

Islamic Approaches to Development: A case study of Zakat, Sadaqa and Qurd al Hassan in Contemporary Egypt

Mona Atia¹

Hundreds of verses of the Quran deal with the spending of money, trade, social class, charity and other forms of economic transactions. While ideals and debates about the role of Islamic economics in the development process abound, this paper presents a case study of the role of Islamic economic practices in the development process in Egypt. Islamic economic practices are diverse and have distinct roles to play in society when aligned with requisite institutions. Based on one year of qualitative fieldwork in Egypt, I discuss the administration and regulation over Islamic economic entities in Egypt and then analyze the role played by Islamic practices of zakat, sadaqa, and el qurd al hassan in poverty alleviation and the project of development. In order for Islamic economic practices to be inclusive and sustainable, these practices need to be coordinated and specific goal must be attached to each form of Islamic economic practice. I discuss each economic practice as it is being executed in Egypt, using specific examples to illustrate the role of institutions in promoting these practices and then suggesting how that practice can be mobilized more effectively and sustainably. Zakat permits financial support of those unable to support themselves, as specified in Surat al Tawba (9:60) regarding the recipients of zakat. More recently, some organizations have begun to allocate zakat towards problems that are associated with the modern era (such as refugees, prisoners, and microfinance debtors). Sadaqa allows more flexibility and thus is geared towards more innovative projects including income-generating projects, small and medium enterprises development, social entrepreneurship, environmental protection, artistic development and cultural organizations. Qard hassan is being developed as part of Islamic microfinance, with some utilizing it as a means of relieving those who defaulting on conventional loans or the formation of takaful reserves that support beneficiaries in crisis.

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¹ George Washington University, atia@gwu.edu, 202-994-7757

Introduction

Poverty is a grave and serious problem in Egypt, with 20% of the population below the poverty line and another nearly 20% just above the poverty line.ⁱ While International development agencies like the USAID have worked in Egypt since the mid 1970s, poverty remains rampant. Recently, development experts have tried to meld Islamic principles with development practice and produced Islamic development. Poverty eradication, social justice and benevolence form the basis of an Islamic economic system (Ahmed, 2007; Chapra, 1993; Dean & Khan, 1997; Siddiqi, 1983). An Islamic economic system ideally insures a decent standard of living for everyone, defined as enabling each to satisfy their basic and sufficient needs for sustenance including food, water, clothing, housing, supplies for work and marriage expenses (Emara, 2003:30). While an Islamic economic system has yet to be implemented fully nor realize its full potential, there are numerous practice which have emerged to deal with persistent policy. This paper takes Egypt as a case study of how the practices of *zakat*, *sadaqa* and *qard hasan* are being implemented as part of poverty alleviation schemes. I argue that innovations in the use of these Islamic economic practices offer new opportunities to think more holistically about Islamic development. If, instead of converging towards a single model of development these practices are cultivated to address distinct aspects of poverty, then collectively the practices have the potential to change the material conditions of poverty on the ground. I will discuss *zakat*, *sadaqa* and *qard hasan* each in turn.ⁱⁱ

Zakat

Zakat is the most prominent feature of an Islamic economic system. *Zakat* is the third pillar of Islam coming only after a declaration of faith and prayer. The word *zakat* appears in eighty-two verses of the Quran and literally means purity, development, blessings and praise but in practice is translated as alms. The social importance of *zakat* is its role in helping in the treatment of poverty; it is seen as a tool for acquiring a more equitable distribution of wealth, for achieving social stability and solidarity, discouraging hoarding, and encouraging the circulation of capital in the economy (Emara, 2003:34-35). Individuals have a responsibility to give to the poor because “everything belongs to God and He gracefully has bestowed some property on some so that they can be grateful and help others in charity”(Hasan, 2006:2). *Zakat* then is really not a form of charity, but a right of the recipients, which supports its role as a social stabilizer. *Zakat* plays a fundamental role in the economic system, ensuring the proper distribution and circulation of wealth and “*zakat* purifies the wealth of the individual, but it also keeps the social, economic and political body or structure of the *Umma* from deterioration” (Dean & Khan, 1997:197). *Zakat* is thought of as a way to spiritually cleanse oneself and purify one’s money (Kuran, 2003:283). *Zakat* requires that a donor’s intention of giving be solely as an act of piety.

