



المعهد الإسلامي للبحث والتدريب  
ISLAMIC RESEARCH AND TRAINING INSTITUTE  
A MEMBER OF THE ISLAMIC DEVELOPMENT BANK GROUP  
INSTITUT ISLAMIQUE DE RECHERCHE ET DE FORMATION  
MEMBRE DU GROUPE DE LA BANQUE ISLAMIQUE DE DEVELOPPEMENT

# ISLAMIC SOCIAL FINANCE REPORT 2020

1441H / 2020G



ISLAMIC RESEARCH AND TRAINING INSTITUTE  
A MEMBER OF THE ISLAMIC DEVELOPMENT BANK GROUP

IsDB   
البنك الإسلامي للتنمية  
Islamic Development Bank

© Islamic Research and Training Institute, Islamic Development Bank, 2020

All rights reserved. No part of this publication may be reproduced, stored in a retrieval system or transmitted in any form or by any means, electronic, mechanical, photocopied, recorded, or otherwise, without the prior written permission of the copyright holder, except for reference and citation, with proper acknowledgment.

#### DISCLAIMER

This work is a product of the staff of the Islamic Research and Training Institute (IRTI) with external contributions. The findings, interpretations, and conclusions expressed in this work do not necessarily reflect the views of IRTI or IsDB, or IsDB Board of Executive Directors. IRTI does not guarantee the accuracy of the data included in this work. Content of this report is intended to provide general information only and as such should not be considered as legal or professional advice.

# TABLE OF CONTENTS

FOREWORD .....	1
ACKNOWLEDGEMENT .....	3
1.0 EXECUTIVE SUMMARY .....	5
2.0 REGION UNDER FOCUS .....	15
2.1. Trends in Economic Aggregates .....	16
2.1.1 Economic Growth .....	17
2.1.2. Structure of Economies.....	19
2.1.3. Unemployment.....	20
2.1.4. Inflation.....	22
2.1.5. Savings and Investments .....	23
2.1.6. Income Distribution.....	25
2.1.7. Incidence of Poverty .....	26
2.2. Potential of Islamic Social Finance .....	28
2.2.1. Estimating the Resource Gap for Poverty Alleviation.....	28

2.2.2. Estimation of potential resources from Zakāh .....	28
<b>3.0 ZAKĀH .....</b>	<b>31</b>
<b>3.1. Algeria .....</b>	<b>31</b>
3.1.1. Overview of the Sector .....	31
3.1.2. Regulatory & Policy Framework .....	31
3.1.2.1. Institutional and Supporting Infrastructure .....	32
3.1.3. Zakāh Collection & Disbursement .....	34
3.1.3.1. Transparency, Accountability & Good Governance .....	38
<b>3.2 Libya .....</b>	<b>42</b>
3.2.1 Overview of the Sector .....	42
3.2.2 Regulatory & Policy Framework .....	42
3.2.2.1 Institutional Structure .....	43
3.2.2.2 Supporting Infrastructure .....	45
3.3.3 Zakāh Collection & Distribution.....	45
3.2.4 Transparency, Accountability & Good Governance .....	48
3.2.5 Strategic Analysis & Recommendations.....	49
<b>3.3 Mauritania .....</b>	<b>52</b>
3.3.1 Overview of the Sector .....	52
3.3.2 Regulatory and Policy Framework .....	52
3.3.2.1 Institutional Structure .....	52

3.3.3.2 Supporting Infrastructure.....	54
3.3.4 Transparency, Accountability & Good Governance .....	54
3.3.5 Strategic Analysis & Recommendations.....	54
<b>3.4 Morocco .....</b>	<b>55</b>
3.4.1 Overview of the Sector .....	55
3.4.2 Regulatory & Policy Framework.....	56
3.4.2.1 Institutional structure & Supporting infrastructure .....	58
3.4.3 Zakāh Collection & Disbursement .....	59
3.4.4 Transparency, Accountability & Governance .....	60
3.4.5 Strategic Analysis & Recommendations.....	61
<b>3.5 Tunisia .....</b>	<b>64</b>
3.5.1 Overview of the Sector .....	64
3.5.2 Regulatory & Policy Framework.....	64
3.5.2.1 Institutional Structure .....	65
3.5.2.1 Supporting Infrastructure.....	67
3.5.3 Zakāh Collection & Disbursement .....	68
3.5.4 Transparency, Accountability & Good Governance .....	69
3.5.5 Strategic Analysis & Recommendations.....	70
<b>3.6 Success Stories &amp; Good Practices .....</b>	<b>72</b>
3.6.1 Zakāh Fund, Libya .....	72

3.6.2 Tunisian Association of Zakāh Sciences, Tunisia.....	74
<b>4.0 AWQĀF .....</b>	<b>79</b>
<b>4.1 Algeria .....</b>	<b>79</b>
4.1.1 Overview of the Sector .....	79
4.1.2 Regulatory & Policy Framework.....	80
4.1.2.1 Institutional Structure .....	82
4.1.3. Creation, Preservation & Development.....	83
4.1.4 Transparency, Accountability & Good Governance .....	84
4.1.5 Strategic Analysis & Recommendations.....	84
<b>4.2 Libya .....</b>	<b>86</b>
4.2.1 Overview of the Sector .....	86
4.2.2 Regulatory & Policy Framework.....	89
4.2.2.1 Institutional Structure .....	89
4.2.2.2 Supporting Infrastructure .....	90
4.2.3 Creation, Preservation & Development.....	90
4. 2.4 Transparency, Accountability & Good Governance .....	91
4.2.5 Strategic Analysis & Recommendations.....	92
<b>4.3 Mauritania .....</b>	<b>95</b>
4.3.1 Overview of the Sector .....	95
4.3.2. Regulatory & Policy Framework.....	95

4.3.2.1 Institutional Structure .....	97
4.3.2.2 Supporting Infrastructure .....	98
4.3.3 Creation, Preservation & Development .....	98
4.3.4 Transparency, Accountability & Good Governance .....	98
4.3.5 Strategic Analysis & Recommendations.....	99
<b>4.4 Morocco .....</b>	<b>101</b>
4.4.1 Overview of the sector.....	101
4.4.2 Regulatory & policy framework.....	104
4.4.2.1 Institutional structure.....	108
4.4.2.2 Supporting infrastructure.....	109
4.4.3 Creation, Preservation & Development .....	109
4.4.4 Transparency, Accountability & Good Governance .....	111
4.4.5 Strategic Analysis & Recommendations.....	115
<b>4.5 Tunisia .....</b>	<b>117</b>
4.5.1 Overview of the Sector .....	117
4.5.2 Regulatory & Policy framework .....	118
4.5.2.1 Institutional structure.....	119
4.5.2.2 Supporting infrastructure.....	120
4.5.3 Creation, Preservation & Development.....	121
4.5.4 Transparency, Accountability and Good Governance.....	121

4.5.6 Strategic Analysis and Recommendations .....	121
<b>5.0 ISLAMIC MICROFINANCE .....</b>	<b>125</b>
<b>5.1 Algeria .....</b>	<b>125</b>
5.1.1 Sector Overview .....	125
5.1.2 Legal framework and Microfinance policies.....	125
5.1.3 Islamic Microfinance Initiatives.....	127
5.1.4 Strategic Analysis and Recommendations .....	128
<b>5.2 Libya .....</b>	<b>130</b>
5.2.1 Overview of the Sector .....	130
5.2.2 Microfinance Legal & Policy Framework .....	130
5.2.4 Strategic Analysis & Recommendations.....	138
<b>5.3 Mauritania .....</b>	<b>141</b>
5.3.1 Overview of the Sector .....	141
5.3.2 Microfinance Regulatory & Policy Framework .....	142
5.3.4 Islamic Microfinance Initiatives .....	145
5.3.4.1 Microfinance institutions .....	145
5.5.4.2 Charitable Associations .....	146
5.3.5 Strategic Analysis & Recommendations.....	147
<b>5.4 Morocco .....</b>	<b>148</b>
5.4.1 Overview of the Sector .....	148



5.4.2 Microfinance Regulatory & Policy Framework .....	149
5.4.2.1 At Micro level .....	149
5.4.2.2 At Macro level .....	151
5.4.2.3 At Meso level .....	151
5.4.3 Islamic Microfinance Initiatives.....	154
5.4.4 Islamic crowdfunding or collaborative financing .....	155
5.4.4 Strategic Analysis & Recommendations.....	157
<b>5.5 Tunisia .....</b>	<b>159</b>
5.5.1 Overview of the Sector .....	159
5.5.2 Microfinance Policy & Regulatory Framework .....	161
5.5.3 Islamic Microfinance Initiatives.....	163
5.2.3.1 Qarḍ Ḥasan Pinancing Program and YESP (YES-Tu) .....	163
5.2.3.2 Zitouna Tamkeen (ZT) .....	165
5.5.5 Strategic Analysis and Recommendations .....	166
<b>5.6 Success Stories &amp; Good Practices .....</b>	<b>169</b>
5.6.1 Zitouna Tamkeen, Tunisia.....	169
5.6.2 Al-Baraka Bank of Algeria Microfinance Experience, Algeria .....	174
5.6.3 “4US” Management Information System (MIS), Morocco .....	178





***IRTI launched the maiden issue of ISFR in February 2014. Globally, it was the first ever publication to use the term “Islamic social finance” to describe the Islamic philanthropy-based and not-for-profit sector. The report, focusing on the zakāh, awqāf and microfinance institutions in South and South-East Asia brought to the fore some interesting facts.***

## FOREWORD

Islamic finance has steadily evolved over the last several decades with the spotlight shifting from Islamic commercial banking, insurance, investment funds and financial markets to Islamic social finance. However, the focus has often remained on the former, the for-profit segments of the Islamic economy. Studies and estimates for the Islamic financial services sector have traditionally excluded the Islamic social, philanthropy-driven and not-for-profit segments and focused on Islamic banks accounting for nearly 80 percent of global Islamic financial industry assets. The other components under focus include: sukuk (15 percent), Islamic investment funds (4 percent) and Islamic insurance (1 percent). A steady double-digit growth in these sectors has also resulted in Islamic finance maturing as a discipline, with a proliferation in the number of teaching and research programs across the globe focusing on Islamic commercial banking, Islamic funds, sukuk, Islamic capital markets and takaful.

The Islamic Research and Training Institute (IRTI) of the Islamic Development Bank Group, however, noted quite early that there has been a gross imbalance in resources committed to research and documentation relating to the Islamic social, philanthropy-based and not-for-profit sector. There were not many initiatives around to strengthen and mainstream this component of the Islamic financial services sector. The concern about this imbalance led IRTI to embark on a multi-year project that resulted in publication of the annual Islamic Social Finance Reports (ISFR). IRTI launched the maiden issue of ISFR in February 2014. Globally, it was the first ever publication to use the term “Islamic social finance” to describe the Islamic philanthropy-based and not-for-profit sector. The report, focusing on the zakāh, awqāf and microfinance institutions in South and South-East Asia brought to the fore some interesting facts. A small upward push in zakāh and

waqf mobilization in many countries could generate enough funds to meet the resources gap for poverty eradication. Such resource raising was also a clear possibility because countries that were proactive in reforming their respective Islamic social finance sectors were also the ones with steady double-digit growth rates in the flow of social funds.

Soon, IRTI's pioneering efforts in underlining the significance of Islamic social finance led to a number of forums, seminars and conferences being organized around the theme. In a meeting of the Governors of Central Banks and Monetary Authorities of the OIC Member States, in Surabaya, Indonesia on 6 November 2014, the OIC Secretary General called for the rejuvenation of Islamic social finance (i.e. zakāh and waqf) for the purpose of mobilizing adequate resources to address the problems of financial exclusion, poverty and unemployment among the vulnerable groups of population in OIC Member Countries. Based on the deliberations, the meeting adopted its Final Communiqué containing a set of recommendations to further increase intra-OIC cooperation in this domain.

The second issue of ISFR released in March 2015 contributed further to bridging the information gap relating to the sector. It focused on zakāh, awqāf and not-for-profit microfinance sectors in selected countries in Sub-Saharan countries, such as, Sudan, Nigeria, Kenya, Tanzania, Uganda, Mauritius, and South Africa. And in October 2017, the third issue of ISFR was released. This issue of the report analyzed the Islamic social finance sector in the Russian Federation, Kazakhstan, Kyrgyzstan, Tajikistan, Bosnia and Herzegovina, and Macedonia.

IRTI, as part of its flagship research and publications program, has dedicated significant resources to publication in the field of Islamic social finance. Since inception, IRTI has produced as many as 26 books and monographs and 30 policy/working papers relating to zakāh, awqāf and Islamic microfinance in multiple languages.

Indeed, due to the pioneering efforts of IRTI, Islamic social finance is now firmly etched as the new paradigm that reflects the objective and spirit of Islam, perhaps far better than the for-profit financial institutions and markets. To this end, IRTI embarked on producing the annual Islamic Social Finance Reports. The present Report focuses on the north-west African countries of Algeria, Libya, Mauritania, Morocco, and Tunisia.

The Report was prepared by a team comprising of researchers from IRTI led by Dr. Mohammed Obaidullah with support from regional experts who have painstakingly collected and analyzed data pertaining to the sector. They used a variety of means including personal visits and focus group discussions involving key stakeholders in the sector. Let me take this opportunity to congratulate the team for producing an excellent piece of work. At the same time, let me also invite you to share your feedback on how to further enhance its value to the research community.

**Dr. Sami Al-Suwailem**

Acting Director General, IRTI



***The Report has benefited from the comments of and presentations by several scholars and representatives of Islamic organizations from the region under focus. Most of them actively participated in the preparatory events for the study. One such event is worth mentioning. IRTI organized a preparatory workshop in Tunis inviting over two dozen scholars and professionals from the region who discussed the findings of the Report in detail.***

## ACKNOWLEDGEMENT

This issue of the Islamic Social Finance Report focuses on the north-west Africa. This is in continuation of the earlier issues focusing on countries in South and South East Asia, Sub-Saharan Africa, Russian federation and selected countries in the Central Asia and the Balkan region. The Report has benefited from the comments of and presentations by several scholars and representatives of Islamic organizations from the region under focus. Most of them actively participated in the preparatory events for the study. One such event is worth mentioning. IRTI organized a preparatory workshop in Tunis inviting over two dozen scholars and professionals from the region who discussed the findings of the Report in detail.

A team of researchers from IRTI supported by external experts from the region under focus jointly contributed to this study on the Islamic social finance sector. Dr Nasim Shah Shirazi, Professor at the College of Islamic Studies, Hamad bin Khalif University deserves special mention for authoring Chapter 2 of this report on the economic fundamentals of the region under focus. The team of external experts was led by Mazen Dakhli and comprised of Adel Enpaya, Mounir Tlili, Habib Lacheb, Ali Said, Aymen Doghri, Younes Boubechtoula, Hichem Boukharrouba, Monsef Bentaibi, Adil Zarfi, Yasser Bentaibi, Zakaria Kharchaf and Mohamed Cheikh Abdallahi. The contribution of the Tunisian Association for the Zakāh Sciences is also humbly acknowledged. Finally, I would like to acknowledge the support of the Islamic Financial Sector Department of the IsDB in co-organizing the Validation Workshop which contributed to the updating of the data in significant measure.

We are much beholden to all who have contributed to this study and look forward to receiving their continued support as we move forward.

**Mohammed Obaidullah**  
Project Leader



# 01

# EXECUTIVE SUMMARY

The Islamic social finance sector broadly comprises of the traditional Islamic institutions based on philanthropy e.g. zakāh, ṣadaqah and awqāf; those based on cooperation e.g. qarḍ and kafālah; and the contemporary Islamic microfinance institutions that aim at making a dent in poverty. This issue of the Islamic Social Finance Report (ISFR) presents the trends, challenges and prospects for the various segments of the Islamic social finance sector in north-west African countries, namely Algeria, Libya, Mauritania, Morocco and Tunisia.

The study involved careful collection and analysis of data and information pertaining to legal and regulatory frameworks as well as good and bad practices at macro, meso and micro levels. Attempts to collect, analyze, collate and interpret data involved personal visits to key stakeholder organizations, e.g. ministries of religious affairs, central banks, apex regulatory bodies, networks and associations, and major private organizations. Methods of data collection involved interviews, focus group discussions and workshops. Some of the collected data may appear not quite up to date (e.g., last data point relating to 2016-17). However, this is the most recent data officially available, or data that could be compiled given the many constraints. Before the key findings of the study are presented, some recent developments pertaining to the countries need to be highlighted.



**Algeria** has well established institutions of zakāh and awqāf. However, the local researchers were not very successful in collecting and collating the relevant data. From an Islamic microfinance perspective, it is important to note that the legal framework for Islamic banking has recently been introduced in the country, even while several Islamic financial institutions have been operating there for decades.

**Libya** has been in a state of war for many years now. Yet, it seems that there is progress happening on the ground and the country has well-established zakāh and awqāf institutions. Furthermore, the country saw the inception of the first Islamic microfinance institution - Namaa Tamweel - by the Assaray Trade and Investment Bank (ATIB). The local researcher for this study was not able to provide additional inputs due to difficult war conditions.

**Mauritania** recently introduced an Islamic Banking legislation which may have far-reaching consequences for Islamic microfinance in the country.

**Morocco** has perhaps one of the most developed awqāf and microfinance sectors in the region. While it has not witnessed any major changes in the zakāh and awqāf sectors in recent times, the introduction of crowdfunding legal framework supporting Islamic finance transactions stands out as a major development from Islamic microfinance perspective.

In **Tunisia**, there is neither any zakāh and awqāf institution, nor a “clear” regulatory framework related to Islamic social finance. A bill to institute a Zakāh Fund was recently presented but was rejected by the legislature.

Notwithstanding the major constraints highlighted above, the data that could finally be collected were invaluable and provided the researchers with excellent insights into the inter-country differences in practices. The following observations have serious policy implications and therefore, may form the basis of further research and policy dialogue.

The following are the major findings in relation to the zakāh sector.

- Worsening social inequality and the governments’ need for additional financial resources in the region have created great opportunities for the zakāh and waqf institutions. This is further strengthened by advocacy and requests from a large part of the civil society to develop the sector.
- The existence of a dedicated law of zakāh has a significant positive impact on the efficiency of the zakāh management in a country. This is witnessed in countries like Algeria and Libya (even in a state of on-going war). There is a move for the same in Mauritania as well as in Tunisia. Draft laws that specify the methods of collecting and disbursing zakāh are already in place.
- A dedicated law of zakāh should ideally lead to a functional Zakāh Fund. A well-performing Zakāh Fund (as in Algeria and Libya) is characterized by good organization and proper coordination. This, however, may not always be the case. Morocco has witnessed an inexplicable gap between formulation of zakāh law and implementation of a proper zakāh organization.





- It is felt that while dedicated laws are needed, these need not to be rigid too. For instance, it is observed that the Libyan Zakāh Fund recorded financial surplus at the end of each financial year due to such rigidity. The rates of zakāh distributions are defined in Libyan law and cannot be violated. This is often contrary to the economic and living conditions. Too many laws, regulations and fatāwa may restrict and complicate the work of a Zakāh Fund.
- An efficient Zakāh Fund is usually accompanied by a high level of community awareness of the importance of zakāh. The Fund proactively engages in enhancing community awareness and involvement. It usually seeks to establish a database of zakāh payers and beneficiaries. However, the Zakāh Funds in this region are yet to introduce technology for creation and management of such databases, or for documentation and dissemination of the working results of the Funds.
- The importance of human resource development for the zakāh sector can hardly be overemphasized. While some zakāh institutions (e.g., in Algeria and Libya) have highly professional staff, there is a serious dearth of talent that needs to be urgently addressed. Also, there is a dearth of university programs for the development of qualified specialists in the field of zakāh. Moreover, there is a significant need to promote scientific research in the field of zakāh. More researches, discussions, and studies are needed with Sharī'ah Committees of the Funds and Fatwa issuing authorities. More attention must be given to jurisprudence of the various zakāh issues, with regard to the inclusion of some segments of those entitled to zakāh in the eight categories (e.g., Sabeel Allah

and Ibn Sabeel)<sup>1</sup>. In the absence of such research, training and capacity building, the sector faces roadblocks created by officials trained in Western countries and vested interests.

