Board (Lembaga Zakat Selangor- LZS) and the second one is from Indonesia run by Baitul Maal Muamalat Indonesia (BMMI). Furthermore, the paper is proposing a model based on zakah to mobilise the funds for microenterprise programs. The model is comprised of the key elements that most microfinance and microenterprises programs must contain, including the assessment process, training department, microfinance department, marketing and mentoring departments. Finally, the model also contains a micro-takaful unit to assist the refugee microentrepreneurs in difficulties and hardship times. The paper ends with a recommended list of eligibility criteria and a list of best practises in designing microenterprises support programs for refugees based on zakah funds.

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