In Egypt, *zakat* is a private matter in the sense that is not collected by the state or any central agency; individuals are left to decide if and to whom to designate their *zakat*. Many individual give secretly and to extended relatives or neighbors.ⁱⁱⁱ A desire not to humiliate the poor underlies the practice of giving in secrecy and many believe that “special religious merit is gained by giving alms in secret” (Benthall, 1999:34). There are over 5000 *zakat* committees scattered around the country and a large number of the over 25,000 associations in Egypt also collect and distribute *zakat* in accordance with the guidelines set up in Sura al Tawba.

There are various forms of *zakat*—a *zakat* on money, on trade, on merchandise etc. A Muslim is responsible for paying *zakat al-mal* (or alms on money) equivalent to 2.5percent of his net worth if, after meeting his needs, he reaches *nisab* (possesses the equivalent of 85 grams of

gold or 600 grams of silver) for a period of one year (M. B. Ismail). There is a specific nisab for each type of *zakat* but generally Muslims calculate *zakat* as two and a half percent of their net income, which must be paid on money, merchandise, profit derived from harvest, livestock, stocks and shares, bonds and securities (El Daly, 2000:57). In addition, twenty percent of all extracted resources are subject to *zakat* after deducting the cost of extraction. There is also a compulsory *zakat al-fitr* (alms on feast) in which every Muslim who can afford to plays a *zakat* equal to the amount it costs to feeds a person in need for one day. In Egypt, the *zakat al-fitr* is between 5-8 LE (slightly more than \$1) per person and must be paid before the *eid* prayer at the end of the month of Ramadan.

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Islamic economists argue that *zakat*, while an important component of Islamic economics, cannot solve all of societies problems. Proceeds from *zakat* cannot alleviate poverty on its own and cannot be a substitute for transfer payments as part of distributive economics (Iqbal, 1986). Since *zakat* is just one component of a larger economic system, “*zakat* should not be used as an excuse for Muslim governments not to introduce other redistributive taxes, as has been the case in Saudi Arabia and the Gulf” (Wilson, 2006:116). Despite the emphasis placed by Islamic economists on the distributive justice role of *zakat*, in 1995, the proceedings from a conference held in Kuala Lumpur five years earlier were published and concluded “today’s *zakat* systems have a negligible impact on poverty alleviation” (Kuran, 2003:275). Although *zakat* aims to reduce poverty, it does not prevent the creation of a wealthy class (Benthall, 1999). Since class positions are accepted, the rich do not see their wealth as problematic and instead are content to participate in charity. In addition, *zakat* is frequently used in Islamic banking and finance as a mechanism through which to make illegitimate (fixed-interest bearing) funds legitimate, a process Benthall and Bellion-Jourdan call ‘halalization.’ Interest is sometimes siphoned from principal and then turned into *zakat*, “a process of halalization (making halal or legitimate) has arisen to religiously launder, as it were, funds deriving from illegitimate transactions. The *zakat* and halalized moneys have provided considerable recurring income for the charitable sector” (Benthall, 1999:42). Thus *zakat* is increasingly used as a way to purify financial transactions for the rich.

In an era of increased income inequality, framing *zakat* as a right of the poor and as a tool for social stability actually further legitimizes the polarization of income because, “on the one hand, it counsels the rich not to feel obligated to eradicate poverty and never to feel guilty for being well-off. On the other hand, it dampens the resentments of the poor and moderates their

demands” (Kuran, 2003:283-284). While *zakat* did work to diffuse mounting tensions in Egypt for decades, economic inequality and injustice eventually led to a massive urban uprising.