- The existence of an Islamic financial system – Islamic banks, insurance companies – or the establishment of Islamic banks for many zakāh payers has a clear salutary effect on the zakāh system (as in Algeria, Mauritania). Islamic financial institutions can provide payment systems for zakāh in such countries.
- There is an absence of any preferential provision for zakāh in the existing tax system even in countries with well-developed Zakāh Fund (e.g. in Algeria, Libya, Mauritania). Indeed, the zakāh system should be integrated with the tax system to put to rest any fear of creating additional burden on the citizens.
- There is grave need for proper coordination and communication between the Zakāh Fund and other state institutions, such as the social security fund, ministry of social affairs and the wealth distribution fund, to avoid duplication in payment of financial aid to beneficiaries. This also underscores the need for a unified and commonly-shared database between the Zakāh Fund and the aforementioned institutions. Zakāh funds are also not well-integrated

with other forms of Islamic finance such as waqf and Islamic microfinance.

- There is a dire need for a national policy and campaigns for zakāh collection and distribution. Such a national zakāh policy with relevant strategies should identify sectors to be exempted, study the components of the national economy for better allocation of zakāh, incentivize payment of zakāh, promote zakāh at important religious and national events and build awareness about enhanced role of zakāh.
- Even in countries with an official Zakāh Fund, a large chunk of zakāh is still given by payers individually, away from official channels. This is perhaps due to a trust-deficit or lack of confidence in the zakāh management system among a section of zakāh payers.

**The following are the major findings in relation to the waqf sector.**

- The institution of waqf in the Maghreb has a rich and long history spanning many centuries. Over the ages, it has played an active role in the cultural construction of the society through its contributions to the social, economic, political and even environmental sectors. It has contributed to the provision of stable resources to provide public services and social institutions with the necessary tools to meet the needs of the communities. It has helped reduce stratification among members of society, through material and moral support for the fragile classes of society.

<sup>1</sup> The eight categories of zakah beneficiaries are specified by the Holy Quran (see Chapter 9 Verse 60)

- Notwithstanding its benevolent role in the society, the institution has witnessed major ups and downs, often due to political factors. Waqf came to the Maghreb countries with Islamic conquest. Initially in the form of religious awqāf (e.g. mosques), it soon became a dominant sector of the economy making provision of social and public goods. With a hostile colonial rule, however, most of the awqāf assets were lost. In the post-independence era, some of the lost awqāf were salvaged and recovered. A process of rejuvenation of the awqāf has begun with identifying and documenting such properties that have been lost since the colonial era should be expedited with the involvement of experts in the field of surveying. In the province of Tripoli alone a systematic attempt to enumerate and record the waqf assets was undertaken. The first attempt of reclassification identified about 11,000 real estate, 6,000 mosques, and more than a thousand schools of Qur'ān memorization.
- Waqf assets have been lost not only due to politically hostile forces, but also due to plain and simple human greed and avarice. The legal and regulatory system of waqf must therefore be strengthened in order to provide greater protection for waqf properties. In Libya for example, legal texts provide waqf assets with special protection compared to private and public funds. There is need for a dedicated waqf law that is able to preserve existing awqāf assets and recover lost awqāf assets.
- The existence of a dedicated law alone cannot ensure its effective implementation. This can only be achieved by setting up a strong institutional support structure with high administrative competencies to deal with waqf in terms of identification, codification, registration of waqf assets and reviewing the regulations governing the use thereof. A good institutional structure for waqf presumes the existence of a strong, independent and professional apex organization. Unfortunately, most Maghreb countries are characterized by the absence of adequate supporting infrastructure for awqāf sector. The apex regulatory body for waqf should be dedicated to waqf and waqf alone. For example, in Algeria, the Directorate of Waqf is merged with Hajj, and this implies neglecting the administrative aspects of the waqf during periods of preparation for hajj. Therefore, the Algerian Awqāf Department should be removed from the administrative constraints attached to the Ministry of Religious Affairs. Awqāf and should be given full autonomy by establishing the National Awqāf Office. Similarly, in Libya, the GAAIA is a religious institution whose role is limited to following up and supervising mosques and schools. It is characterized by mismanagement of waqf assets and the use of traditional systems in asset evaluation, which make it difficult to control and detect deviations and bad practices. This agency needs to transform itself for development of the waqf



sector. The story is similar in the case of Awqāf National Establishment in Mauritania. The institution, established nearly four decades ago, is yet to reach anywhere near its potential in terms of contribution to the economic and social development of the country. The reasons are not too far to seek. To date, there is no legal framework regulating the body, which has caused interference in its powers with other bodies affiliated to the Ministry of Islamic Affairs. It suffers from negligence and mismanagement, due to lack of accountability and law. As a result, it suffers from a huge trust-deficit vis-à-vis ordinary citizens of the country. Generally, in the Maghreb countries, there is absence of effective accounting and financial supervision for waqf activities. The lack of confidence among the public also stems from the fact that often the desire of waqf founders is not respected. This is again due to the lack of sufficient awareness of the sanctity of awqāf deeds that document the intention of the endower/ waqf regarding the benefits and the beneficiaries.

- The awqāf assets that have been preserved well are characterized by low income generating possibilities. Often, the concerns about preservation have pre-empted any possibility of development of the property and enhancement of its earnings potential. It is a delayed but rational realization among many scholars and observers that awqāf assets can serve their purpose only when they are well-maintained and developed. An undue concern about preservation may result in such assets becoming obsolete over

time. By finding ways to enhance these assets and their earning power, the quantum of benefits for the intended beneficiaries can be optimized. This realization has led to, for example in Algeria, the identification of a total of 4,621 real estate awqāf with potential for development. In Libya too, the waqf assets held by the GAAIA spread across most cities of the country are characterized by excellent locations suitable for development projects of various types - residential, commercial and social, etc. The investment of real estate assets under waqf in prime areas and locations spread throughout the country should lead to partnerships with both public and private sectors in agricultural, industrial, commercial, tourism, communications, and transportation sub-sectors.

- Human greed has often led not only to outright encroachment of waqf assets, but also to their utilization at grossly below-market rates. Leasing of waqf land and buildings have in too many instances been undertaken at extremely low prices resulting in loss of income. While laws in some countries have been specific that an asset under waqf cannot be sold or mortgaged, these have been less careful in putting a stop to irrational leasing rates for assets under waqf. A case in point is the city of Tripoli in Libya where amendment of rental prices had a major positive impact on waqf income in recent times. The same needs to be undertaken

more objectively and at a national scale. The apex body for awqāf is yet to adopt market price as benchmark for fixing the rentals on waqf assets. In many instances, there are either no, or improper use of contracts for the use of waqf assets due to negligence and administrative corruption in the agency. Many tenants (including public institutions) do not fulfill their obligations and have past dues. Further, there are a number of instances of misclassification of land as rural and of low value, while they have become urban since long time ago. Therefore, there is a need to reclassify them and align the rental rates with the market.

- Lack of manpower and material resources to assist the waqf organization in carrying out its tasks and to ensure serious follow-up remains a major constraint. Availability of specialized talent in awqāf management remains a challenge that must be addressed with a sense of urgency. It is felt that an independent apex institution would be in a better position to mobilize required human and financial resources for efficient management and development of awqāf.
- New awqāf related investments should be tackled as part of a long-term strategy that requires a specialized management team and a high degree of experience in monitoring, and managing these projects. Waqf investments need to be enhanced in partnership with professionals well-versed in the

art and science of investments. Creation of waqf funds and the financialization of waqf should throw up new and innovative financial instruments, strengthening the capital market, providing alternative tools for raising resources for development of awqāf as well as for meeting the social and developmental goals. The growing Islamic fervor in the societies in this region is expected to drive people to support and practice waqf after facilitating it through new and innovative structures for contributing to endowments such as waqf bonds and waqf funds. A case in point is the enabling legal framework for waqf in Morocco that encourages the possibility of issuing waqf bond as instruments for the benefit of general waqf in the context of seeking the public charity.

- It is important to recreate a culture that promotes waqf as an important socio-economic institution through the media through dedicated agencies for information and marketing. Awareness of the importance of awqāf among investors and businessmen needs to be enhanced through training courses in the field. Awareness campaigns need to be undertaken on a large scale with a view to spreading the culture of the waqf. Successful experiences of waqf should be documented and shared widely.
- Development of international cooperation in the field of awqāf, through programs and activities of

dedicated agencies for cooperation and external relations would act as a catalyst for rejuvenating the global as well as the regional awqāf sector.

- Considering awqāf as a pillar of the national economy, its importance must be driven home through the dissemination of annual reports of awqāf organizations as well as of other relevant information among the public. Waqf-related courses must be offered in the curricula of universities and institutes. Other mechanisms of capacity building, e.g. seminars, conferences and meetings, may be employed in order to build managerial expertise, and feed innovations relevant for this sector.
- There is need for a national policy for waqf, which would help create greater synergies between the different sectors of the economy. The waqf program in a country should be integrated with the public expenditure program of the governments. The allocation of important financial resources for some aspects of the awqāf sector within the general budget of the country will thereby reduce the burden on the waqf-specific budgets. An effective linkage between the waqf sector and the Islamic financial services sector can open a new perspective for investment of waqf-owned financial assets. Similarly, the waqf sector should also be integrated with the zakāh and Islamic microfinance sectors.

**The following are the major findings in relation to the Islamic microfinance sector.**

- Islamic microfinance essentially involves a marriage between tools and models of conventional microfinance with the norms of Islamic finance. The need for Islamic microfinance was acutely felt as conventional microfinance had a low acceptance among poor Muslims in the Maghreb as well as in the rest of the world. The poor Muslims were seen to “self-exclude” themselves from the conventional riba-based microfinance due to a conflict with their basic beliefs. Market surveys revealed that a strong and popular demand exists for Shari’ah-compliant microfinance in most of the Maghreb countries.
- Conventional microfinance in some countries, such as Morocco and Mauritania, provided a strong background, and a network of microfinance institutions functioning under the supervision of the central bank (not as informal associations or cooperatives), a carefully configured enabling regulatory and policy framework. In such countries, it was not difficult to initiate Islamic microfinance with modifications in the products to make them Shari’ah-compliant. The existence of a dedicated law for microfinance and Islamic finance paved the way for the birth of Islamic microfinance sector. In Morocco, for example, the opening of participative banks opened vast opportunities for Islamic MFIs as windows of the banks. At the same time, the existing law on microfinance allowed the MFIs to include Islamic microfinance products in their portfolio. In contrast, the existing law in Tunisia is observed to be too rigid and not flexible enough to fit the specific regional or sectorial needs. It needs major reforms to be able to ensure transparent and clear execution of contracts. In a country like Algeria, on the other hand, a financial system for granting microfinance is simply non-existent. MF providers are supposed to be linked with public banks that do not pay sufficient attention to microfinance because they focus their expertise on other activities.
- The strong support by policy makers to microfinance is seen as a tool to alleviate poverty matched by initiatives at the meso level too. For example, the introduction of Islamic microfinance in Morocco benefited from the availability of consultancy firms with considerable experience and readiness to work on this sector. Some Moroccan firms had already worked for years on developing Management Information Systems to closely assist MFIs in achieving their goals. Switching to Islamic microfinance was an easy proposition for them.
- While the Morocco experience underlined the strengths of Islamic replications of conventional microfinance models and products, there were major weaknesses too. Much of the weaknesses with perpetuation of indebtedness or a

culture of debt remained even after adoption of Islamic microfinance. For example, in Morocco as well as Tunisia, undue emphasis was placed on developing a single Islamic debt product (murābahah) that would replace the conventional counterpart without altering the rules of the game. Less attention was paid to developing the sector as a whole or to the possibility of integrating zakāh and awqāf in the models of Islamic microfinance. In Morocco, for example, it is felt that existing MFI might focus just on the form and neglect the spirit of the Sharī'ah by adopting single loan-based products that will fail to replace the culture of debt with that of economic empowerment. Indeed, there is an urgent need to work on financing the economic opportunities of small investors and entrepreneurs, especially the poorest rural population, through the provision of integrated Sharia-compliant financial services in the form of grants, loans, financing, deposits and savings accounts, etc.

- High cost of microfinance contributes to financial exclusion by pushing the products beyond the reach of the poorest of the poor and the marginalized sections of the society. The costs may be either financial or non-financial and both direct and indirect. For example, failure to apply one of the safety standards in Islamic microfinance, which is the necessity of ensuring the eligibility of the beneficiary, leads to higher costs for the MFI. Another element of cost is the cost of reaching the

largest number of beneficiaries in rural areas, by encouraging the opening of branches in the interior. The paradox of microfinance is that the people who need microfinance the most (the most vulnerable) are also the riskiest group, residing in remote and unreachable areas and who are unable to offer guarantees to cover their financing. It is felt that microfinance must be made affordable by cutting many elements of costs, e.g. establishment of a fund to cover the lack of guarantees for the most vulnerable ones, simplification of documentary procedures for microfinance clients according to the nature and potential of these clients, mobilizing large new investments in rural infrastructure, agricultural research and agricultural guidance services, facilitation of the spread of low-cost financial services through the Internet and mobile phones.

Given that some of the countries in the region have long years of experience in creating and sustaining an enabling environment for microfinance, as well as Islamic microfinance, there is a huge scope for learning from each other. The creation and the development of a network in the MENA region to promote and assist Islamic microfinance institutions and forge close cooperation and partnerships amongst them is an idea that merits serious consideration. While there is a huge popular demand for microfinance in accordance with the Sharī'ah in the region as a whole, there is a serious lack of specialized competencies for this sector.



# 02 REGION UNDER FOCUS

This report covers five north-west African countries, namely Algeria, Libya, Mauritania, Morocco, and Tunisia. All these countries are Muslim-majority countries. The Muslim population varies from 96.6 percent to about 100 percent in these countries.

Among the countries under focus, Algeria is the largest country by size and by population. Its population reached 42.58 million in 2018, with an average annual growth rate of 1.97 percent during 2005-18. The estimated population of Libya was 6.51 million in 2018, with an average annual growth rate of 1.2 percent during

2005-18. Mauritania has the lowest total population (4.54 million) and the highest average annual population growth rate (2.9 percent) among the countries under study during the same period. Morocco is the second most populous country (35.22 million) and recorded the lowest population growth (1.19 percent) in 2018 among the selected countries of the region. Tunisia is the smallest country in size but, with 11.66 million people, the country is more populous than Libya and Mauritania. Tunisia's population has been increasing at average annual rate of 1.08 percent during 2005-2018 (Table 2.1).

**Table 2.1: Total Population and Population Growth (2018)**

	Million	Population Growth (2005-18)	% of Muslim Population*
Algeria	42.58	1.97	99
Libya	6.51	1.2	100
Mauritania	4.54	2.9	99
Morocco	35.22	1.19	96.60
Tunisia	11.66	1.08	99.10

Source: International Monetary Fund, World Economic Outlook Database, April 2019

\*<https://www.cia.gov/library/publications/the-world-factbook/>

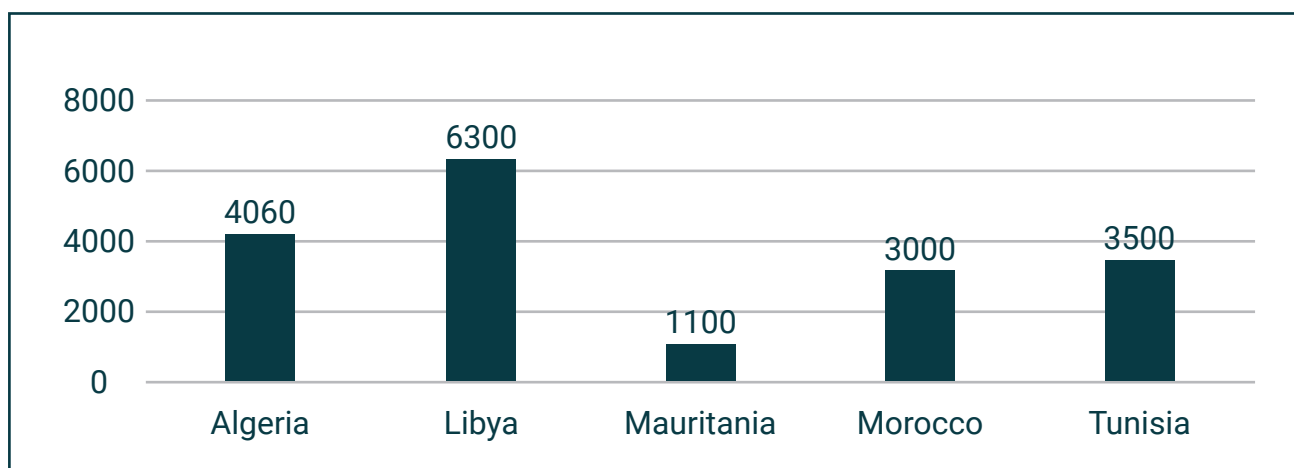
## 2.1. TRENDS IN ECONOMIC AGGREGATES

This section presents some of the socio-economic indicators, such as per capita income, economic growth, the structure of the economies, employment, savings and investment, and inflation, for the countries under study. These indicators directly and indirectly affect the earnings and poverty levels of households.

The selected countries under study are at different levels of economic development.

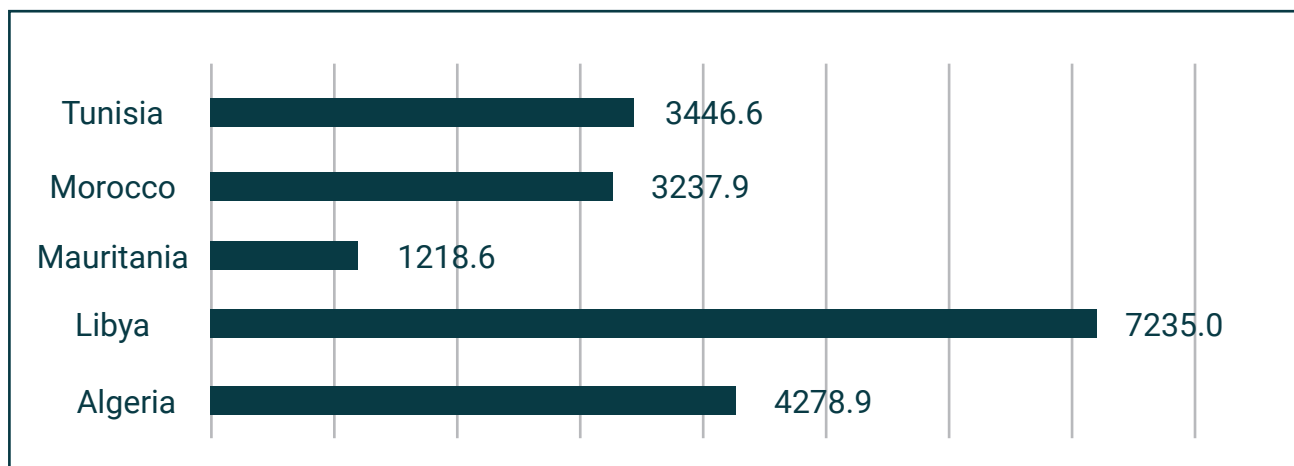
Based on the World Bank classification of countries for the fiscal year 2017-18, using 2018 data and employing the Atlas methodology, Algeria and Libya fall in upper-middle-income countries while Mauritania, Morocco, and Tunisia are in the list of lower-middle-income countries (Figure 2.1). In terms of per capita income, Libya enjoys the highest (US\$ 7235.0) per capita income followed by Algeria (US\$ 4278.9) and Tunisia (US\$ 3446.6). Mauritania has the lowest per capita income (US\$ 1218.6) among the selected countries in 2018 (Figure 2.2).

