

# Integration of Waqf and Islamic Microfinance for Poverty Reduction: The Case of Sudan

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# Outline

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- Motivation for the study**
- The Research Problem**
- The IWIM Model**
- Testing IWIM Model in Sudan**
- Major Findings**
- Conclusion**

# Motivation

- High incidence of poverty in Muslim countries.
  - Approximately 31% of the total population of the 57 OIC member countries lives below the poverty line of USD 1.25 per day [Alpay, 2013].
- Failing Measures and Models.
  - ❖ Several measures by the public, private and non profit organizations seem inadequate to contain the problem
  - ❖ Microfinance institutions look promising but are in need of innovations – viable model

# The Research Problem

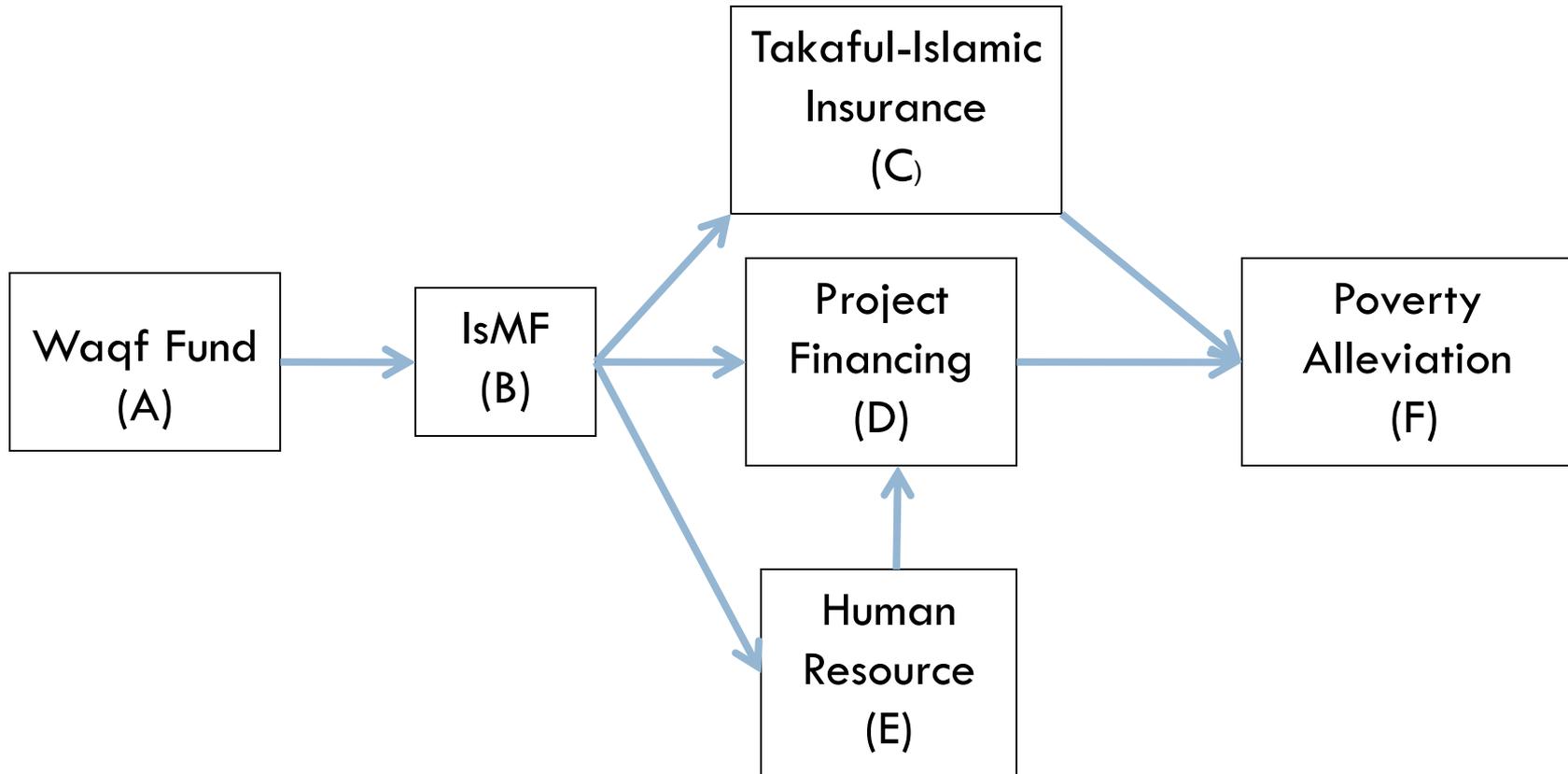
- ❑ Islamic Microfinance institutions constantly face the following problems:
  - Lack of sustainable access to financing
  - Poor quality of human capital
  - Lack of viable group project
  - Limited products and
  - Insufficient Takaful coverage

# The Research Problem



- ❑ The literature has not developed a viable model to address these problems
- ❑ Hence the proposed IWIMM