One of the key issues with *zakat* distribution is who is entitled to receive it. There are eight categories of people who are mentioned in the Quran [Surat al Tawba, 9:60] as entitled to receive *zakat*. This issue is of utmost importance because it underlies the organizational structure of charity in Egypt and defines the deserving poor. This verse is the most cited verse in the Quran with respect to *zakat* and inevitably all discussions of *zakat* return to it:

The offerings given for the sake of God are [meant] only for (1)the poor and the (2) needy, and (3) those who are in charge thereof, and (4) those whose hearts are to be won over, and for the (5) freeing of human beings from bondage, and [for] (6) those who are overburdened with debts, and [for every struggle] in (7) God’s cause, and [for] (8) the wayfarer: [this is] an ordinance from God – and God is all-knowing, wise. [9:60]

The list of eight recipients is widely interpreted as: the poor, the needy/impoverished, the administrators over *zakat* funds, recent or potential converts, the freeing of slaves or those in bondage, overburdened debtors, in the cause of God and travelers who need to return to their homes. The seventh category is the most open to interpretation and discussion because *fi sabil-Allah* literally means following the cause of Allah, or in the way of God. Traditionally, this has been interpreted as supporting *jihad* (fighting in the name of/for the protection of Islam) and funding the travel of those who cannot afford to perform the *hajj*, or pilgrimage to Mecca.

Recently some scholars have speculated that this rigid interpretation of ‘in the way of God’ is not entirely accurate-- there are many ways of working towards the cause of God, causes, they argue, that are in need of financial support in the modern era (i.e. environmental issues, human rights, refugees etc.) Today, there is a great deal of discussion about whether *zakat* can be used to contribute to other causes, such as providing support to strengthen charitable institutions, environmental organizations, healthcare services and cultural institutions. Controversially:

“Some scholars hold the phrase, ‘in the cause of Allah’ as universal; and it is not permissible to restrict it to fighters in the cause of Allah. They allow spending the *zakat* funds on every good cause; such as shrouding the dead, building bridges, forts, and mosques, training teachers, and preachers to propagate Islam, and the like thereof. It is a universal concept, which serves every purpose, which is beneficial to the community, and fulfills the concept of the words of Allah” (Abush-Shabab, 2005:20).

Struggles in the cause of Allah may include a variety of activities that aim at supporting Islam. These can include “intellectual, educational, economical, and political; just as it may be militant. All of such forms of struggle require financial support” (Abush-Shabab, 2005:21).

In my interview with Abdel Halim Omar, Director of the Saleh Kamel Center for Islamic Economics, I learned that eighty percent of the ‘*ulama*’ prefer a strict interpretation while twenty percent have argued for its opening. This issue is of such great importance because while the ‘*ulama*’ are clearly resistant to changing the meaning of *zakat*, those with political connections have been able to garner support from the Grand Mufti, who has issued *fatawa* opening up *zakat* to developmental organizations. For example, food banks, under the logic of the strict interpretation *zakat* funds, cannot be funded by *zakat* only by *sadaqa* because it is not possible to

track the recipients of the food (and determine if they are needy Muslims). In Egypt in 2003 under pressure from The Egyptian Food Bank and other organizations with government influence, a fatwa was issued that deemed it religiously acceptable to pay ones *zakat* to a food bank^{iv}.

In another act of opening up *zakat*, Mufti Nasr Farid Wasel (who succeeded Tantawi) issued a fatwa that stated contributions to the building of the new Egyptian Children's Cancer Hospital qualify as *zakat* (El Daly, 2007)^v. In 2005, '*ulama*' at the International Consultation on Islam and HIV/AIDS approved the use of funds from *zakat* for HIV-positive people in need, regardless of their religion or how they contracted the virus (Plus News). The same year the President of the Fiqh Council of North America stated:

“the efforts and activities of the Center for the Study of Islam and Democracy (CSID) fall under the category of in the cause of God (fi sabil-Allah) since the Center was created for, and is working towards, resisting the negative effects of oppression and dictatorship which dehumanize people and control their lives and destiny...Therefore it is permissible for those who need to give their *Zakat* money to spend of it to support CSID and its noble cause” (citation).

Therefore, there is at least some interest amongst notable '*ulama*' in expanding the net of activities that fall under the category of “in the cause of God.” While I have given a few examples of '*ulama*' using the flexibility of *ijtihad* to rethink the meaning of this category, the majority of individual Muslims in Egypt still prefer to err on the side caution and pay their *zakat* to categories that are uncontroversial. While it is important that the poor and needy continue to take priority for *zakat* monies, *zakat* also can be used to support problems associated with the modern era, like refugees and displaced peoples, prisoners, and to help relieve debt from overburdened microfinance recipients.