**Figure 2.1: GNI per capita, Atlas method, 2018 (current US\$)**



Source: WB, WDI, 2019.

**Figure 2.2: GDP per capita 2018 (Current US\$)**



Source: WB, WDI, 2019

## 2.1.1 ECONOMIC GROWTH

The countries in focus made promising economic progress over the last two decades. The real GDP of all the countries under study, except Libya, almost doubled during this period. Libya demonstrated good progress from 2000 to 2010, where its real GDP increased from US\$ 48.03 billion

grew at an average annual rate of 5.57 percent, which is the highest growth rate among the selected countries, followed by Mauritania (4.83 percent), Morocco (4.04 percent), Algeria (3.01 percent) and Tunisia (2.92 percent) (Figure 2.3).

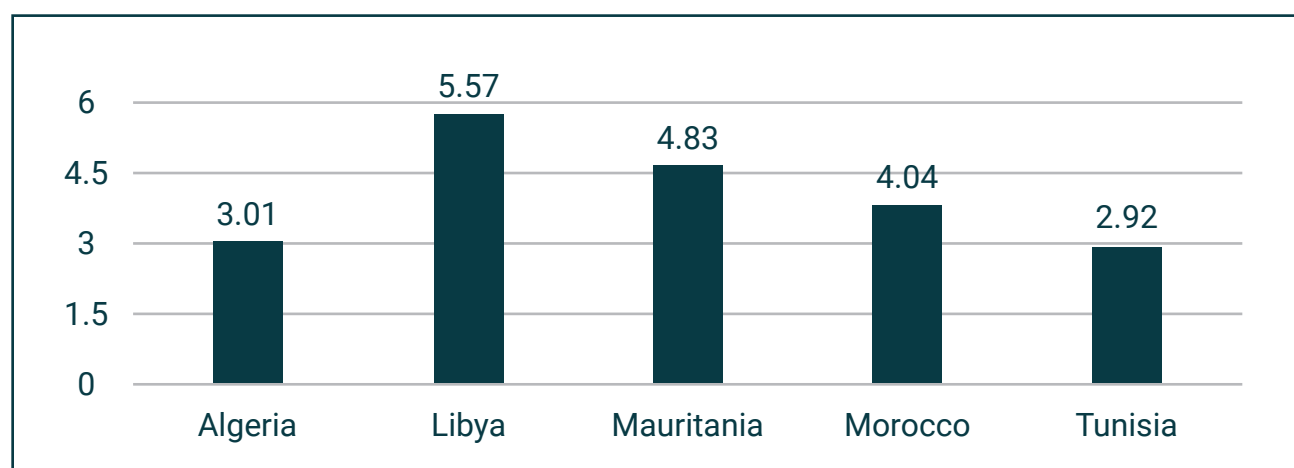
The selected countries reveal the exciting experience of their annual economic growth rates. The economy of Algeria was

**Table 2.2: GDP in Billion (constant 2010 US\$)**

	2000	2010	2018
Algeria	110.4236	161.2073	203.354
Libya	48.02634	74.77344	50.28273
Mauritania	2.700575	4.337794	5.941726
Morocco	57.51965	93.21675	122.8677
Tunisia	29.14231	44.05093	50.9103

Source: WB, WDI, 2017.

**Figure 2.3: Average Annual GDP Growth (2005-18)**



Source: WB, WDI, 2017. Note: For Libya growth rate is for the period 2005-10.

in 2000 to about US\$ 75 billion in 2010, but it slid to US\$ 50.28 billion in 2018 (Table 2). During 2005-2018, the economy of Libya

growing positively from 2000 to 2005, where its annual growth rate was the highest (7.2 percent) in 2003 followed by

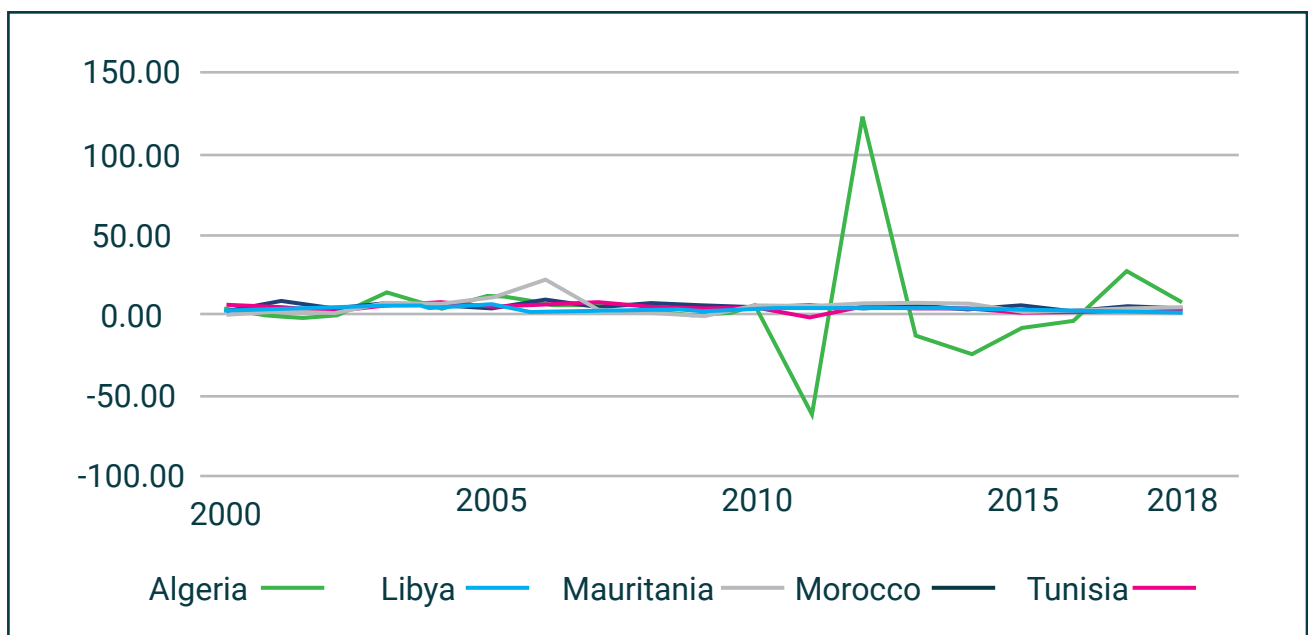
(5.91 percent ) in 2005. In the subsequent years, it never touched the figure of 4 percent, and the growth rate remained very low. It recorded the lowest annual growth of 1.6 percent in 2017.

Even before the civil war in Libya, the economy was experiencing a fluctuating growth rate during the last decade. The country experienced a meager -1.76 percent annual growth rate in 2001 compared to 13.02 percent in 2003. The economy showed a promising growth rate onward, but it suffered during the financial crisis, where its annual growth rate dropped to -0.79 percent in 2009. The country has been facing a significant economic loss due to the civil war, and consequently, the annual growth rate dropped to about -62.08 percent in 2011 (Figure 2.4). However, after gaining a considerable jump in its annual growth (123.1 percent) in 2012, its growth slid to negative numbers during the subsequent years and picked up again to about 27 percent and 7.84 percent in 2017 and 2018 respectively. Mauritania maintained a respectable high growth rate during 2003-2006, with about 19 percent

in 2006. However, the GDP growth rate has been declining onward and reached a negative figure of -1.04 percent in 2009. The economy of Mauritania again gained momentum from 2010 onward, where GDP grew an average annual rate of about 5 percent during 2010-14. The following years witnessed low growth rates and reached 3.6 percent in 2018. Morocco was growing, on average, around 4 percent per year during the last one and a half decade, except for the year 2016, when it registered a growth rate of 1.10 percent. However, growth rate again picked up and reached about 3 percent in 2018.

Similarly, Tunisia experienced good progress of about 4.5 percent annually during 2001-2007. It was not affected much by the financial crisis as it registered an average annual growth rate of more than 3 percent during 2008-2010. However, after that period, the country was severely affected and recorded a growth rate of about -2 percent in 2011. Subsequently, the economy picked up, but the growth rate remained below 2.0 percent per annum in recent years (Figure 2.4).

**Figure 2.4: Trend in GDP Growth Rate**



## 2.1.2. STRUCTURE OF ECONOMIES

The composition of the GDP of the country depends on its level of development. The relative contribution of agriculture sector in the GDP falls with the increase in per capita income, whereas the relative contribution of industrial and services sectors in the GDP increases with the increase in the level of per capita income. The table below shows that some of the countries experienced quick structural change compared to the other countries in focus. Morocco and Tunisia experienced slow progress in structural change, while other countries in focus registered good progress in structural change comparatively (Table 2.3).

The relative contribution of the agriculture sector to GDP of Mauritania was the highest (23.88 percent) in 2017, followed

by Algeria and Morocco (about 12 percent each), and Tunisia (9.54 percent). The economy of Libya recorded relatively the lowest (1.87 percent) contribution from the agricultural sector in GDP compared to other countries in focus in 2008. The value addition of services sector to GDP of Tunisia was found to be the highest (60.31 percent) in 2017, followed by Morocco (49.96 percent) and Algeria (45.62 percent). The relative share of the industrial sector in the GDP of all countries except Libya was in the range of about 23 percent to about 37 percent in the same year. However, Libya registered very high (78.20 percent) relative contribution of the industrial sector in GDP in the year 2008. Algeria experienced a rapid fall in the relative share of the industrial sector in the GDP. It recorded about 54.37 percent in 2000, which fell to about 37 percent in 2017 (Table 2.3).

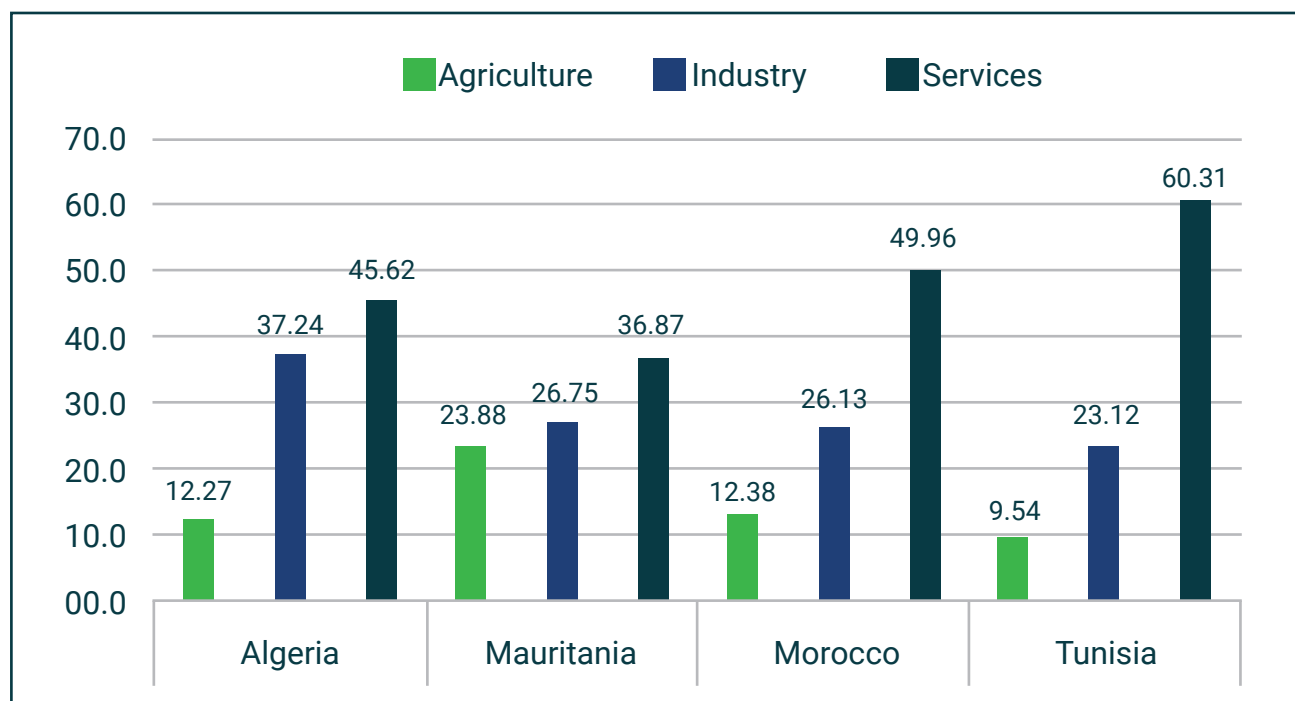
**Table 2.3: Value Addition by Agriculture, Industry and Services sectors in 2017 (% of GDP)**

		2000	2010	2017
Algeria	Agriculture	8.40	8.47	12.27
	Industry	54.37	50.49	37.24
	Services	32.24	38.19	45.62
Libya	Agriculture	5.20	1.87	..
	Industry	66.08	78.20	..
	Services	28.72	19.94	..
Mauritania	Agriculture	34.37	20.29	23.88
	Industry	26.21	39.01	26.75
	Services	35.20	36.07	36.87

		2000	2010	2017
Morocco	Agriculture	11.88	12.94	12.38
	Industry	26.96	25.66	26.13
	Services	50.55	51.04	49.96
Tunisia	Agriculture	10.01	7.53	9.54
	Industry	26.65	28.98	23.12
	Services	51.63	56.68	60.31

Source: WB, WDI, 2017, and 2019. \* Figures for Libya are for the years 2002 and 2008.

**Figure 2.5: Value addition by Agriculture, Industry and Services Sector, 2017 (% of GDP)**

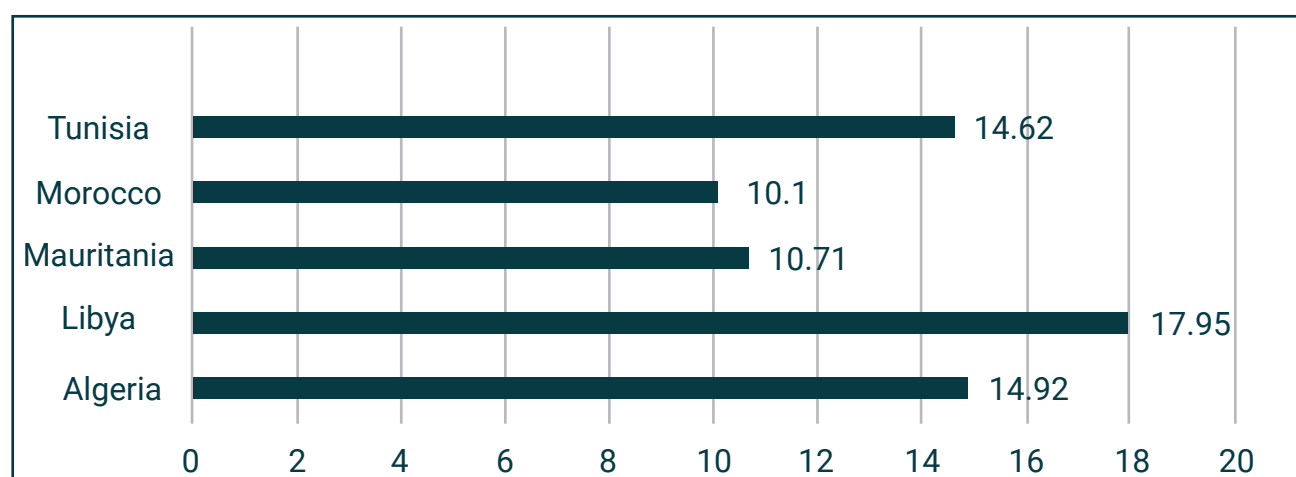


Source: WB, WDI, 2019.

### 2.1.3. UNEMPLOYMENT

The following figure demonstrates unemployment as a percentage of the total labor force in the selected countries. All the countries in focus have been experiencing unemployment in double-digit. In Libya, the unemployment rate remained high

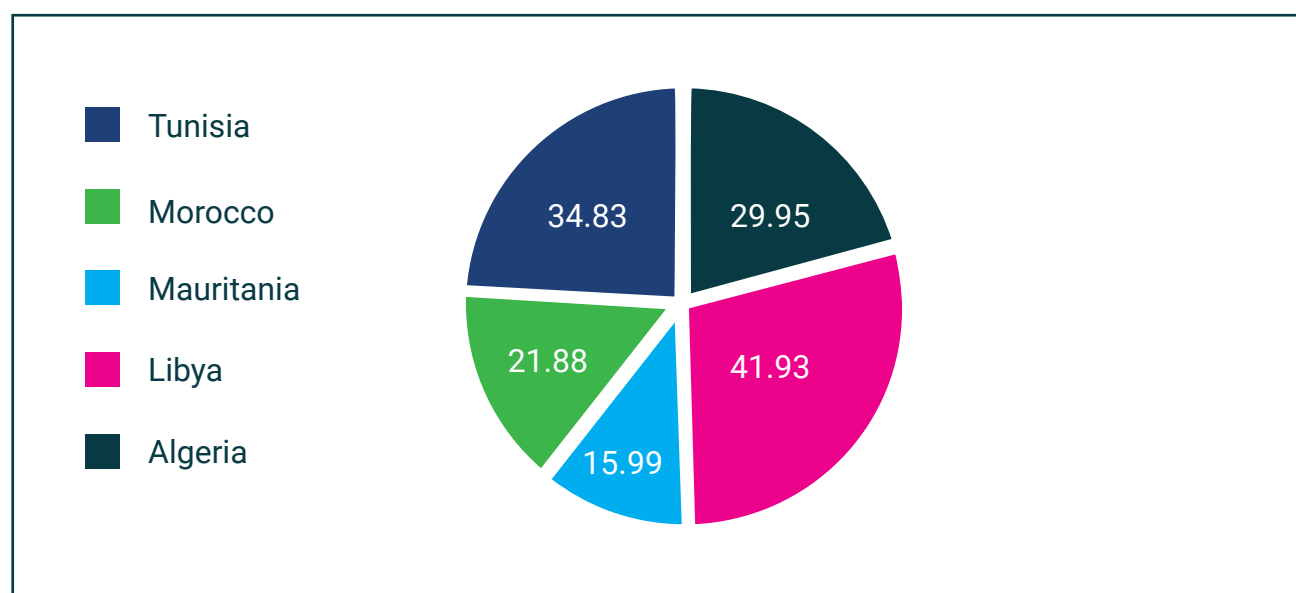
(on average, about 18 percent) per annum during 2000-18, while other two countries, i.e. Algeria and Tunisia, also recorded high (about 15 percent each) unemployment rates during the same period. Morocco and Mauritania experienced unemployment rates of about 10 and 10.71 percent, respectively, during the same period (Figure 2.6).

**Figure 2.6: Average Annual Unemployment (% of Total Labour Force), 2000-18**

Source: WB, WDI, 2019.

High youth unemployment is a severe problem for any country across the globe. Young people remaining unemployed for an extended period lose motivation, suffer from mental disorder and feel alienated from society. In 2018, youth unemployment

was high (about 42 percent) in Libya, followed by Tunisia (about 35 percent), and Algeria (about 30 percent). The youth unemployment was around 16 to 22 percent in the other two countries under study in the same period (Figure 2.7).

**Figure 2.7: Unemployment, youth total (% of total labor force ages 15-24) (modeled ILO estimate), 2018.**

Source: WB, WDI, 2019.