# Structure of IWIMM



# Hypotheses

- H1: Waqf Resources contribute positively to Islamic Microfinance
- H2: Islamic Microfinance contributes positively to Takaful Financing
- H3: Islamic Microfinance contributes positively to Human Resource Development
- H4: Islamic Microfinance contributes positively to Project Financing
- H5: Human Resource Development contributes positively to Project Financing
- H6: Takaful Financing contributes positively to Poverty Reduction
- H7: Project Financing contributes positively to Poverty Reduction

# Testing IWIMM

- ❑ The validity and acceptability of IWIMM was tested in Malaysia, Indonesia and Bangladesh
- ❑ In Bangladesh, only one hypothesis, H7, is not supported.
- ❑ Meanwhile four hypotheses [H1, H4, H5 and H7] are not supported by results from Malaysia and Indonesia (Ataul Huq. P. et al, 2015).



# Testing IWIMM in Sudan

# Testing IWIMM in Sudan

IWIMM acceptability was expected to be overwhelming due to the relevance of the 6 constructs:

- ❑ poverty incidence is high
- ❑ the quality of human resource is in dire need for improvement
- ❑ the level of awareness is expected to be high on Islamic microfinance, Waqf and Takaful and their roles towards poverty alleviation.

# Facts and figures of Sudan

Population (million)	GDP (Current US\$) (billion)	GDP Growth (annual %)	GDP per capita (Current US\$)	Population below 1.25\$ per day (%)
37.96	66.7	-6.0	1,753.4	46.5% (2009) (National PV line)

Source: World Bank, 2015

<http://databank.worldbank.org>

# Poverty Alleviation Programs



- ❑ The allocation for pro-poor spending of 9% of Sudan's GDP in 2009.
- ❑ Zakat funds contribute significantly to Sudan's pro-poor expenditure budget

# Islamic Microfinance

- ❑ The Central Bank of Sudan issued a rule requiring commercial banks to allocate 12% of their capital to finance various microfinance projects
- ❑ The central Bank established in 2008 the Microfinance Development Facility to solve the funding problems of MFIs.
- ❑ The Central Bank introduced Mudarabah, Musharakah, Salam, Istisna and Murabahah modes of financing for MFIs.

# Waqf and Microfinance

- ❑ There are several types of Waqf properties in Sudan.
- ❑ However, the focuses of Waqf activities are mostly religious and for commercial and professional activities. The level of direct involvement of Waqf institutions to poverty alleviation programs through microfinance is still negligible.

# Micro Takaful and Microfinance

- ❑ The Sudanese Micro Takaful was first launched in 2008 with the direction and guidance of the Central Bank of Sudan. Micro Takaful supports Islamic microfinance against default risk and encourages banks to finance poverty alleviation programs.
- ❑ Presently, Micro Takaful covers material damages like loss of livestock, loss of property due to theft or fire, fire and burglary and other damages related to agriculture.
- ❑ The challenges facing Micro Takaful include inefficient risk management tools, lack of reinsurance capacity and limited insurance products



# Quantitative Survey & Findings

# Sample Size and Sampling

Items	Detail
Sample size	163
Selection of Respondents	50 from Kasala, where clients are mostly involved in livestock farming; 52 from al-Jazira, where clients work in agriculture and; 61 from Khartoum, where clients are engaged in business activities.
Sampling technique	Purposive sampling
Tools of Analysis	i. Descriptive Analysis, Confirmatory Analysis and SmartPLS

# Respondents' Profile



The respondents of this study are represented by both male and female who are matured adults, married and have large extended family members. Most of them have low level of education and have no vocational training. Their income is relatively high but offset by high expenditure. The majority of them receive financing from Islamic microfinance institutions.

# Descriptive Statistics

- ❑ 68% are well aware of the various poverty alleviation programs
- ❑ 68% are involved in government funded microfinance schemes.
- ❑ 80% receive loan from microfinance institutions
- ❑ 49% claim that the loan amounts they receive are insufficient
- ❑ 43% reported that they were highly
- ❑ 22% are found to be poor and very poor

# Hypothesis Testing

Hypothesized Paths		Results
H1	Waqf Resources → Islamic Microfinance	Supported
H2	Islamic Microfinance → Project Financing	Supported
H3	Islamic Microfinance → Takaful Financing	Supported
H4	Islamic Microfinance → Human Resource Development	Supported
H5	Human Resource Development → Project Financing	Supported
H6	Takaful Financing → Poverty Reduction	Supported
H7	Project Financing → Poverty Reduction	Supported

# Conclusion

- ❑ Results have validated IWIMM and its acceptability  
IWIMM, mainly due to
  - ▶ The high poverty incidence implying the existing models are inadequate.
  - ▶ High level of awareness among the respondents about Islamic microfinance, Waqf and micro Takaful.
  - ▶ the poor quality of the labour and hence the need for human resource development
  - ▶ Waqf institutions have remained largely untapped and the coverage of micro Takaful needs to be widened
  - ▶ IWIMM is simple to understand and relates perfectly to the real need of the man in the street



*Thank you*

*Wa Allah A'lam*