For example, the eighth category of *zakat* recipients, travelers, is being reworked in response to a growing refugee population in Egypt. A source of contention for several years now is the presence and support of refugees, resulting in several clashes between Sudanese refugees and the Egyptian police. These discussions revolve around the presence of Sudanese refugees (many of whom are Christian). Abd-Allah interprets category eight to include the sub-category of refugees (Benthall, 1999:32) but this opinion is not widely held because of debates about whether recipients of *zakat* must be Muslim.^{vi} While I have given a few examples of '*ulama*' using the flexibility of *ijtihad* to rethink the meaning of this category, the majority of individual Muslims in Egypt still prefer to err on the side caution and pay their *zakat* to categories that are uncontroversial.

Islamic scholars opinions on this topic are varied because of the practice of *ijtihad*, however, regardless of what areas one gives in, there is a responsibility to reserve a portion of ones *zakat* to the poor and the needy. Therefore, most organizations distribute primarily to the poor and needy, and there is a great deal of attention towards orphans and widows who have no breadwinner. Orphans and widows receive most of *zakat* funds in Egypt because they are the most clearly identifiable and indisputable definition of the 'deserving poor.' While *zakat* funds should continue to focus on these populations, which are quite large in the Egyptian context, the expanding interpretation of applicable uses of *zakat* demonstrates the importance role of *zakat* as only one pillar of the economic system.

Zakat is increasingly deployed in faith-based development projects that aim to “empower the poor to help themselves.” In a study of philanthropy in Egypt, El-Daly conducted interviews with scholars regarding the concept of social justice in Islam. El-Daly found several scholars who argue that income equality is not a necessity of social justice in Islam, and that “the characters and reputation of the poor people may be taken into account in deciding whether or not they deserve help” (El Daly, 2007). Recently, Egyptian Sheiks from Al-Azhar have issued *fatawa* supporting the notion that *zakat* may be used to encourage self-sufficiency among the poor, including entrepreneurship.

This fatwa had a tremendous influence in Egypt, especially upon those who are embarking on charitable projects. As a result, charity administrators have shifted their allocation of finances away from direct charitable aid towards programs that help the poor through micro-enterprise and the launching of small and medium size businesses. In interviews El Daly conducted about contemporary interpretations of *zakat*:

“Dr Hatem. El Karanshawy comments that in principal *Zakat* money could be invested in the construction of factories, as well as invested in farms and other developmental income-generating projects...in the case of industrial, commercial or agricultural projects the receivers should be shareholders and partners. This would compel them to work with more enthusiasm and hence a feeling of trust prevails and at the same time the ownership base expands...*zakat* mainly aims at enriching the poor and not simply meeting their basic needs; investing *zakat* in projects where transparency measures are applied would allow donors to follow up on their expenditures and share-holders to review the financial statement, expand their business and increase profit...the main aim is to enable them (the poor) to reach their subsistence level in order to empower them to start helping themselves forward. If, for instance, there is a merchant or a business person who is in need for equipments to undertake a project or rescue his/her business, philanthropy should aim to provide him/her with whatever equipments that enable him/her to work and make a living out of the profit. Philanthropy could take the form of providing an agrarian land to somebody, which would be a sustainable source of work and income to him/her and their families” (El Daly, 2007:205-208).

Many Egyptians, especially businessmen who are involved in charitable projects, believe that handouts should be done away with in the name of projects that create jobs. The problem with this theme, is that many of the deserving poor as defined in Sura Tawba are individuals who are unable to work or who already work but their employment still does not provide income enough to meet their basic needs. As an example of how *zakat* resources are moving towards job creation, the director of The Egyptian Food Bank told me that job creation was the most productive way to reduce poverty:

“There are so many people who are actually in need. We utilize our friends and so on that are working and leading in each area: training centers, workshops, plumbers, carpentry etc. To create

work opportunities for those who are in need in areas that need employees as well. We want to address poverty via job creation. That is why we are creating a “kisa’a factory for clothing.” You know, because of the nationalized education system no one wants to work these kinds of jobs. But there is demand for them” (Author interview, December 11, 2006).

The Nasser Social Bank, traditionally an important collector, manager and distributor of *zakat* monies, is also involved in job creation. In my interview with the head of the *zakat* arm of the bank, he told me:

“Many people have the ability to work but don’t have any means. We provide tools like air compressor machines, we’ll give him a compressor for 1000 LE, leave him 3 months to profit, and then take half of daily profits as payment towards the 1000 LE. The goal is to increase employment.” (Author interview, September 26, 2006).