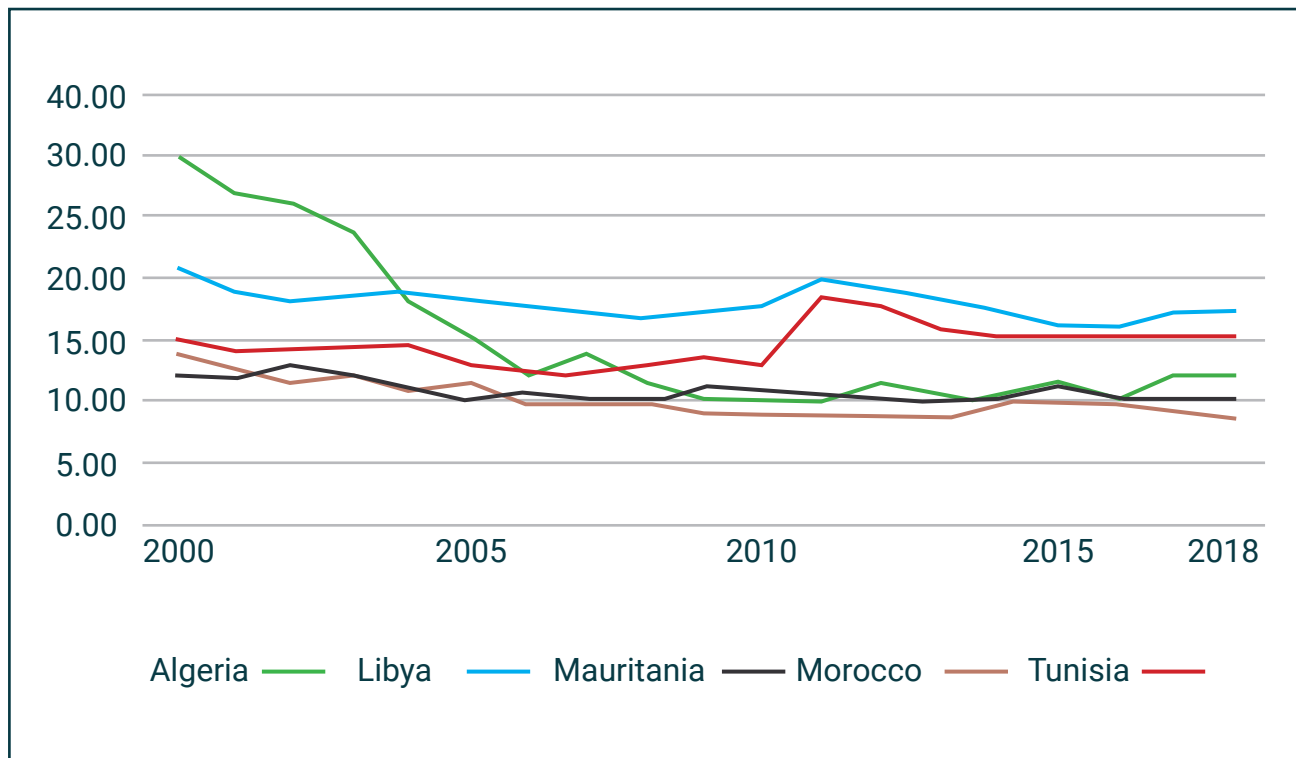
Algeria has been successful in reducing its unemployment rate from about 30 percent in 2000 to about 12 percent over the last 17 years. Tunisia experienced a

decline in unemployment during 2000-08, but subsequently, it increased again and reached about 15.48 percent in 2018, which was close to the unemployment rate of

2000. Morocco was successful in reducing unemployment gradually, which reached around 9 percent in 2018 from about 14 percent in 2000. The unemployment in Mauritania remained around 12

percent during 2000-2003 and declined subsequently to around 10 percent. Libya is a unique case where unemployment remained almost around 18 percent during 2000-18(Figure 2.8).

**Figure 2.8: Trend in unemployment (2000-18)**



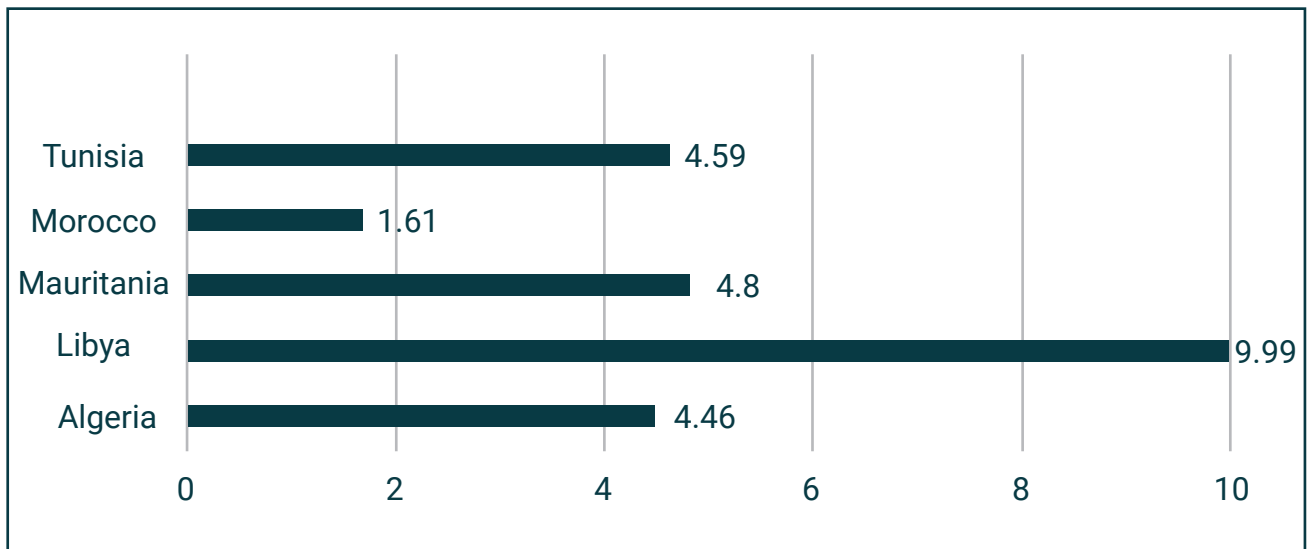
Source: WB, WDI, 2017.

## 2.1.4. INFLATION

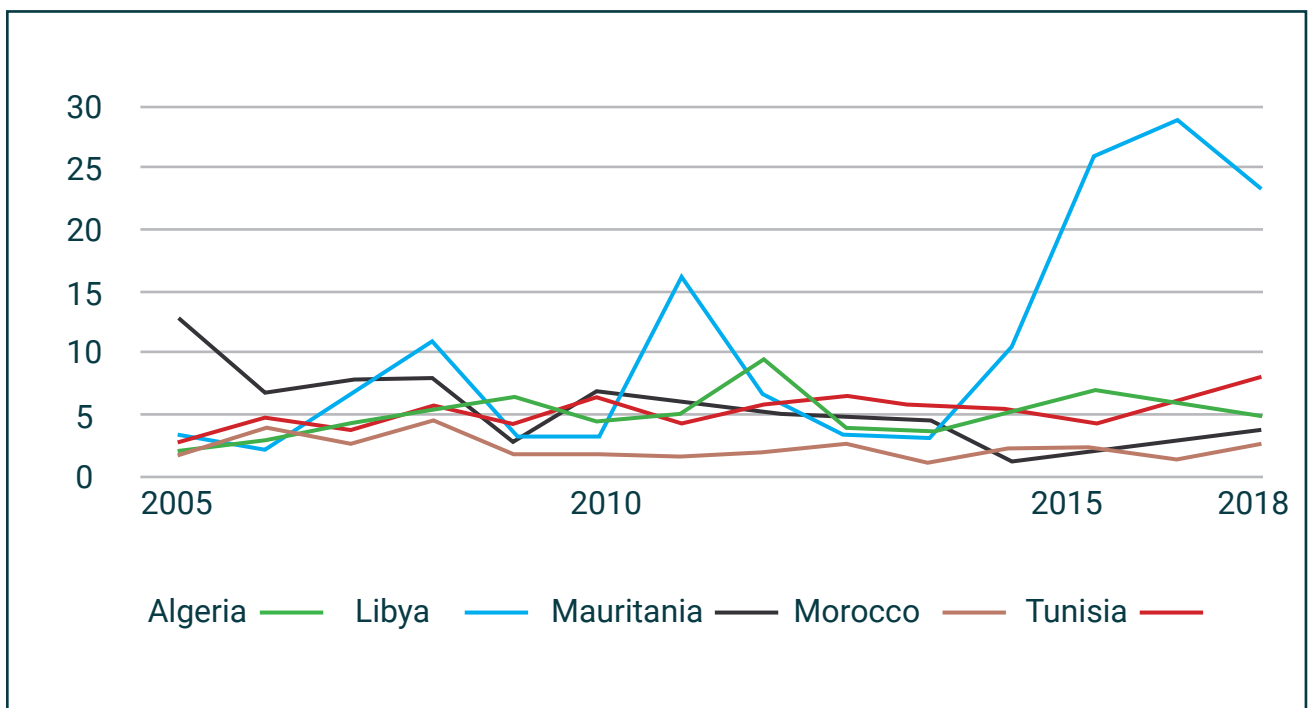
In Morocco, the average annual consumer prices have been low (1.61 percent) during the last decade. From 2005 to 2018, inflation in the country remained below two percent except for the years 2006 and 2008, where inflation was more than two percent. The other four countries, as depicted in Figure 2.10, have been experiencing an average annual inflation rate in the range of 4 to 5 percent except for Libya that witnessed an average annual inflation rate of about 10 percent during the same period. In Mauritania, the inflation

rate has been fluctuating very sharply, with a high inflation rate (about 12 percent) in 2005 and the lowest inflation (about 0.5 percent) in 2015. During the past one and a half decades, Tunisia and Algeria recorded a smooth low-level positive trend in inflation. However, in the case of Libya, inflation rate has been highly uneven. Consumer prices increased from a low level of 2.6 percent in 2005 to about 16 percent in 2011. Nevertheless, inflation receded in the subsequent years, sliding to 2.43 percent in 2014. Unfortunately, inflation rose again after 2014 and reached 28.53 percent in 2017 (Figure 2.10).



**Figure 2.9: Average annual consumer prices (2005-2018)**

Source: International Monetary Fund, World Economic Outlook Database, April 2019

**Figure 2.10: Consumer Prices (Annual %)**

Source: IMF, World Economic Outlook Database, April 2019

## 2.1.5. SAVINGS AND INVESTMENTS

Figure 2.4 shows the Total Investment (TI) and Gross National Savings (GNS) as a percentage of GDP for more than one

and a half decade. Algeria invested on an average about 39 percent of GDP per annum, compared to its GNS of about 40 percent of GDP during 2000-18. However, Figure 2.12A shows that GNS remained significantly high than TI during 2000-13, and in the following years TI exceeded

the GNS. The GNS has been showing a declining trend from 2008 onward. The investment, which is more than 25 percent of the GDP, is considered a healthy sign for the sustainable growth of the economy. Mauritania has been investing, on average, about 39 percent of GDP per annum compared to about 23.51 percent of GNS during the same time. The gap between TI and GNS is significantly high. In the case

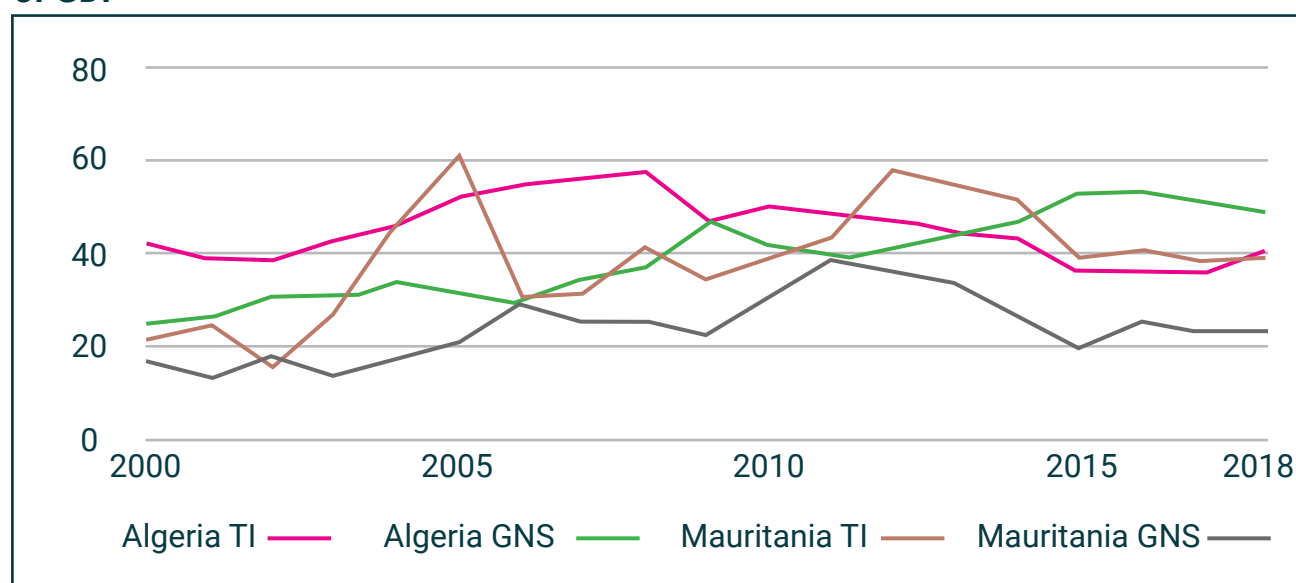
of Tunisia and Morocco, the average annual TI was slightly higher than average annual GNS during the same period. However, Tunisia TI per annum was less than the required level of investment for sustainable development of the economy. However, the TI jumped up to about 33 percent in 2018, while the GNS further declined to 8.93 percent in the same year (Figure 2.11B).

**Table 2.4: Total Investment (TI) and Gross National Savings (GNS) percentage of GDP**

	TI (2018)	GNS (2018)	TI (2000-18)	GNS (2000-18)
Algeria	48.88	39.78	39.33	45.42
Libya	33.40	..	38.37	..
Mauritania	40.70	22.65	38.90	23.51
Morocco	33.29	28.79	31.22	27.68
Tunisia	33.29	8.93	23.77	16.74

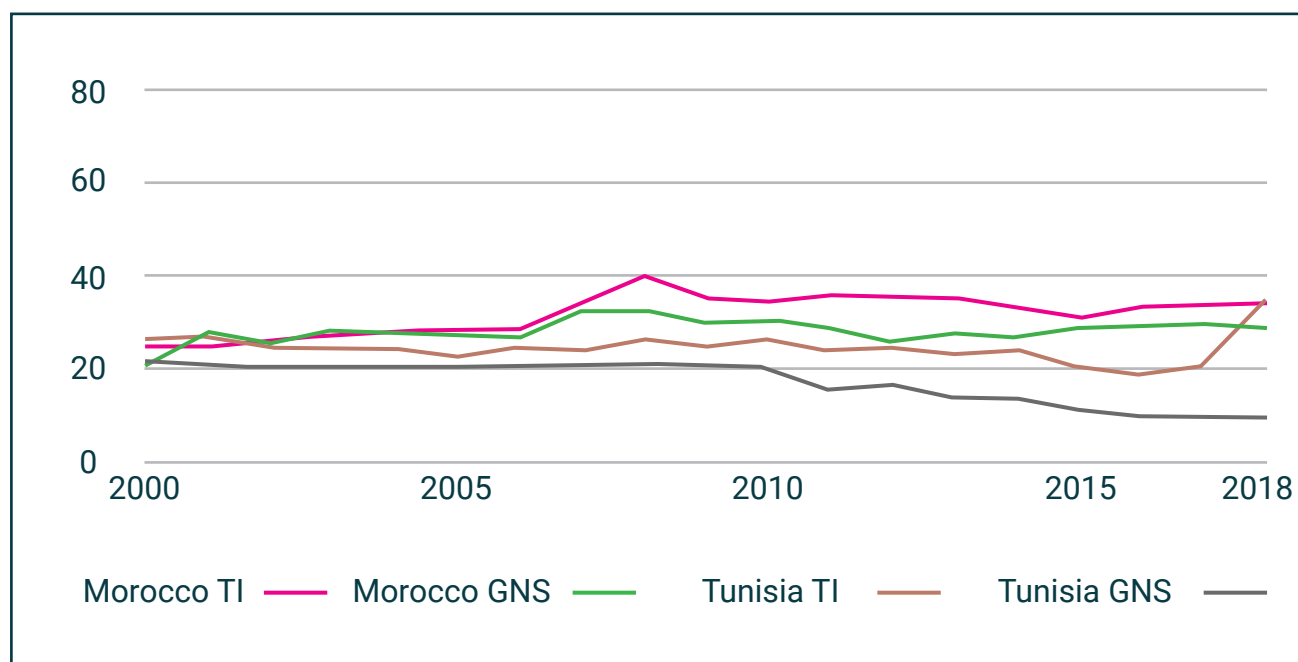
Source: IMF, World Economic Outlook Database, April 2019

**Figure 2.11A: Total Investment (TI) and Gross National Savings (GNS) percentage of GDP**



Source: IMF, World Economic Outlook Database, April 2019

**Figure 2.11B: Total Investment (TI) and Gross National Savings (GNS) percentage of GDP**



Source: IMF, World Economic Outlook Database, April 2019

## 2.1.6. INCOME DISTRIBUTION

The table below illustrates income distribution in the countries under focus, estimated using the GINI index. Mauritania and Tunisia experienced an improvement in income distribution by about 8 percent during the last decade. In Morocco, the

GINI Index was 40.6 percent in 2000 and remained about the same (39.5 percent) in the subsequent years. The data on income distribution in the case of Algeria was available for the year 2011, which showed a better income distribution (27.6 percent) than other countries under study.

**Table 2.5: GINI Index**

	2000	2004	2005	2006	2008	2010	2011	2013	2014	2015
Algeria	..	..	..	..	..	..	27.6	..	..	..
Mauritania	39	40.2	..	..	35.7	..	..	..	32.6	..
Morocco	40.6	..	..	40.7	..	..	..	39.5	..	..
Tunisia	40.8	..	37.7	..	..	35.8	..	..	..	32.8

Source: WB, WDI, 2019.

## 2.1.7. INCIDENCE OF POVERTY

Table 2.6 shows the incidence of poverty in the selected countries estimated at US\$ 1.90 (PPP, 2011), US\$ 3.20 (PPP, 2011), and national poverty lines. The poverty headcount dropped in all the countries

under study. In Algeria, the headcount estimated at the national poverty line was 5.5 percent of the population in 2011, while under international poverty lines of US\$ 1.90 and US\$ 3.20 the headcount was 0.5 percent and 3.9 percent respectively in the same year.

**Table 2.6: Poverty Headcount (% of Population)**

	2000	2004	2005	2006	2007	2008	2010	2011	2013	2014	2015
	..	..	..	..	..	..	..	0.5	..	..	..
Algeria	..	..	..	..	..	..	..	3.9	..	..	..
	..	..	..	..	..	..	..	5.5	..	..	..
	19.6	14.4	..	..	..	10.8	..	..	..	6	..
Mauritania	45.5	42.5	..	..	..	34.3	..	..	..	24.1	..
	51	46.7	..	..	..	42	..	..	..	31	..
	6.3	..	..	3.1	..	..	..	..	1	..	..
Morocco	27.8	..	..	17	..	..	..	..	7.7	..	..
	15.3	..	..	..	8.9	..	..	..	4.8	..	..
	5.9	..	3.3	..	..	..	2	..	..	..	0.3
Tunisia	22.8	..	15.1	..	..	..	9.1	..	..	..	3.2
	25.4	..	23.1	..	..	..	20.5	..	..	..	15.2

Source: WB, WDI, 2017

Note:

1. Poverty headcount ratio at \$1.90 a day (2011 PPP) (% of the population).
2. Poverty headcount ratio at \$3.20 a day (2011 PPP) (% of the population).
3. Poverty headcount ratio at national poverty lines (% of the population)



A significant drop in poverty headcount was recorded in Mauritania. The headcount measured under US\$ 1.9 dropped from 19.64 percent in 2000 to about 6 percent in 2014, while headcount under US\$ 3.20 was dropped from 45.5 percent to about 24.1 percent during the same period. The incidence of poverty measured under the national poverty line was registered at 51 percent in 2000. It dropped to 42 percent in 2008, and further declined to 31 percent in 2014.

In Morocco, the status of people improved significantly. This is evident from the reduction in poverty during the early 2000s. Using US\$ 1.9 poverty line criteria, the poverty headcount from 6.27 percent in 2000 to 1 percent in 2013, while it

reduced significantly from 27.8 percent of the population to about 7.7 percent of the population measured under US\$ 3.20 during the same period. Under the national poverty line criteria, about 15 percent of the population was registered as poor in 2000, which declined to about 4.8 percent in 2013.

Tunisia has been very successful in combating poverty. It experienced a low level (5.9 percent) incidence of poverty in 2000, which further declined to about 0.3 percent in 2015. Similarly, headcount measured under US\$ 3.10 dropped from about 23 percent to 3.2 percent during the same time. However, the incidence of poverty estimated by using national poverty line criteria was 25.4 percent in 2000, which fell to 15.2 percent in 2015.

## 2.2. POTENTIAL OF ISLAMIC SOCIAL FINANCE

Islamic social finance can be a significant source of funding for the uplift of the underserved communities across the globe. It has great potential, which can be optimally tapped with the commitment of the country concerned and prudential management. This section provides insight into the resources required to meet the poverty gap of each country under study and then estimates the potential of Islamic social funds to meet the resource gap in

that countries in focus require a small percentage of GDP to meet their resource requirements for poverty reduction. Under US\$ 1.90 a day, Algeria requires 0.01 percent of GDP, while Mauritania, Morocco, and Tunisia require 0.25 percent, 0.08 percent, and 0.03 percent of GDP to meet the poverty reduction gap respectively. However, under US\$ 3.20 Mauritania needs about 2 percent of its GDP to meet the resource shortfall for the poor population, while that of Morocco, Tunisia, and Algeria need about 1.0 percent, 0.26 percent and 0.07 percent of their GDP respectively for the same purpose.

**Table 2.7: Resource Gap for Poverty Alleviation**

	Year	Resource Gap as % of GDP at \$ 1.90 per Day	Resource Gap as % of GDP at \$ 3.20 per Day
Algeria	2011	0.01	0.07
Mauritania	2014	0.25	1.97
Morocco	2013	0.08	0.90
Tunisia	2015	0.03	0.26

Source: Our Estimates

these countries. Unfortunately, the data on waqf is not available for the countries concerned, and we have estimated the potential of zakāh only in these countries.

### 2.2.1. ESTIMATING THE RESOURCE GAP FOR POVERTY ALLEVIATION

The resource gap has been estimated by using the poverty gap index, an international poverty line of US\$ 1.90 a day, and US\$ 3.20 a day. Table 2.7 illustrates

### 2.2.2. ESTIMATION OF POTENTIAL RESOURCES FROM ZAKĀH

Table 2.8 presents the estimates of zakāh potential<sup>1</sup>. We are using Kahf (1989) estimates of zakāt potential with specific changes. Zakāh potential is based on three different opinions of jurists regarding zakātable assets, which are denoted as Z1, Z2, and Z3. The countries under study have great zakāt potential as depicted by the

<sup>1</sup> For estimation methodology, see Shirazi (2014) and Shirazi and Fouad (2010).

table, which could range between about 2 percent of GDP to about 4 percent of GDP. Algeria can generate an amount of revenue of 1.78 percent of GDP under Z1, 3.81 percent of GDP under Z2, and 4.30 percent of GDP under Z3. Similarly, other countries in the table show that on average they can collect about the same amount under three different scenarios.

The potential resources that can be generated under three different scenarios (Table 2.8) are more than the resources needed to fill the poverty gap (Table 2.7). Thus, all the countries under study can pull up the underserved people from poverty, provided that social finance is implemented and managed correctly.

**Table 2.8: Estimate of Zakāh Potential\***

Country	Year	Z1 % of GDP	Z2 % of GDP	Z3 % of GDP
Algeria	2011	1.78	3.81	4.30
Mauritania	2014	1.78	3.81	4.30
Morocco	2013	1.74	3.72	4.19
Tunisia	2015	1.78	3.82	4.30

Source: Our Estimates

### References

Shirazi, Nasim Shah, and Md. Fouad Amin (2010), Prospects of Poverty Elimination through Potential Zakāh Collection in OIC Member Countries: Reappraised. *Journal of Economics, Banking, and Finance*, Vol 6, Number 3.

Shirazi, Nasim Shah (2014), Integrating Zakāh and Waqf into the Poverty Reduction Strategy of IDB Member Countries. *Islamic Economic Studies*, Vol 22, No.1.

Kahf, Monzer,(1989), Zakāt: Unresolved Issues in the Contemporary Fiqh, *Journal of Islamic Economics*, Vol. 2, No. 1, 1989, pp. 1-22.





# 03 ZAKĀH

## 3.1. ALGERIA<sup>1</sup>

### 3.1.1. OVERVIEW OF THE SECTOR

Like several other Arab and Islamic countries, Algeria has adopted the Zakāh Fund as an official body collecting zakāh. The Zakāh Fund is a religious social institution operating under the supervision of the Ministry of Religious Affairs and Awqāf. The ministry guarantees legal coverage, according to the law handling the mosque institution under Executive Decree No. 91-82 of 1991. The Zakāh Fund collects zakāh through its branches located in various states of the country, and then distributes it to its legitimate beneficiaries through the same branches. The experiment started in 2003 with two pilot mandates, Blida and Sidi Bel Abbes states. Two accounts of the mosque institution were opened at the state level in the form of money orders to receive zakāh and sadaqa funds. In 2004, this process was generalized to all the states of the country by opening postal accounts at the level of each state, which is affiliated to the Zakāh Fund, through which the fund receives and disburses money through remittances only.

<sup>1</sup> “Financing the Local Development from an Islamic Perspective: The contribution of the funds of zakāh & Waqf”, Wasila Essebti, PhD Thesis, University of Mohamed Khidhr University, Biskra, Algeria

### 3.1.2. REGULATORY & POLICY FRAMEWORK<sup>2</sup>

The Algerian Fund of Zakāh serves also as a charitable foundation aimed at achieving solidarity in society. The process of organizing and disbursing zakāh is a task pertaining to the Ministry of Religious Affairs and Awqāf in line with the Article II of the constitution that states that “Islam is the religion of the state.” The notion of zakāh is in the following legal pronouncements:

- Executive Decree No. 89-99 of 23 Dhul-Qa’da 1409H corresponding to June 27, 1989 for the powers of the Minister of Religious Affairs, especially Articles 10 and 14 thereof.
- Executive Decree No. 91-81 of 7 Ramadan 1411H corresponding to March 23, 1991, which includes the construction of the mosque, its organization, administration and determination of its function, especially Article 22 thereof.
- Executive Decree No. 91-82 of 07 Ramadan 1411H corresponding to March 23, 1991, which includes the establishment of the mosque institution, especially Article (d) of Article 5 thereof
- Executive Decree No. 91-82 of 25 Rabie Al Awal 1421H corresponding to 28 June 2000, which includes the organization of the central administration in the Ministry of Religious Affairs and Awqāf.

<sup>2</sup> Ibid

### 3.1.2.1. INSTITUTIONAL AND SUPPORTING INFRASTRUCTURE<sup>3</sup>

At the organizational level, the Algerian Zakāh Fund consists of a National Committee which is the organizing body of the Fund. It formulates and follows up the national policy of zakāh and examines litigations. It contains members of the supervisory committees who monitor the work of province committees. A province committee (at each province) has the task of identifying and finalizing eligible recipients of zakāh in the form of subsidies and loans from the Fund. A basic committee (at each district) has the task of the identification of zakāh recipients in the district.

Accordingly, the Zakāh Fund works in cooperation and coordination with religious committees, and the civil society as well. In order to organize its activities, three organizational levels have been developed to enable the Fund to reach the depth of Algerian society and thus achieve its objectives:

#### **National Zakāh Fund Committee**

It works at the national level, and among its functions we find:

- Drawing up and monitoring the Fund's national policy
- Disputes resolutions
- Establishment of a national Zakāh card for beneficiaries
- Setting up regulations related to the collection and distribution of Zakāh
- Development of the national program of communication

- Research and training
- Sharī'ah supervision

The National Zakāh Fund Committee consists of:

- The Supreme Council of the Fund, which consists of the following elements:
  - \* Chairman of the Supreme Council of Zakāh Fund
  - \* Heads of state committees of Zakāh Fund
  - \* Members of the Sharī'ah Board
  - \* Representative of the Supreme Islamic Council
  - \* Representative of the Ministry of Solidarity
  - \* Representatives of the Ministries that are related to the Zakāh Fund
  - \* Top givers of Zakāh

Committees of the Supreme Council of Zakāh Fund, which are:

- \* Collection and Disbursement Committee
- \* Information, Communication and Relations Committee
- \* Financial, Administrative and Training Committee
- \* Audit and Oversight Committee

The National Office of the Zakāh Fund consists of:

- \* Head of the National Office of Zakāh Fund

<sup>3</sup> Ibid



- \* The Board of Directors (shall meet under the chairmanship of the Minister or his representative)
- \* Sharī'ah Commission
- \* Secretary General with four directors

***Province or State Committee for Zakāh Fund:***

This committee consists of an Executive Office, Panel of Deliberations and Committees of the state deliberative body. The committee has the following functions:

- Organization of work, including establishment and coordination of grassroots basic committee, creating credit cards for eligible

and qualified beneficiaries, ensuring homogeneity of work and ensuring the accuracy of the distribution process

- Monitoring and follow-up task
- Dispute resolution
- Communication task

***The Basic Committee of the Zakāh Fund:***

It consists of the executive office and the deliberation body. The functions of this committee are beneficiary statistics, establishment of guidelines, collection, disbursement, follow-up and sensitization.

The Algerian Zakāh Fund reinforces the supporting infrastructure in favour of zakāh and it aims to:

- \* Call to perform zakāh duty, which is the third pillar of Islam, and its revival in the hearts of Muslims and in their transactions
- \* Collect donations and aid
- \* Disburse zakāh funds to the Sharī'ah authorities
- \* Raise awareness and inform individuals and competent authorities on methods of collecting and distributing zakāh, through various media such as radio, television and the internet.

- 50% for the poor and needy
- 12.5% for salaries of officials and operational expenditure of the Zakāh Fund
- 37.5% for investment and Qarḍ Ḥasan

If the collected zakāh funds are less than DZD 5 million:

- 87.5% for the poor and needy
- 12.5% for the salaries of officials and operational expenditure of the Zakāh Fund

The last item may be distributed as follows:

- 6% is allocated to run the basic committees in the districts
- 4.5% is allocated to run the province committees
- 2% is allocated to the National Committee of Zakāh.<sup>6</sup>

Within the broad categories as above, specific allocations are determined by mosque commissions. Widows with their children come first, followed by divorced women with children. Each family's share is defined according to the importance of the collected money in its region.

#### **Development of Zakāh outcome**

Zakāh outcome fulfilled the Fund and has seen considerable development. The following table shows the growth in the volume of Zakāh Funds over a 14-year period.<sup>7</sup>

### **3.1.3. ZAKĀH COLLECTION & DISBURSEMENT<sup>4</sup>**

The work of the Algerian Zakāh Fund is divided into two main parts:

#### **Zakāh Collection:**

It is done through postal accounts opened at each province of the country. The Imam can be a mediator between people who give zakāh and this current postal account if he gives these people receipts for the received amounts, or signs with the Masjid's committee on minutes indicating the amount collected in the Masjid (upon which it will be obligatory on his part to deposit the same in the postal account)<sup>5</sup>. The zakāh should be given to mosque commissions or put in zakāh boxes that are in each mosque office. The money must not be kept in the mosque and the Imams should count it and transfer it to the current account of the Zakāh Fund.

#### **Zakāh Disbursement:**

If the collected zakāh funds are greater than DZD 5 million:

<sup>4</sup> Ibid

<sup>5</sup> Bertima & Abdelj, 2014:7

<sup>6</sup> Naoual Ben Amara and Larbi Atia, Toward the Adoption of a Governance Model in Zakāh Foundations: The Case of the Algerian zakāh Fund, p: 113, International Journal of Business and Management Review, Vol.4, No.2, pp.104-118, March 2016

<sup>7</sup> IBID p :113

**Table: Statistics of Collected Zakāh in Algeria from 2003 to 2016 (in million DZD)**

Year	Zakāh al Fitr	Zakāh al Maal	Zakāh of Crops	Total
2003	25.7	30.4	0.0	56.1
2004	114.9	108.4	16.6	239.6
2005	172.2	335.8	0.7	508.7
2006	215.2	439.1	32.1	686.4
2007	258.2	435.5	38.8	732.5
2008	241.0	370.0	43.1	654.1
2009	305.0	589.5	42.1	936.7
2010	322.1	536.6	40.5	899.2
2011	373.4	781.3	44.4	1199.1
2012	444.7	801.5	60.7	1306.9
2013	446.0	779.1	75.8	1300.9
2014	437.6	804.3	76.7	1318.6
2015	473.4	686.0	91.7	1251.1
2016	515.3	678.7	73.1	1267.2

Year	Zakāh al Fitr	Zakāh al Maal	Zakāh of Crops	Total
2003	0.2	0.3	0.0	0.5
2004	1.0	0.9	0.1	2.0
2005	1.4	2.8	0.0	4.2
2006	1.8	3.7	0.3	5.7
2007	2.2	3.6	0.3	6.1
2008	2.0	3.1	0.4	5.5
2009	2.5	4.9	0.4	7.8
2010	2.7	4.5	0.3	7.5
2011	3.1	6.5	0.4	10.0
2012	3.7	6.7	0.5	10.9
2013	3.7	6.5	0.6	10.8
2014	3.6	6.7	0.6	11.0
2015	3.9	5.7	0.8	10.4
2016	4.3	5.7	0.6	10.6

1 USD = 120 DZD

Source: Ministry of Religious Affairs and Awqāf of Algeria

Regarding allocation of zakāh funds, the Algerian Zakāh Fund raised a slogan that says, “We don’t give it to him to remain poor but to become a muzakki”. Therefore, the Ministry of Religious Affairs and Awqāf allocated a portion of zakāh funds to investment, which constitute 37.5 percent of the total proceeds of zakāh. The Ministry of Religious Affairs and Awqāf signed an agreement with Al Baraka Bank of Algeria to be a technical agent in the field of investing zakāh funds.

The projects financed by the Fund are subject to specific conditions which were identified due to specificity of the Fund’s transactions especially for projects of social and economic interest, craft projects, construction, service projects, nurseries, productive and agricultural projects, usually with Qarḍ Ḥasan financing. It is the most widely used mechanism to finance projects to help the poor, and it is often used to ensure the continuity of simple investment activities, and to keep jobs associated with those activities.

**Table: Statistics of Collected Zakāh in Algeria from 2003 to 2016 (in million DZD)**

Year	Total beneficiaries of al Qarḍal Ḥasan	
	Number of beneficiaries	Amount (Million DZD)
2003	138	
2004	355	20.22
2005	565	51.60
2006	776	90.11
2007	625	137.44
2008	531	112.33
2009	710	98.68
2010	901	149.79
2011	1049	226.53
2012	1213	345.38
2013	606	344.21
2014	606	175.94
<b>Total</b>	<b>7469</b>	<b>1752.21</b>

Source: Official website of the Algerian Ministry of Religious Affairs and Awqāf.

- **Mini projects financing:** This financing covers housewives, handicapped people who are able to work, as well as unemployed youth. The National Commission of Zakāh Fund defines a limit for this type of financing, and the Bank will directly pay the supplier (no relation between the supplier and the beneficiary).
- **Supporting projects secured at the Loan Guarantee Fund:** These loans materialize through an agreement between the Fund and the Ministry of Religious Affairs and Awqāf, in consultation with the Al Baraka Bank of Algeria which is a member of the Loan Guarantee Fund of small and medium-sized enterprises.
- **Helping enterprises in debt that are capable of recovery:** The Bank determines a list of the beneficiaries of this type of financing by identifying their needs, to what extent they are recoverable and how to pay those debts. The assistance includes only the principal, but not the interests paid to banks.
- **Creation of companies between the Fund of Zakāh Investment and Al Baraka Bank of Algeria:** These projects are implemented through an agreement between the Al Baraka Bank of Algeria and the Ministry of Religious Affairs and Awqāf. The Bank determines the size and quality of the projects to be implemented. The unemployed capable of working will benefit from these projects. After approval by the Zakāh Fund and Al Baraka Bank of Algeria, the financing is granted to the beneficiary. The beneficiary

repays the loan in different ways, depending on the parties involved in the funding process:

- \* If the parties of the funding process are the bank and the financed poor, exemption from repayment of six months is granted, after which the beneficiary starts to repay the loan installments depending on the contract.
- \* In case of third party, the National Agency for Conducting Mini Loans, the financed repays 70% of the good loan, benefits from the exemption for one year, then repays depending on the contract. After repayment of the bank loan, the financed starts to repay the Agency's loan, with 3 years of exemption.

### 3.1.3.1. TRANSPARENCY, ACCOUNTABILITY & GOOD GOVERNANCE <sup>8</sup>

Governance of zakāh foundations in Algeria has become very significant in the light of current developments. The governance mechanism should apply the principles and basics of governance to improve the performance of zakāh projects, and develop the methods of supervision and control to strengthen credibility in zakāh foundations' activities. The governance system for zakāh foundations may involve the following:

- Assist zakāh foundations to implement their tasks with efficiency while achieving economic and legitimate (according to Shari'ah) requirements for investing zakāh resources;

<sup>8</sup> "Financing the Local Development from an Islamic Perspective: The Contribution of the Funds of zakāh & Waqf", Wasila Essebt, PhD Thesis, University of Mohamed Khidhr University, Biskra, Algeria



- Separate powers and conflicting positions to ensure clear mechanisms are implemented for assuming responsibility and accountability when collecting and distributing zakāh;
- Ensure an unbiased opinion by Sharī'ah control bodies in zakāh foundations relating to their transactions; and
- Complete the institutional and Sharī'ah framework of zakāh foundations.
- Realistic monitoring and evaluation of performance of projects funded by zakāh foundations;
- Identification of the tasks and responsibilities of the administrative and organizational structure in zakāh foundations;
- Providing necessary and relevant information to facilitate prudent investment of zakāh resources; and
- Designation of committees to follow up the performance of zakāh projects.

Two groups of determinants can be defined depending on the proper application of governance principles for zakāh foundations:

- **External determinants:** they include laws regulating the economic activity of the state, including the operation of zakāh foundations
- **Internal determinants:** they include internal laws and regulations within zakāh foundations. They are the way of decision-making and the allocation of responsibilities and powers between the parties concerned with the application of governance, which reduces conflicts between the interests of these parties.

The prerequisites for the good application of governance principles for zakāh foundations:

- Establishment of legal and legislative framework to regulate the administrative performance of zakāh foundations;

The rules of governance in activating the Algerian Fund of Zakāh play a fundamental role in achieving economic efficiency in the investment of zakāh funds. The Fund's management must provide the necessary information for the different parties in time to gain their trust. This will contribute to increase in resources and exploiting the resources in a way that allows to achieve social justice and contribute to economic development. Thus, the system of governance plays a major role in improving the performance of the Algerian Zakāh Fund.