Many of the charity administrators I spoke to would like to see *zakat* funds shift away from charity handouts (which is thought to make the poor lazy and dependent) and towards projects that employ the poor, encouraging them to become responsible and self-sufficient. I believe these efforts are better geared towards reforming *sadaqa* because there are still so many individuals traditionally justified as *zakat* recipients who are in need. Rather than see direct handout as somehow counter to the project of developing Egypt, I believe it is a necessary part of a holistic Islamic economic approach to poverty alleviation.

Sadaqa

Sadaqa is translated as “benevolence” and it is the wider umbrella of charity under which *zakat*, *qard hasan* and *sadaqa jariya* (sustainable giving) each fall. It is an act of personal devotion and piety; giving purifies the giver when performed with the sole intention of serving Allah. According to the Quran (34:39; 2:271; and 2:272), charity should be given for the sake of God and will be repaid bountifully. The main difference between *zakat* and *sadaqa* is that *zakat* is obligatory while *sadaqa* usually refers to *sadaqa tatawwu`iyya* (voluntary charity). It has many of the same purposes as *zakat*, mainly to achieve social solidarity, social cohesion and to strengthen the sense of unity and brotherhood between Muslims (Omar, 2006).

Sadaqa can take many different forms, material and non-material. According to hadith, every good deed is a form of *sadaqa*; a kind word and a smile are both considered forms of *sadaqa* (hadith ibn al Hambal 8856 cited in Omar, 2006); the best form of *sadaqa* is to pass on knowledge (according to hadith from the source ibn al Majeh 91/1 number 1844). *Sadaqa* is often performed through voluntary work, in kind contributions and providing free services, and can go to anyone; there are no specific groups designated as recipients. However since most charitable organizations in Egypt are set up on the basis of *zakat*, the spending priorities tend to be in line with *zakat* categories.

Since *sadaqa* is much more general and open, it has recently been explored in Egypt as a way to extend Islamic NGO work into more development oriented approaches, including support for non-poverty related policies like art or environmental protection. In addition, it has been utilized as a means of reviving volunteerism, especially among pious youth. *Sadaqa* has become a popular way of articulating one’s piety, and voluntary charity has experienced a revival amongst the middle and upper classes. Business leaders are playing an important role in

managing the transition away from state-dominated models of governance. According to Bremer:

“A class of institutions that collect and channel *zakat* (religious charitable contributions) is emerging as a new form of indigenous, ‘mass’ or ‘community self-help’ charity. Some of these new institutions function as grant-making foundations, some as operating foundations supporting their own social services, some as what in the West would be seen as ‘social venturing’ or ‘social entrepreneurship,’ investing in for-profit and some integrate both functions” (Bremer, 2004:5).

A reworking of *sadaqa* is apparent in the desire among organizations to see a centralized distribution of funds that would allow organizations to check that individuals are really worthy of aid and were not receiving aid from every organization in town. For example, the leader of the Egyptian Food Bank was a key advocate for networking. He told me, “We want to study the state of organizations, develop criteria for organizations working in a particular area and then create a framework in which they can cooperate. This includes having common storage, databases and a computer network to insure that aid recipients are not taking from multiple organizations” (Author interview, December 11, 2006). In Nasr City, twenty-five mosques have collaborated to establish a database of aid recipients. The purpose of the database is to establish a system that verifies how much aid a recipient is receiving and prevent resourceful individuals from working the system and receiving more aid than they ‘deserve.’ Numerous other informants indicated that they hoped a citywide system could be established to ensure that aid reached the most deserving recipients. Interviewees stated that they wished to help individuals get their own projects up and running, but hoped that eventually, those aided would become givers of charity rather than recipients. Many organizations were very proud of their ability to turn recipients into givers. In my interview at Iktar Osra, a founder told me,

“We turn recipients into givers, and we have sixty children who were once recipients now giving. An example of a recipient who now gives is a doctor, once he got his degree and his sister got married, they sent back the money as a thank you to another family” (Author interview, December 10, 2006).

Many organizations use money collected as *sadaqa* from families to support income-generating projects, small and medium enterprise development, social entrepreneurship and cultural institutions.