To sum up, governance aims to achieve individual and societal interests which are rooted in the Islamic Sharī'ah. Commitment to rational governance system will lead to the development of the Fund, overcome problems, increase its competitiveness, and achieve its financing and Sharī'ah objectives. It will lead to efficient information-sharing, and effective overall control to assess performance and enhance confidence in zakāh projects.<sup>9</sup>

<sup>9</sup> ibid 115

The governance principles guiding the Algerian Zakāh Fund may be enumerated as follows:

- Ensure sound basis for collecting and distributing zakāh: develop sound rules for distributing zakāh outcome in ways preserving the dignity of the poor and needy and ensure compliance with rules of ethical and professional conduct of the administrators of this process.
- Ensure transparency: disclose information and data relating to the collection and distribution of zakāh funds, in order that people who give zakāh ascertain the extent to which their funds are faithfully and efficiently invested.
- Ensure equity in the distribution of zakāh resources among eligible recipients
- Demonstrate socially responsible behavior building social cohesion
- Ensure autonomy: stay away from all internal and external pressures that affect the good performance of its duties; set up the principle of autonomy to achieve its strategic objectives
- Apply the principle of accountability by emphasizing the responsibility of the Board of Directors in the compliance with laws, the application of ethical standards, the acceptance and strengthening of all methods of control and review to ensure efficiency. <sup>10</sup>

10      ibid 116

## Strategic Analysis & Recommendations

The strengths of Algerian zakāh system include the following:

- The existence of a functional Zakāh Fund is certainly a strength of the existing system.
- There is a high level of community awareness of the importance of zakāh.
- The establishment of some Islamic banks in the country that serve as payments system for many zakāh payers.

The weaknesses on the other hand are as follows:

- A large chunk of zakāh is given by payers individually, away from official channels.
- There is considerable lack of confidence in the zakāh management system among a section of zakāh payers.
- There is an absence of a national policy and campaigns for zakāh collection and distribution, which adversely affects the system.
- There is an absence of any preferential provision for zakāh in the existing tax system.
- Zakāh funds are not well-integrated with other forms of Islamic finance such as waqf and Islamic microfinance.
- There is a dearth of university programs for the development of qualified specialists in the field of zakāh.

## Recommendations

- We propose some measures to activate the organization of zakāh, some of which may require a choice between alternatives, as follows:
- Implement a national zakāh policy with relevant strategies.
- Identify sectors to be exempted.
- Study the components of the Algerian economy for better allocation of zakāh.
- Incentivize payment of zakah.
- Promote zakāh at important religious and national events.
- Build awareness about enhanced role of zakāh.
- Promote scientific research in the field of zakāh.

## 3.2 LIBYA

### 3.2.1 OVERVIEW OF THE SECTOR<sup>11</sup>

The Zakāh Department in the General Authority of Awqāf and Islamic Affairs GAAIA did not have any significant activity prior to the establishment of the Libyan Zakāh Fund in 2012. The GAAIA aimed to collect and distribute zakāh funds, but this policy was not as effective as it should have been. There are no statistics or database for zakāh payers or beneficiaries. This is perhaps due to the widely held belief among policy makers that there is no acute poverty in the Libyan state, thanks to the liberal grants, bonuses, salaries and other forms of support provided by the state to all Libyans, including low-income people, divorcees, widows, and people with disabilities. However, as the population and commodity prices has continued to increase, the cash flows have failed to keep pace and proved inadequate to cover the basic needs of people.

In 2012, the Libyan Zakāh Fund, was established as an independent institution. Its management is concerned with establishing a database for the beneficiaries and zakāh payers. It manages zakāh funds and adopts modern technology in collecting and distributing zakāh. The Fund also tries to coordinate and cooperate with other public institutions such as the Social Security Fund, Solidarity Fund, and Wealth Distribution Fund to unify efforts and prevent duplication of distribution of funds. The mechanism of zakāh distribution is based on eight categories specified in the Holy Qur'ān,

<sup>11</sup> Adel Diab, former chairman of Libyan Zakāh Fund, an interview on 05/06/2017

and explained in the Prophetic Sunnah, according to the doctrine of Imam Malik, which are explained in the Libyan Zakāh Law.

### 3.2.2 REGULATORY & POLICY FRAMEWORK<sup>12</sup>

The Libyan government has been interested in organizing the collection and disbursement of zakāh funds since the early 1970s. The Law No. 89 of 1971 was issued to put in place the appropriate collecting and distributing policy of Zakāh. This work was not performed under an independent financial and administrative organization, but through a department of the GAAIA. In 1980, this law was amended by the Law No. 13/1980. The most important amendments were the establishment of a special Zakāh Authority known as the General Authority of Zakāh (GAZ) instead of being a department of the GAAIA. Despite of these amendments, the GAZ was not very effective for several reasons. The most notable is the lack of trust between the GAZ and Libyans; indeed people were convinced that their money would not be spent in the right way. During this period, there were no statistics regarding zakāh payers or beneficiaries. There is no database for this sector because the government was not concerned with this sector. This institution became ineffective until Decree No. 49 of 2012 for establishing the Libyan Zakāh Fund, with financial and independent management, and adopted its administrative, regulatory structure, and its regulations from the Council of Ministers.

<sup>12</sup> Hazem Zohdi, former director of Department of Zakāh distribution & former director of Libyan Zakāh Fund (Tripoli branch) Islamic and Social Finance for the Arab Maghreb Countries, working paper presented at the workshop, Tunis on 10/6/2017

In 2014, the Zakāh Fund introduced a new project that addressed the administrative problems and obstacles to its work, including an attempt to find a mechanism for investing Zakāh funds, and establishing a new mechanism for the disbursement and collection of Zakāh. However, this law has not yet been established because there is no political and legislative stability in the country.

### 3.2.2.1 INSTITUTIONAL STRUCTURE<sup>13</sup>

Zakāh Fund supervises 38 branches across the country. It aims to raise awareness about the obligation of Zakāh, and its importance. It also makes an extra effort to establish a database for all the poor and needy people throughout Libya. In addition, the Zakāh Fund works to improve the efficiency of institutional work by introducing the required technology to provide a service for Zakāh beneficiaries, and improving the relationship between the Zakāh Fund and other public institutions including civil organizations.

Chart 3 shows the organizational structure of the Libyan Zakāh Fund, which includes:

1. **Seven main departments:** Department of Advisers (consultants), Department of Planning and Follow-up, Department of Fund Affairs, Department of Legal Affairs, Department of Internal Audit, Department of Investment , and Department of media.<sup>14</sup>
2. **Three main administrative departments:** Department of Financial and Administrative Affairs, which is concerned with staff's and financial affairs. The Department of Zakāh

<sup>13</sup> Hazem Zohdi, Islamic and Social Finance for the Arab Maghreb Countries, working paper presented at the workshop, Tunis on 10/6/2017

<sup>14</sup> Department of investment is still proposal, and it

collection includes a preparation and supervision division as well as a collection division. (3) Finally, the Department of Zakāh distribution, includes a distribution division, and a social researchers division.

These departments and divisions work in a consistent manner to achieve the goals of the Zakāh Fund. Every branch of the Zakāh fund in each city has a similar structure to the main structure, so that each branch collects Zakāh and distributes it to the beneficiaries in the same city. However, the relationship between the main branch (headquarter) and its branches is an organizational supervisory relationship, were these branches must submit the necessary information monthly and annually.

Regarding legal issues of the Zakāh Fund, the former relies on three special independent advisory committees from which the rules for collection and distribution of Zakāh are derived. The First Committee in each of the Zakāh branches in Libya is a specialized committee for studying applicants of Zakāh beneficiaries and determines the legal (sharia) application for each issue. The second committee is a special committee pertaining to the department of advisors. Its duties are mainly to find fatāwa concerning all the legal issues raised to it by the branches or from the bureau. Finally, the Bureau of Fatwa (Dar Al Ifta) "is the independent committee affiliated with the President of the Republic or its place" may require to consult from time to time depending on the need.

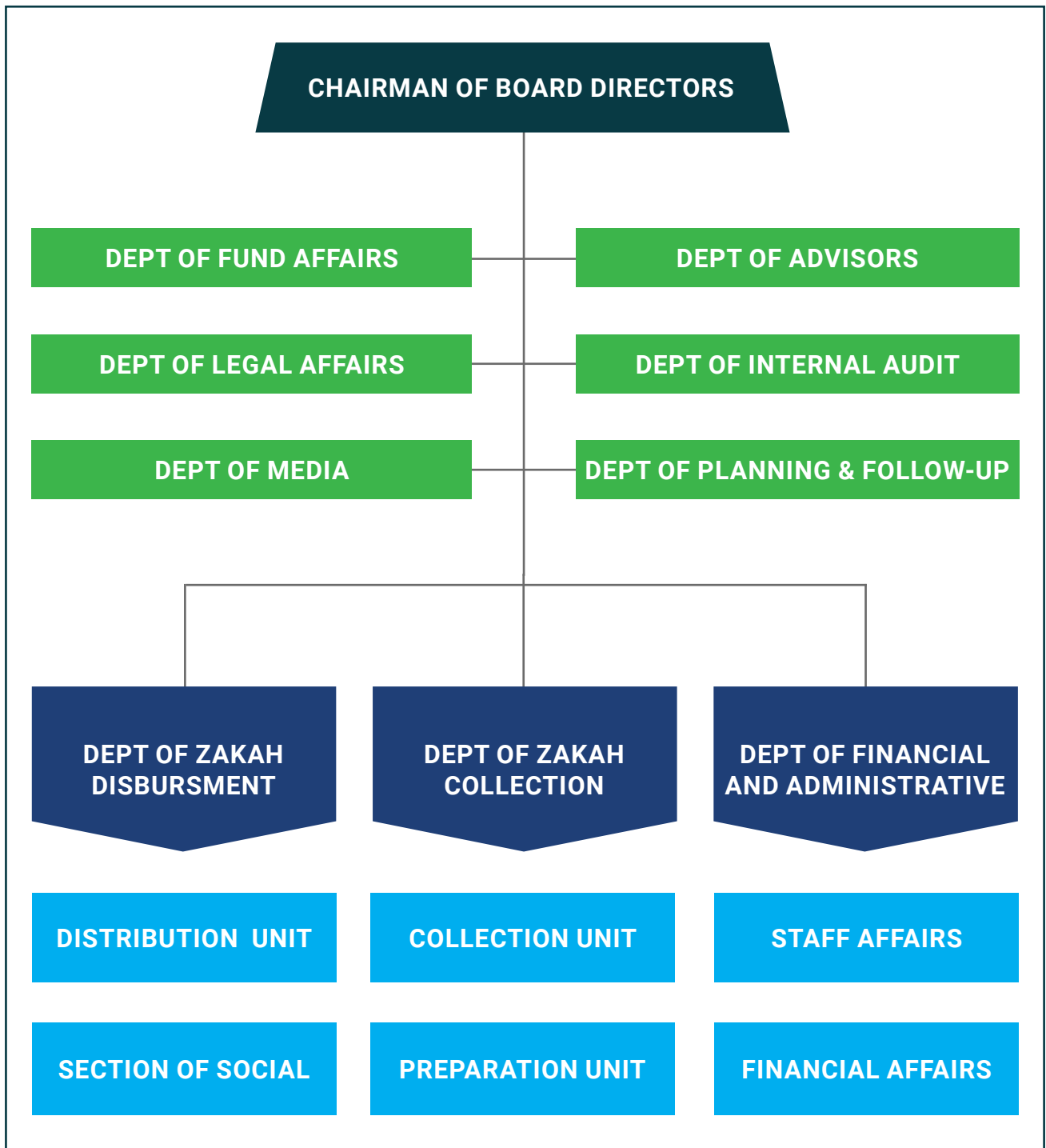
The Zakāh Fund's staff are qualified Libyan employees receiving their salaries from the state budget and not from the

has not effective yet.

Fund's funds. This staff tries to establish a database in order to work according to the principle of transparency and disclosure, as well as by publishing data and information in special reports that are easy for the public to understand. In addition, it relies on a special questionnaire to get

necessary information from zakāh payers and its beneficiaries. It also tries to know their views regarding the performance of Zakāh Fund. Finally, specialists from the Audit Bureau are hired to evaluate the performance of Zakāh Fund, and to monitor any deviations.

**Chart (3): The organizational structure of the Libyan Zakāh Fund**



Source: Libyan Zakāh Fund

### 3.2.2.2 SUPPORTING INFRASTRUCTURE <sup>15</sup>

There are no supporting institutions for the Libyan Zakāh Fund, such as charities or training centers or other organizations. However, the Zakāh Fund used media (initially) to broadcast workshops, seminars and conferences to emphasize the importance of paying Zakāh and its important role in the preservation of the Libyan community, especially under the current circumstances. In addition, the Zakāh Fund uses social media to publish its reports and the results of its work.

### 3.3.3 ZAKĀH COLLECTION & DISTRIBUTION

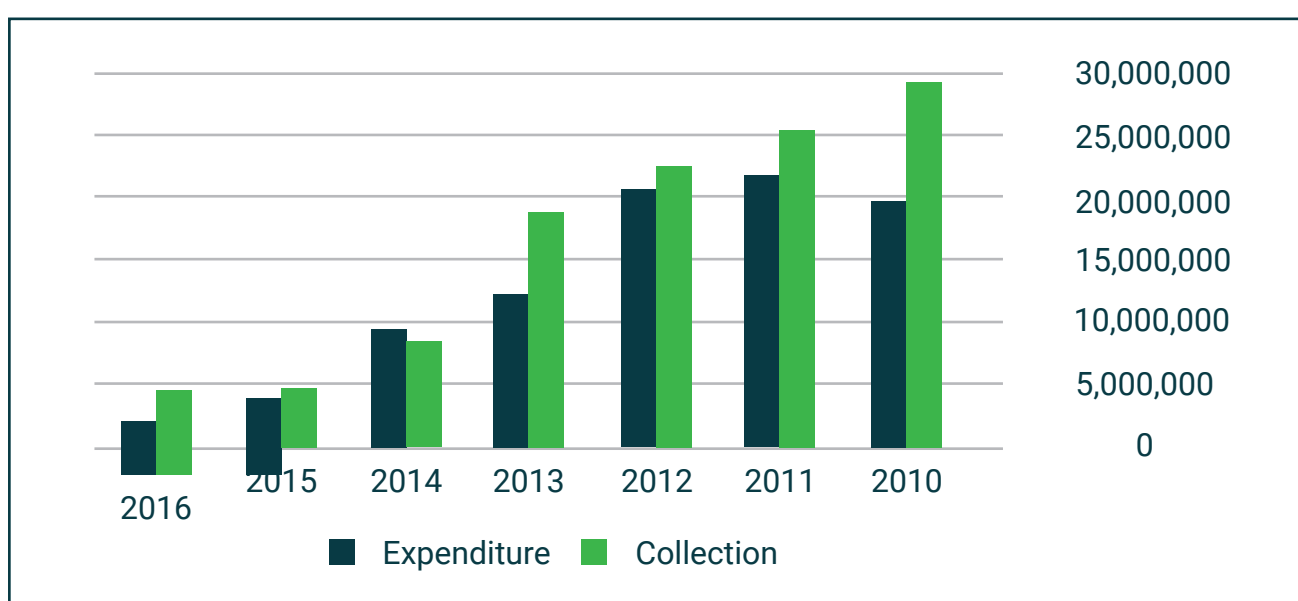
Table 1 refers to development of Zakāh Fund during 2010-2016. It indicates that there is a significant development in collected and disbursed zakāh. Funds collected as zakāh increased from Libyan Dinars 6.7 million in 2010 (0.007% of GDP) to 29.3 Million in 2016 (0.04% of GDP). On the other hand, the amount of money disbursed to beneficiaries rose from Libyan Dinars 4.3 million in 2009 to about 21 million in 2015 before falling to 19.6 million in 2016.

**Table 2. Zakāh funds and expenditures during the period 2010-2016 (Thousand Libyan Dinars)**

Year	2010	2011	2012	2013	2014	2015	2016
Collection	6,660	4,774	8,531	18,732	22,349	25,349	29,264
Disbursement	4,347	6,169	9,387	12,397	20,603	21,603	19,615

Source: Periodic reports of Libyan Zakāh Fund for the years 2010-2016. The average exchange rate of the Libyan Dinar is 1.301 \$

**Chart 1: Collected and Disbursed Zakāh during the period 2010-2016**



15 Hazem Zohdi, Islamic and Social Finance for the Arab Maghreb Countries, working paper presented at the workshop, Tunis on 10/6/2017

Chart 1 shows the collection and disbursement of the zakāh funds during the period 2010-2016. It indicates the success of the Fund following the communication campaigns regarding the collection of zakāh and disbursement to the rightful beneficiaries.

Libyan law prescribes the following allocation rule for zakāh.

It increased from 1,185,372 LYD (9.6%) in 2013 to 1,409,535 LYD (6.8%) in 2014. But despite the increase, it decreased as a percentage of total by 0.1%. Zakāh distributed for Ibn Al-Sabeel rose slightly from 300,147 LYD (2.4%) in 2013 to 310,807 LYD (1.5%) in 2014, but as a percentage of total decreased by 0.9%. The share of the staff working on collecting Zakāh fund,

**Table 3: Distribution of Zakāh for the eight categories according to Libyan law**

Category	Percentage
Fuqara	55
Amilin Alayha	10
Muallafat Al-Qulub	10
Gharimun	10
Fi Sabilillah	10
Ibn Al-Sabil	5

Source: Libyan Zakāh Law No. 13/1980

Table 3 compares zakāh funds disbursed to the beneficiaries during 2013-2014. The share of the poor and needy people was the largest proportion of the zakāh funds. It increased by 4.5% in 2014, from 9,797,489 LYD (79%) of the total Zakāh funds to 17,233,514 LYD (83.5%). This is followed by the money spent on the Gharimun (Debtors), people that have debts because of the rising cost of living, treatment expenses or purchase of basic needs.

increased from 1,113,639 LYD (9%) in 2013 to 1,130,162 LYD (5.5%)<sup>15</sup> in 2014, but as a percentage of total decreased by 3.5%. The Fund did not spend any money for Muallafat Al-Qulub and for Fi Sabilillah in 2013, while in 2014 it disbursed 11,500 LYD and 543,165 LYD for the two categories respectively.

<sup>15</sup> The average exchange rate of the Libyan dinar is 1.301 \$



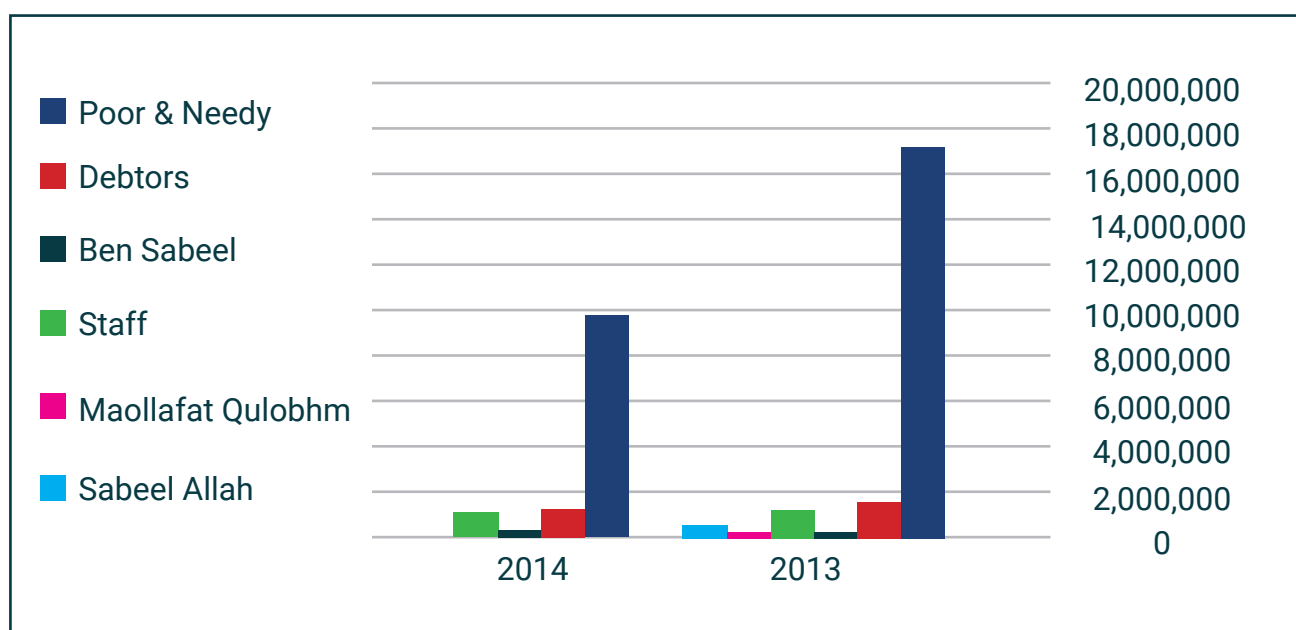
**Table 3: Distribution of Zakāh for the eight categories according to Libyan law**

Categories	2013	%	2014	%
Fuqara & Masakin	9,797,489	79.0	17,233,514	83.5
Gharimun	1,185,372	9.6	1,409,535	6.8
Ibn Al-Sabil	300,147	2.4	310,807	1.5
Amilin Alayha	1,113,639	9.0	1,130,162	5.5
Muallafat Al-Qulub	0	0	11,500	0.1
Fi Sabilillah	0	0	543,165	2.6
<b>Total</b>	<b>12,396,647</b>	<b>100</b>	<b>20,638,684</b>	<b>100</b>

Source: Periodic reports of Libyan Zakāh Fund for the years 2010-2016.

Chart 2 supports the above table, and shows zakāh funds disbursed during the year of 2014, indicating that most of these funds were spent on the poor and needy people, according to the regulations on the disbursement of zakāh funds in the Libyan law.

In summary, no zakāh funds have been spent on the following categories: Muallafat Al-Qulub and Fi-Sabilillah. This is because issuing a fatwa by Sharī'ah committees is quite complicated (i.e. the process of issuing a fatwa regarding zakāh distributions is problematic), especially in the current situation in Libya.

**Chart 2. The distribution of zakāh funds for the years 2013-14**

Zakāh branches throughout the Libyan cities collect all categories of Zakāh, including Zakāh al-Fitr, al-Kaffaaraat, charity, sheep, agricultural crop, and other types of Zakāh. The Zakāh Fund collects directly from the people, businessmen, and firms. Zakāh is collected in three different ways, through the staff of Zakāh Fund, bank accounts, and directly through branches. As shown in Table (1), Zakāh funds collected increased from less than 6.7 million LYD in 2010 to 29.3 million LYD in 2016. This is due to people's awareness of the obligation of paying Zakāh, and their trust in the Zakāh Fund.

However, distribution of zakāh funds increased from 4.3 Million LYD in 2010 to 21 Million LYD in 2015, and then decreased to 19.6 Million LYD in 2016. Zakāh collections are distributed for the benefit of all legal categories explained in Qur'an and Sunnah. In 2014, the number of Zakāh payers reached a peak of 33,356. Most of the beneficiaries are the needy and poor (31,830 beneficiaries), followed by staff (595), Ibn Al-Sabil (535), and Al-Gharimun (363). However, the category of Sabeel Allah and Muallafat Al-Qulub are less than 20 beneficiaries each. The category of the needy and poor people is about 55% of total beneficiaries. Payments were made in the form of monthly grants for divorced and widows, sick people and disabilities, large families whose income is very low, home maintenance, support to youth to get married, and help to find jobs to the poor and needy.

### 3.2.4 TRANSPARENCY, ACCOUNTABILITY & GOOD GOVERNANCE

The Zakāh Fund publishes monthly and annually all necessary data and information, according to the principle of transparency and disclosure. Zakāh Funds and Zakāh distribution will be published in an easy way, so it can be understood by all people. There are four official and non-official bodies controlling and monitoring the Zakāh Fund. This mechanism contributes to public trust and to the increase of the number of Zakāh payers. These bodies are:

- **Chairman, Board of Directors:** The chairman implements the main strategy for Zakāh Fund and its branches. The chairman also supervises the implementation of a yearly plan and controls its work.
- **Administrative Authority:** It is a public institution caring about supervision and control of all public entities. It appoints employees, managers, and Chairman of Board.
- **Libyan Audit Bureau:** It monitors all the Fund transactions including Zakāh collection and distribution. It also controls the allocated money for Zakāh Fund from state budget, and ensures that financial regulations are followed.
- **Public:** This category includes zakāh payers and charities in order to ensure that Zakāh Funds are directed to the right beneficiaries, by informing them about the periodic reports of Zakāh Fund and presenting their comments through the various complaints.

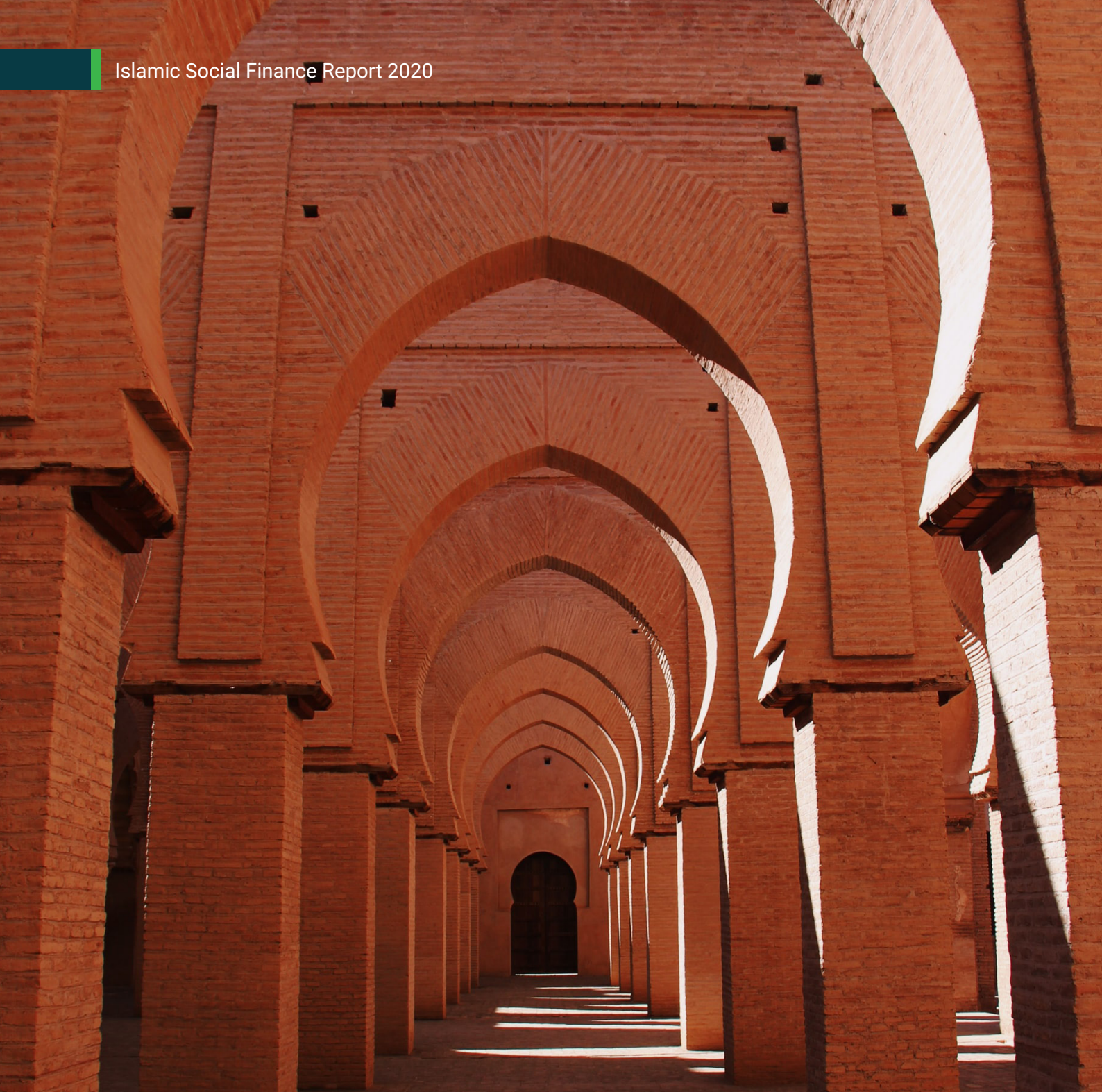
## 3.2.5 STRATEGIC ANALYSIS & RECOMMENDATIONS

### **Strengths**

- Libyan Zakāh Fund has a professional and educated staff.
  - There is always consistency between the main branch and other branches throughout the Libyan cities.
  - During the last five years, Zakāh Fund has achieved several objectives including the definition of Libyan Zakāh Fund, the importance of Zakāh for Zakāh payers, and for community through different broadcasts, which led to an increase in Zakāh funds dramatically.
  - Zakāh Fund seriously tries to establish a database containing Zakāh payers and beneficiaries.
  - Reviving the obligation of Zakāh for public, and accepting zakāh and charity and spending them for beneficiaries with confidence in accordance with the provisions of Islamic law.
- Fund and other state institutions, such as the Social Security Fund, Ministry of Social Affairs and the Wealth Distribution Fund, which results in double payment of financial aid to beneficiaries.
  - The lack of a unified database between the Zakāh Fund and the aforementioned institutions.
  - The Libyan Zakāh Fund is surrounded by laws, regulations and fatāwa that restrict and complicate its work.
  - The Zakāh Fund needs to introduce the technology and electronic programs used in establishing databases and tabulating and preparing periodic reports that showcase the Fund's work results.
  - The Zakāh Fund's lack of full disclosure and complete transparency when it comes to the amounts collected and disbursed and the actual Fund's contribution to improving the recipients conditions

### **Opportunities**

- The legislation of Zakāh funds investment is crucial for the Libyan Zakāh Fund.
  - Calling for replacing Zakāh with the tax.
  - There is a proposal to amend Law No. 49/2012 on the establishment of the Zakāh Fund by making it a financially and legally independent entity, and not affiliated with the GAAIA, and giving it broader powers to carry out its duties and functions. In addition, the Zakāh Fund remains
- Libyan Zakāh Fund records financial surplus at the end of the financial year for several reasons, the most important of which is that the rates of Zakāh distributions are defined in Libyan law, and cannot be violated. This is not helpful to the economic and living conditions of the people.
  - Lack of coordination and communication between the Zakāh



restricted by law and regulations. However, the amendment proposals will support the Zakāh Fund to achieve its goals.

### **Threats**

- The attempt to merge the Zakāh Fund with the General Authority for Awqāf and Islamic Affairs GAAIA, which may frustrate its staff.
- Political, security and economic instability negatively affects Zakāh payers and the citizenry in general. The payers' businesses/activities are affected by the instability on the one hand, and on the other hand, instability leads to poverty rates increase, making it difficult for the Zakāh Fund to help all beneficiaries.

## Recommendations

Despite the development and progress of the Libyan Zakāh Fund, it suffers from difficulties and obstacles that must be resolved. Below are highlights of the key issues and some recommendations:

- More researches, discussions, and studies are needed with Sharī'ah Committee of the Fund and Dar Al-Fatwa, and more attention must be given to jurisprudence of the various Zakāh issues, with regard to the inclusion of some segments of those entitled to Zakāh in the eight categories, for example, Sabeel Allah and Ibn Sabeel.
- Some of the departments of the Zakāh Fund and its branches depend on manual classification and manual registration, which affects the performance of the Zakāh Fund and its functions, the Zakāh Fund must rely on computer automation as a key factor for development of Zakāh work.
- It can be said that the Zakāh Fund in Libya works alone in collecting money and disbursing it to its beneficiaries, without cooperation of other institutions, so it is necessary to find partnerships with charities, non-governmental and governmental institutions to stimulate this sector.
- There is redundancy in the collection of funds in Libya, which appears in the tax authority in Libya and Libyan Zakāh Fund. There are appeals to match them and unify their efforts.
- More attention must be given to studies, researches and discussions to find a Fatwa for the investment of zakāh funds, in order to try to reduce the burden on the fund due to the increase in the number of poor and needy, and shortage of Zakāh funds. Investment of Zakāh Funds in projects that generate income can support Zakāh Fund to achieve its objectives.
- Coordination between Zakāh Fund and other state institutions, especially Tax Authority, Ministry of Social Affairs, Social Security Fund and Wealth Distribution Fund.
- The material and moral support must be provided by the state to the Zakāh Fund so that the Fund can revive the obligation of zakāh, charity and donation.
- Amendments and modernization of the laws and regulations of the Zakāh Fund should be undertaken.
- It is recommended to establish a Maghreb regional zakāh organization that brings together Arab Maghreb countries to supervise the coordination of business between the zakāh funds and the exchange of aid and expertise.
- The different zakāh funds need more communication with one another, and one of the most important things that makes this communication strong and smooth is the presence of clear and highly efficient standards that evaluate zakāh institution's work.
- We recommend finding accurate standards to evaluate all zakāh business (administration, Sharī'ah, legal, financial, accounting, economic, technical, communication, charitable projects, etc.)
- This would bring the Zakāh Funds closer together and ensure a level-playing field for them all.

## 3.3 MAURITANIA<sup>16</sup>

### 3.3.1 OVERVIEW OF THE SECTOR

Historically, Mauritania did not benefit from a state-operated system of zakāh management after the Almoravid dynasty era, as the country did not know of a central state from that moment until the French colonization. The Mauritanian people were mainly living in tribes and in the countryside. A strong drought hit the country in the 1970s, which harmfully damaged the cattle that constituted the basic wealth of the population. This was the major factor that sparked the tribe's urbanization and their migration to the main cities in the country.

It was only in the early 1980s that the state established a public institution for zakāh and awqāf under Decree No. 119/82, providing with some degree of financial independence.

### 3.3.2 REGULATORY AND POLICY FRAMEWORK

In 2003, the Finance Law stipulated that zakāh would be deductible from the income tax. However, this provision remained unapplied. In 2005, at the request of the Minister in charge of the Islamic Affairs, a technical committee<sup>17</sup> was formed to consider the study of zakāh collection and the means to do it.

<sup>16</sup> Paper "Overview on Zakāh & Awqaf Sectors in Mauritania", Abdallahi Ould Addoud, Deputy CEO of the Awqaf National Institution (Mauritania), presented during the Kick-off Workshop of the "Islamic Social Finance Report", held in Tunis on 10 June 2017, and co-organized by IRTI (IsDBG) and Zitouna Tamkeen MFI

<sup>17</sup> Unsigned draft of the minutes of the Technical Commission entrusted in 2005 by the Minister of Islamic Affairs to study the practical arrangements for the matters of the Zakāh in Mauritania.

The Committee had to examine the following points:

- The permissibility of the state taking over zakāh matters.
- The limits of the state's intervention in zakāh matters.
- Ways of zakāh collection.
- Experiences of other countries and institutions.
- Role of zakāh in poverty alleviation.

The recommendations of the Zakāh Committee included the following.

#### 3.3.2.1 INSTITUTIONAL STRUCTURE<sup>18</sup>

On the permissibility of the state taking over zakāh matters:

- Zakāh is the third pillar of Islam and therefore the Committee considers the importance of organizing it to ensure its performance in the required manner.
- There is a sovereign factor in it and the role of the Governor in this field is important.
- Zakāh is a means to revive the civilizational dimension of the central state.
- It is a key factor in the reduction of poverty.
- A center for the attraction of foreign zakāh should be set up.
- Issues relating to taxation, public expenditure, and transparency in zakāh disbursement should be addressed.

<sup>18</sup> Ibid

- There is a need to improve the payment of zakāh among many high net-worth individuals.

On the limits of the state's intervention in zakāh matters:

The method of the intervention of the state should take the form of supervision, thus providing flexible methods of collection and disbursement to the expected zakāh authority and opening the way for Muzakkis to be aware of the way their zakāh is spent.

The Committee concluded that the following institutional actions are necessary:

- The enactment of a law regulating the collection and disbursement of zakāh.
- The establishment of an independent institution to deal with the collection and disbursement of zakāh.
- To provide the institution with the necessary means to carry out its mission, which requires independence and protection, through:
  - \* Giving it the appropriate legal form
  - \* Providing it with the appropriate human capital through
    - ◇ Establishment of a legislative council comprising of all types of stakeholders
    - ◇ Establishment of an executive body with the necessary executives to manage it (different specialties)
  - \* Providing it with the necessary equipment and means

The Committee also noted the need to facilitate overcoming all obstacles that may prevent the collection of zakāh. Among these obstacles:

- A civilizational barrier, related to the absence of the concept of an Islamic state
- A psychological and social barrier, related to the non-responsiveness of the muzakkis to the method of zakāh collection.

The Committee also recommended a gradual increase in zakāh collection as follows:

- The zakāh authority should initially limit the collection to 50%, leaving the rest to the muzakki to distribute by himself.
- Starting with the registered institutions.

The Committee also recommended to:

- Benefit from existing institutions and structures (Awqāf National Institution, Association of Mauritanian Scholars League, Committee of Mosques and Madrasas<sup>19</sup> ).
- The state shall bear the costs of the establishment and management of the authority during the first two years.
- The work of the authority shall be concentrated during the first two years in the city of Nouakchott and other major cities, if possible, after which a simplified regional office will be opened at the level of the internal regions.

However, these recommendations, which were accompanied by the preparation of a draft law that specifies the methods of zakāh

<sup>19</sup> Traditional Islamic Schools

collection and disbursement, are yet to be implemented.

Therefore, until today, there are no official structures responsible for the collection and distribution of zakāh in the country and the zakāh is still practiced in an informal manner. There is no systematic data available on zakāh collection and distribution.

### 3.3.3.2 SUPPORTING INFRASTRUCTURE

In Mauritania, we do not find an entity that is fully dedicated to zakāh knowledge, researches, training, etc. However, the zakāh rules are taught in the Islamic universities and schools and mentioned in the Juma'ah (Friday) sermons.

## 3.3.4 TRANSPARENCY, ACCOUNTABILITY & GOOD GOVERNANCE

Although the zakāh collection and distribution are not institutionally organized, Mauritanian people usually give importance to disbursing it to one of the deserving categories. Therefore, they may disburse it by themselves or give it to a reliable person with proven honesty to do it on their behalf.

## 3.3.5 STRATEGIC ANALYSIS & RECOMMENDATIONS

### Strengths

- The existence of a draft law that specifies the methods of collecting and disbursing zakāh,

### Weaknesses

- There is no special law that encourages the payment of zakāh in Mauritania.

- There are no studies that deal with the economic and financial aspects of zakāh.

### Opportunities

- The existence of an Islamic financial system in Mauritania (Islamic banks, insurance companies).
- Requests from a large part of civil society to develop the sector.
- Worsening social inequality and the Government's need for additional financial resources.
- Mobilizing financial resources from local communities.

### Threats

- The process faces roadblocks created by officials trained in Western countries and vested interests.
- Government seems to be under fear of creating additional tax burden on citizens.

### Recommendations

- The speedy enactment of a law regulating the collection and disbursement of zakāh
- The establishment of an independent institution to deal with the collection and disbursement of zakāh



## 3.4 MOROCCO

### 3.4.1 OVERVIEW OF THE SECTOR

Since the Islamic conquest, Morocco became one of the Islamic countries where most of the successive states and dynasties looked after organizing the collection and disbursement of zakāh as a third pillar of Islam and as a financial obligation taken from the rich and given to the poor. This situation continued until the colonialism period in the beginning of the last Century, when the state stopped the collection of zakāh and it was replaced by the so-called system of arrangement “Attartib system”<sup>20</sup>. Since then, the Moroccans have been giving out their zakāh individually in an informal manner.