Qard hasan

Another form of *sadaqa* is *qard hasan*, which means beneficial/benevolent loan, gratuitous loan. It is an interest free loan returned to the lender after the end of an agreed period. (Hossain, :2). It is mentioned several times in the Quran, where it is indicated that Allah rewards this loan in multiples (see 2:245; 64:17).

There are hadith supporting the importance of *qard hasan*, from Ibn Hisham and Ibn Majah,

“It is reported that the Prophet (saw) said, ‘in the night of the journey, I saw on the gate of heaven written, ‘reward for sadakah is ten times and reward for qard al-hasan is eighteen times. So, I asked the angel, how is it possible? The angel replied, ‘because a

beggar who asked had already had something but a borrower did not ask for a loan unless he was in need” (hadith from ibn Haisham and ibn Majah cited in Omar, 2006).

Increasingly, *sadaqa* is being utilized to finance micro-enterprise and micro-finance, although these are frequently pursued in place of *qard hasan*. Several Islamic economists and several of my informants believe in the compatibility of Islamic finance, micro-credit and micro-enterprise lending.^{vii} Instead, these organizations typically provide sewing machines, cattle, sheep, and artisan tools to support the poor in their projects. Capital, tools, training, businesses services, etc. are provided to the poor to help them begin and sustain their own enterprises. Many feel more comfortable providing tools rather than cash. In my interview with the public relations representative of a large Egyptian charity, Dar Al-Orman, he explained that they were involved in *qard hasan*,

“We provide *qard hasan* to women in rural areas, we give them 180 LE/ month for 6 months so they can try and sell their goods that they are producing. We have also distributed over 9500 cows in Upper Egypt. We give loans of 100 LE to help farmers buy supplies, they then pay it back interest free at 20 LE a month” (Author interview, December 9, 2006).

In my interview with a leading foundation manager he commented that he found *qard hasan* to be cumbersome to implement and preferred handouts or in-kind tools. He said, “we thought about implementing *qard hasan* but decided against it. We found it would be very difficult and expensive to administer, to track and follow up on the borrowers, to guarantee the loans in an Islamic way, and we didn’t actually like the idea of loan guarantees that put the persons livelihood at risk” (Author interview, September 20, 2006).

Microfinance has spread across the world as the newest iteration of development ideology. It has also become popular in Egypt and recently efforts have been centralized through the Social Fund for Development. Microfinance has taken the place of *qard hasan* in many ways. Over the past four years, Islamic economists have suggested that returns from awqaf and *sadaqa* could be used to finance microfinance institutions (MFIs) (Ahmed, 2007). Habib Ahmed, a World Bank economist, advocates for Islamic banks as more efficient (lower cost) means of microfinancing and for the integration of *zakat* and *sadaqa* into microfinance programs (Ahmed, 2007). As part of his promotion of Islamic MFIs, Ahmed argues that a *takaful* reserve could help insure payback—a *takaful* reserve could be “created by small weekly/monthly contributions from the beneficiaries. This *takaful* reserve would be used to support beneficiaries who are unable to pay their dues on time due to some unexpected problems like natural calamity or death in the family” (Ahmed, 2007). The meaning of *takaful* has morphed from a notion of social solidarity to a way of providing Islamic insurance.

Many Islamic organizations have begun to make connections between the traditional concept of *qard hasan* and the contemporary practices of micro-finance lending. Islamic banks are expressing a momentous interest in expanding into micro-finance, becoming “agents for development” alongside NGOs (Benthall, 1999:43). Microfinance then, represents the nexus between “the world of business and profit and the world of social solidarity and altruism” (Benthall, 1999:43). These developments highlight the compatibility of microfinance with Islamic practices, turning a blind eye to the fact that most microfinance institutions are actually for-profit—that is profiting by providing the poor with access to credit.

The success of the micro-finance program supports the interest free program. A conference I attended on Islamic solutions to poverty sparked my interest in *qard hasan* (interest-free loans) and I began to ask around extensively about organizations that worked in this area. Microfinance had become a popular development project, particularly among international organizations, but I had trouble finding organizations that actually provided interest-free cash loans. It seemed that many Islamic organizations that were once involved in *qard hasan*, had transferred their program into providing in-kind tools that would enable someone to work, rather than giving them a cash loan. Once the recipient was up and running, they would return the tool to the organization that gave it to them or pass it along to another person in their neighborhood (like the example from Mustafa Mahmud). In light of a 2002 fatwa issued by Egypt's grand Mufti Sheikh Mohamed Tantawi indicating that fixed interest rates, historically deemed forbidden in Islam, were indeed acceptable, many Islamic organizations have transitioned their loans to interest-bearing microfinance.^{viii}

Ahmed also suggests that murabaha principles can be used to sell tools to the needy similar to a 'rent to own' scheme. He gives an example;

“If a client wants to buy a rickshaw, the Islamic MFI can purchase it and sell it to the client at a markup. The client then pays the price on an agreed installment plan. Alternatively, hire-purchase arrangement can be made in which the client pays rent plus a part of the capital in his installments. Once the installments are fully paid, the client becomes the owner of the rickshaw” (Ahmed, 2007).

Replacing *qard hasan* with murabaha and *ijara* (leasing), are ways of reducing the risk or “moral hazard” of a loan because the asset/good exchange occurs rather than a cash exchange. This decreases the likelihood of diversion of funds and risk of default and therefore increases profitability (Ahmed, 2007). *Qard hasan* and investments are seen as riskier and less profitable forms of microfinance activity. Recently the IBF sector has expressed an interest in microfinance. In a World Bank paper arguing for the usage of *waqf* in microfinance, Ahmed states:

“The social role of the Islamic financial sector can be best exemplified by providing finance to the poor so as to increase their income and wealth. Specialized poverty focused FIs provide much needed finance to microentrepreneurs resulting in the increase of their income levels and wealth. MFIs innovative group-based format introduces a social collateral minimizing the credit risks and ensuring high recovery rates.... Contemporary Islamic finance however has been largely disengaged from microfinance” (Ahmed, 2007).

To address this lack of involvement, those involved in a 10-year master plan for the Islamic Financial Industry, made Microfinance the 2007 forum's theme (Ahmed, 2007). In light of this development, microfinance lending has become virtually synonymous with *qard hasan* in many communities, despite the fact that these loans are now profit-generating for microfinancers, which would technically make them illegitimate under Islamic law. Wilson documents the emergence of microfinance in Egypt as part of the transition in the role of charities:

“As Egypt’s 14,738 non-governmental organizations (NGOs) have been encouraged by the government to shift from being charities to providers of micro-finance, the Nasser Social Bank is seen as playing a role, through both co-funding and by setting an example through its own financing methods” (Wilson, 2006:148).

One final example of *qard hasan* being used to support the poor through projects like skill-upgrading, microenterprise development and microloans is the work of the association called Dar al Orman. It has 16 chapters, 620 employees, 5000 volunteers and over 15,000 projects in Upper Egypt alone. Two influential businesspeople, Ahmed Al-Qabbany, and Dr. Khaled el-Noury, partners of the successful metal and aluminum works company, Qabnoury, founded the organization in 1985 with a professor named Magdy Badran. Although the organization is most known for its orphan care, it moved towards development projects including a micro-enterprise program called “the small farmer,” a *qard al-hassan* or benevolent loan program, a vocational training program and a rural development project called “organization for every village.”

Ahmed, the organizations’ public relations specialist explained the rationale for the transition:

“Around 1993, we started to limit hand-outs and to focus on getting small project off the ground, giving out cows, getting kiosks started, training women to sew or do tricot. Lots of activities...You know the Chinese proverb, “don’t give a man a fish, teach him how to fish?” The idea then is to get some kind of income going for them...That’s the only way to deal with social problems from the root, income generation is the major goal of these initiatives.” (author interview, 12/9/06)

He described “the small farmer” program as a microenterprise building initiative that helps individuals in rural areas start income-generating projects, be it a *koshk* (street kiosk), a phone and copy shop, or a café. Ahmed shared some stories of success, for example “a young man in Minya that we helped turn a *koshk* into a supermarket, enabling him to become a donor of *zakat* rather than a recipient.” The *qard al-hassan* program focuses on small loans of 180 LE to poor rural women over a six-month period that they use to produce arts and crafts. By selling the goods that they produce, the women can improve their income generation; under the same banner, the organization supplied micro-loans to farmers to help them buy supplies. The farmers or women are expected to pay back the loans interest-fee at 20 LE a month. In addition to cash loans, Al-Orman has an income-generating program for farmers who are provided livestock. Ahmed described some indicators of income generating success; the typical cow project generates income for the farmer of 350 LE a month, while kiosks create revenue between 450-600 LE a month. This model of development sees the poor as simply lacking the skills or financial resources to be successful. In this way, *qard hassan* is being used to promote an Islamic version of microfinance and microenterprise development, two of the most widely-promoted development initiatives around the globe.

Conclusion

This paper has explored the ways in which various aspects of an Islamic economic system are being mobilized in Egypt as part of poverty alleviation schemes. While there is little coordination among these practices, there are interesting developments in the use of Islamic economic practices to become part of the larger project of development in Egypt. *Zakat*, an important mechanism for social stability and for ensuring the poor meet their needs, is being expanded to address contemporary issues of great importance including refugees, diseases, hunger and microfinance debt as well as ways to purify Islamic banking and finance transactions. Still, given the huge number of *zakat* committees and organizations collecting and distributing *zakat* funds, the practice is underutilized and threatened by an overly wide dispersal of funds. *Sadaqa* is better positioned for use towards projects like job creation and income-generating development projects. *Sadaqa* has grown in Egypt as more businessmen give *sadaqa* to purify their wealth but the practice has also experienced a revival in terms of volunteerism and in-kind donations. *Qard hasan* has been reinterpreted and practiced as the Islamic response to microfinance and microenterprise industries, although the success of this response may be threatened by the trend towards conventional microfinance schemes that create excessive debt by charging interest and orienting towards profit generation. It has however, offered an alternative to microfinance as an industry and the Islamic microfinance industry is still in its infancy. Despite exciting developments in *zakat*, *qard hasan*, and *sadaqa* as individual practice, there is much work remaining in terms of putting these pieces back into a holistic system to address social economic problems.

Notes

ⁱ <http://data.worldbank.org/country/egypt-arab-republic>

ⁱⁱ This paper draws heavily upon sections of my previous work (Atia, 2008).

ⁱⁱⁱ This is an important cultural factor in Egypt, as the act of giving money is a secret act not to be flaunted, making it very difficult to talk to individuals about their giving practices, even as a researcher.

^{iv} <http://www.dar-alifta.org/ViewFatwa.aspx?ID=316&text=zakat> For further discussion of this fatwa's made by Ali Gomaa please see the discussion of Bank Al-Ta'am in chapter four.

^v <http://www.dar-alifta.org/ViewFatwa.aspx?ID=509&text=zakat>

^{vi} <http://www.dar-alifta.org/ViewFatwa.aspx?ID=55&text=zakat>

^{vii} The issue of Islamic microfinance has been gaining momentum since 2006. In 2007, the Islamic Finance Project at Harvard held a workshop entitled "Financing the Poor: Towards an Islamic Microfinance" in which several attendees, including Baber Johansen of Harvard Law School and Aamir Rehman of HSCBC Ammanh, advocated for an Islamic microfinance alternative. Other Islamic economists that support the idea include Mohamed Abdel Halim Omar of the Saleh Kamel Center for Islamic Economics in Cairo and Habib Ahmed and Mohammed Obaidullah of the Islamic Development Bank in Jeddah. In my discussions with Dr. Heba Raoff-Ezzat, Professor of Sociology at Cairo University and an instructor at the American University in Cairo, she told me "Nasser Social Bank was doing microcredit even before the Grameen Bank" (Author interview, February 16, 2006). Also, the fund manager of Faisal Zakat Fund (of the Faisal Islamic Bank) told me: "there are also people who want to use their zakat to donate to microfinance and vocational training centers." (Author interview, May 22, 2006). Amani Kandil,

Director of the Arab Network for NGOs told me that over 2000 of the 3800 organizations in her database related to Egypt say they do microfinance but that she has no data on their actual activities.

^{viii} Microfinance has become a big business in Cairo, much like other parts of the Global South. See (Elyachar, 2005; Elyachar, 2006; S. Ismail, 2006) For discussions of microfinance in other contexts, see (Briggs, 2001; Kabeer, 2000; Rankin, 2001).

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