The first phase was from the Islamic conquest until the establishment of the Almoravids dynasty (1056-1147) when zakāh was collected and spent in a decentralized manner by the local authorities, and the surplus was given to Bait al-Mal. The second phase was after the Almoravids until the beginning of the 20th Century. During this period, the system shifted in favor of centralized management, with exceptions sometimes in favor of decentralized local spending, especially for zakāh al-fitr. And the third phase was the era of colonialism when the state abandoned its role in zakāh management.

<sup>20</sup> The era of Hassan I (1873-1894), “the system of arrangement of charity” was arranged next to Zakāh, in which Zakāh was collected beside some taxes. This tax was one of the most important direct taxes before the French protectorate in Morocco. The arrangement or “Attartib” includes three taxes: the tax on annual agricultural crops, the tax on fruit trees, and the tax on livestock. See: [http://abdelghafour19.blogspot.com/2015/03/blog-post\\_7.html](http://abdelghafour19.blogspot.com/2015/03/blog-post_7.html)

At present, Morocco is one of the Muslim countries that does not yet benefit systematically from the zakāh funds. However, since 1979, Morocco began to think about the integration of zakāh into the economic and social fabric at the initiative of the late King Ḥasan II. And as from then, a private account for zakāh was added in the Finance Act of 1980 called “Zakāh Fund”. This account includes a credit balance for zakāh collections and a debit balance for the disbursement of zakāh funds, but no provisions have been recorded to date. Eighteen years later, zakāh was again under focus at another initiative of the late King Ḥasan II in 1998. The Ministry of Awqāf and Islamic Affairs, in collaboration with the Ministry of Economy and Finance, prepared a draft law to organize zakāh and prepare guidelines for zakāh in collaboration with some Moroccan Shari’ah Scholars. However, the death of King Ḥasan II in 1999 halted the project.

In 2003, the King Mohammed VI reintroduced the idea of organizing zakāh. But there has been no implementation to date, although the Minister of Awqāf and Islamic Affairs mentioned in 2009 the expected issuance of a royal decree for the establishment of the Zakāh Fund.

It should be noted that the estimates of zakāh collections in Morocco for the period 2015-2017 range between 2.7 and 3 billion USD, or about 2,77% of GDP; the estimates are from 0.8 to 0.9 billion USD for agriculture GDP and from 1.9 to 2 billion USD for non-agriculture activities.

In case of zakāh institutionalization, the potential of zakāh collection is between 0.9% and 2.15 of GDP, and ranges from 0.9

to 2.3 billion USD. The potential of zakāh distribution is between 0.81 and 1.94 of GDP, and ranges from 0.8 to 2.1 billion USD.

### 3.4.2 REGULATORY & POLICY FRAMEWORK

Several questions have been raised in Morocco about the reasons for the non-activation of the Zakāh Fund since 1980, despite its inclusion in the Finance Law, and especially after the speech of King Ḥasan II in 1998 when he announced the state's supervision on reviving and organizing zakāh. In the same year, a committee composed of representatives of the legislative and executive bodies, some Sharī'ah scholars of the Kingdom, as well as some experts in public finance, prepared a project about how to organize zakāh in Morocco. However, there was no further action in this regard.

This project includes the initial conception of the structure of the zakāh institution, which will supervise the collection and distribution of zakāh. The main elements adopted in determining the institutional framework for zakāh are to make this institution under the direct supervision of the King, emphasizing the role of zakāh as the third pillar of Islam and its importance in achieving solidarity and compassion among the people, and ensuring the flexibility in structuring the institution to enhance citizens' confidence.

The project proposed the establishment of a "Supreme National Committee for Zakāh" headed by the King, which shall work on a program that includes specific objectives within the strategy presented to the King. It also proposed the establishment of regional committees for zakāh that will

collect and distribute zakāh in accordance with the Supreme Committee's program.

It is noteworthy that besides the official efforts to organize zakāh, there were other Moroccan efforts to institutionalize zakāh, especially the efforts of the "Moroccan Association for Studies and Research in Zakāh", which was established in 1994. The association has undertaken several initiatives to urge and encourage decision makers to institutionalize zakāh in Morocco, like the letter that was sent to the Moroccan Government (1998-2002), in which the association called for activating the Zakāh Fund, which was initially included in the Financial Law since 1980. A proposal<sup>21</sup> was submitted reflecting its perception about how to implement and organize zakāh in Morocco. The cornerstones of this proposal are: (A) Organizing the collection and distribution of zakāh by establishing independent regional funds with public interest status, and a central fund for planning and coordinating without any direct interference of the state; (B) Adopting the principle of the optional payment of zakāh and the encouragement of this option; (c) Establishing a Sharī'ah Supervisory Board. This proposal also includes the launch of a comprehensive awareness program in the country about zakāh, its provisions and purposes, and the creation of a database of zakāh beneficiaries.

The Moroccan Association for Studies and Research in Zakāh also seized the opportunity of the National Taxation Conference in 2013 about Tax Reform to present a memorandum to the Ministry of Economy and Finance summarizing

<sup>21</sup> The proposal was published in 7th and 8th edition of the Journal of Zakāh Issues in 2002.

its vision of how to combine zakāh and taxes in Morocco and its proposal for a new outlook to give zakāh a privileged position within the public finance and tax system in Morocco. In this memorandum, the Association clearly adopted the idea of revising the tax system in a new model that is different from the models that call for the application of new taxes, such as the tax on wealth, capital tax, inheritance tax and social solidarity tax, that completely disregard the zakāh obligation, which is a pillar of Islam and an important part of the authentic Moroccan civilization and the cornerstone of Islamic economy. In this context, the Association presented several proposals that would achieve a smooth integration of zakāh in the tax system in Morocco. The last memorandum was presented to the National Taxation Conference about Tax Reform that was held in Rabat in May 2019. The proposals include the following recommendations:

- The introduction of an optional zakāh system by adding some items concerning the integration of Zakāh regulations within the framework of General Tax Code.
- Adopt the necessary regulations for the activation of the “Zakāh Special Fund” provided for by the finance act since 1980.
- The coexistence between the tax and zakāh systems.
- The right to benefit from the deduction from the tax for the amount paid to the “Zakāh Special Fund”.
- Revise and complete the article 10 of the General Tax Code in order to

integrate, in the list of deductible charges from the taxable base, the zakāh paid to other categories of beneficiaries other than the Zakāh Special Fund,

- Revise and complete the article 10 to indicate the categories of zakāh beneficiaries eligible for this tax deduction.
- Ensuring the tax neutrality to avoid any additional tax pressure.
- Opening the door to donations to ensure the collection of charity funds.

On the other hand, it should be noted that Morocco has a legal framework since 1958 for the associations of public and charitable interest status, which operate in the social and humanitarian sectors, and thus can benefit from the zakāh funds besides donations. This framework provides a broad potential for associations to fund their programs and projects.

In this regard, public funds originating from the public sector can be distinguished from other funds, whether they are from self-financing, contributions from individuals, from private sector, from foreign or public charity petitions that was regulated by a law act in 1971. The purpose of the Act is to facilitate the associations’ access to funds and property through various campaigns aimed and addressed to the public.

The Prime Minister’s publication on the partnership between the government and Associations, issued in 2003, is also considered one of the most important references of the institutional framework

of the association which constitutes an important turning point in the history of the relationship between the Government and associations. The framework of partnership and contracting is based on results and performance, the optimal targeting of priority categories and areas of intervention, good governance and simplification of the provision of public support, and improvement of coordination and control.

Following the adoption of the Kingdom's new constitution in 2011, it became necessary to develop the organizational legal framework for the association. Support and inclusion in the democratic transformation process is envisioned by the constitutional document, in which civil society and associations should help to protect human rights, development and awareness. As a result of interactive meetings and seminars with civil actors organized in 2015, a code for the associations was prepared taking into account the new constitutional requirements. The code limits the state of fragmentation of laws related to associations, especially with respect to the principles of incorporation and dissolution, public interest status and controlling the public charity petitions as well as institutional and financial support.

### **3.4.2.1 INSTITUTIONAL STRUCTURE & SUPPORTING INFRASTRUCTURE**

The project prepared by the Ministries of Awqāf and Islamic Affairs, and Economy and Finance includes the main structures for the organization of zakāh in Morocco which are the establishment of a Supreme Committee for Zakāh for planning and coordination, and regional committees for

the collection and distribution of zakāh.

The proposal of the Moroccan Association for Studies and Research in Zakāh includes the creation of a central fund for zakāh under the supervision of a national council, and regional funds for zakāh under the supervision of regional councils. The Association also advises the creation of links between the various branches in the country, in which a group of persons meet to collect their zakāh in one fund and use it in social projects for the benefit of those who are entitled to zakāh. Therefore, this bilateral cooperation, within civil society, contributes in human development by means of the basic legitimacy of zakāh.

On the actual level, the public interest and charity association may be considered as an important institutional structure in the zakāh sector. This status entitles them with many privileges and rights more than the other institutions because they can appeal for public charity. The total number of associations recognized as public interest was up to 217 in 2016 out of 130,000, a quarter of them engaged in social work.<sup>22</sup>

Practically, the Moroccan Association for Studies and Research in Zakāh and the "Journal of Zakāh Issues" which is issued by the Association, is one of the main supporting infrastructures for zakāh sector in Morocco.

Thus, in order to increase awareness of the importance of zakāh and re-activate its role in sustainable development, the Moroccan Association for Studies and Research in Zakāh was established in 1994 by a group

<sup>22</sup> from the report published on the website of the General Secretariat of the Government on 27 June 2016: [http://www.sgg.gov.ma/Portals/1/association\\_pdf/liste\\_Associations\\_RUP.pdf?ver=2016-01-15-145828-610](http://www.sgg.gov.ma/Portals/1/association_pdf/liste_Associations_RUP.pdf?ver=2016-01-15-145828-610)

of scholars in various fields of knowledge, specialists in the Islamic economy, businessmen and many economic and social actors. Since its establishment, it has been working to spread awareness among the citizens of the necessity of zakāh, the promotion of studies and scientific research and seminars on zakāh. One of the most important achievements in this section is the participation in many international conferences, regional and national seminars on zakāh, organizing workshops on zakāh and issuance the “Journal of Zakāh Issues”. This journal has been publishing reports on research and studies on zakāh since 2000, and 38 editions were issued by the end of 2016. The journal deals with the issues related to zakāh and its jurisprudence in the past and present, and spreading the awareness of the importance of this pillar of Islam, highlighting its economic, social, political and educational role and effectiveness, and defending the importance of institutional application of zakāh and proposing solutions to integrate it into the financial and economic issues of Morocco.

The scientific research in Moroccan universities is one of the supporting infrastructures in the field of zakāh. This subject receives increasing attention among postgraduate researchers. This was facilitated by the supervision of students who are the members of the Association. In recent years, several PhDs have discussed about zakāh institutionalization in Morocco and many master’s theses have been completed in different aspects of zakāh. Here are some examples:

- The Faculty of Literature and Human Sciences in 2014, for the first time in its history, discussed seven theses

at the same time on the subject of zakāh. At the end of 2016, Dar Al-Hadith Al-Hasaniyah School, in a well attended event, discussed a PhD thesis prepared by a member of the Constitutional Council of the Kingdom on the topic of the “Theory of Integration between Zakāh and Tax”.

- Higher Institute of Commerce and Business Administration, at the beginning of 2017, also received a high attendance during the discussion of the graduation thesis to obtain the national diploma of accounting (CPA) in the subject of zakāh accounting, with the presence of the Prime Minister.
- Three editions of research seminars about “Zakāh, Waqf and Charitable Work” were organized in April 2017, May 2018 and June 2019 at Mohamed V University on the theme “Contemporary Islamic Thought and Issues of Society and the Environment in the Mediterranean World”, in cooperation with the Moroccan Association for Studies and Research in Zakāh.

### 3.4.3 ZAKĀH COLLECTION & DISBURSEMENT

In an optimistic scenario, the estimation of zakāh funds can range from 2.5% to 3% of GDP, representing about USD 2.5 to 3 billion, in addition to zakāh al fitr, which ranges from \$20 to \$30 million annually. However, the expected amounts of zakāh remain relatively low, thereby affecting the impact of zakāh on development.

Moroccan Association for Studies and Research in Zakāh, in one of its previous proposals on the priorities of distribution of zakāh, advised for the allocation of 3/8 of zakāh collected for the poor and needy, 3/8 to help the unemployed and encourage self-employment, 1/8 for zakāh workers and 1/8 for literacy promotion. These priorities may be modified or other priorities may be added due to a greater effort in zakāh distribution to enhance the production and to increase the national wealth and development.

In November 2014, a memorandum to the Economic, Social and Environmental Council about the contribution of zakāh on the distribution of wealth in Morocco, advised that the support of the poor should be reconsidered by allocating direct support from zakāh funds in a manner that reduces the gap between the community classes. Accordingly, financial allocations should be allocated through the zakāh mechanism, which is specific and direct to these categories.

Regarding the proposed projects for the distribution of zakāh, the association has a clear vision of the use of the zakāh mechanism based on two main axes: direct support for the poor and the destitute, and on the other hand, the integration of the unemployed who are able to work in income generating projects and programs, in human and social development.

The Association considers that it is necessary to identify the needs of all the participants in accordance with the criteria of priority and regional, social and economic environment, rural or urban, and to determine them as per the program achievement and the extent of social disability.

The Association also believes that the social investment approach should be adopted for zakāh beneficiaries based on the economic empowerment of the poor which is considered as an essential source of wealth. This is in addition to zakāh support for Islamic microfinance activities by providing zakāh resources to the institutions offering Islamic microfinance activities and services, and zakāh funds in the form of poor portfolios, as well as the distribution of zakāh in the operational fields in order to give this duty the proper developmental character.

### 3.4.4 TRANSPARENCY, ACCOUNTABILITY & GOVERNANCE

The criteria for accountability and transparency can be derived from the contents of the aforementioned proposals. It emphasizes separation between the general and zakāh budget, so that the zakāh institution is financially and administratively independent, subject to financial and Shari'a supervision, annual monitoring, good governance, accountability mechanisms and reports on financial and administrative achievements.

In this context, it is proposed that the institution must be subject to the supervision of the Supreme Council of Accounts and the General Inspectorate of Finance, and the publication inspection report to establish the trust in zakāh institution.

### 3.4.5 STRATEGIC ANALYSIS & RECOMMENDATIONS

In this segment, we outline some of the strengths, weaknesses, opportunities and



threats posed by the organization of zakāh in Morocco:

### **Strengths**

- The announcement on several occasions the intention of the state to organize zakāh.
- Reference to the Zakāh Fund in the Finance Law.
- High level of community awareness on the importance of zakāh.

### **Weaknesses**

- Absence of formal or systematic organization of zakāh.
- The fluctuation of political views about whether to proceed or delay

the organization of zakāh.

- Absence of a national policy on zakāh system.
- Absence of privilege in the existing tax system, such as deduction of the amount of zakāh from the tax base.
- The weakness of economic and social impact of voluntary and individual payment of zakāh.
- Zakāh is not institutionalized in covering the needs of the poor that the state is also unable to cover especially in the main social sectors such as health and social welfare.
- Lack of national campaigns to collect donations from zakāh funds

in the context of seeking public charity for the benefit of the groups entitled to zakāh.

- Lack of integration between zakāh and other forms of Islamic finance such as waqf and Islamic microfinance.
- Absence of university programs for the preparation of highly-qualified specialists in the field of zakāh.

### **Opportunities**

- The existence of formal and civil perceptions to organize zakāh.
- The existence of many community needs that the state budget is unable to meet, and zakāh can contribute to cover them.
- Launching the activity of participatory banks and Islamic finance in Morocco
- The possibility of expanding the competencies of the Sharī'ah Committee for participatory finance to cover the field of zakāh
- The possibility of expanding the powers of the Supreme Council of Accounts and/or the Supreme Council for Financial Control of general Waqf to include also the financial control of zakāh.
- The possibility of collecting donations from zakāh funds in the context of seeking public charity.
- The existence of allocation of important financial resources to the social sectors within the general

budget. The zakāh budget, in the case of the regulation of zakāh, can more efficiently cover the targeted portion of zakāh categories.

- Advanced technological means available in Morocco to raise the funds.
- Possibility of supplying the zakāh institutions with a preferential tax framework through tax exemptions for all its actions and operations nationally or locally, like waqf.
- Great interest in research and seminars in the field of zakāh
- Existence of great interest among a wide range of economic actors to perform their zakāh duties institutionally.

### **Threats**

- Fear of using zakāh funds in other means than its legitimate use.
- Fear of creating an additional tax burden on citizens in case of mandatory application of zakāh.
- Fear of using the information authorized in zakāh as a basis for tax audits.
- Fear of applying zakāh to groups of society without others or applying them to other activities and exemptions.
- Absence of university programs for the preparation and rehabilitation of highly competent frameworks specialized in the field of zakāh.



## Recommendations

In this report, we propose some measures to activate the organization of zakāh, some of which may require a choice between different proposals:

- The enactment of a national zakāh policy that affirms the status given by the state to the application of this pillar to the benefit of the country and its citizens.
- Exemption of some sectors at the beginning of the application of zakāh in the framework of gradual application.
- Starting the application with categories that will give impetus to the success of the zakāh institutions such as participatory banks, telephone companies, high value-added productive sectors and institutions that benefit from great privileges by the force of law or the nature of the market.
- Apply the 80/20 rule on the issue of the mandatory rule and the issue of priority sectors in the performance of zakāh and thus apply the 20% premium.
- Starting with the obligatory application of zakāh on a person who has a zakāh “Nisab” of more than ten times the zakāh, and the rest is applied gradually thereafter.
- Study the components of the Moroccan economic system to allow accurate estimation of the zakāh.
- Motivate zakāh payment in the form “zakāh links” among individuals in the framework of institutionalizing zakāh.
- Start to collect zakāh from institutions and companies.
- Sharing of information regarding the top payers and the lists of beneficiaries of the distribution of zakāh to increase the confidence of the citizens.
- Focusing on the distribution of zakāh on the operational areas that will spread the spirit of initiative and work for the beneficiaries.
- Allocation of consumption zakāh to the poor who are unable to work.
- Choose the most important religious and national events and the best methods to promote the collection of zakāh.
- Intensification of awareness activities to make zakāh a distinguished community affair.
- Promotion of the scientific research in the field of zakāh.
- Follow up on the progress by the Supreme Scientific Council in Morocco, and give more attention to the various zakāh issues.

## 3.5 TUNISIA

### 3.5.1 OVERVIEW OF THE SECTOR

The importance of studying the historical foundations of the zakāh Institution in Tunisia stems from the fact that it provides us with a civilization-based benchmark, a sensible point of reference through which one can evaluate Tunisia's experiences in this sector before the independence from the French and beyond. And by this, one can help inspire the drawing of the future directions for this sector.

Despite the scarcity of information related to this sector, compared to the awqāf sector, some historical sources have talked about the role of governors and princes in Africa during periods of power and stability, in collecting and distributing zakāh, whether within the office of Kharaj or independently. These sources also spoke in the era of Al-Bayaat about their role in establishing Takayas<sup>23</sup> and Bimirmarstanaat<sup>24</sup>, and how to employ zakāh funds and distinguish them from other funds collected in addition to waqf and donations, to finance projects benefiting the poor and people of different needs.

It is certain to us, through some sources and references, that the zakāh institution did not exist in Tunisia before independence. In his book "The defiance of the people of the time with the News of the Kings of Tunisia and the Era of Safety"<sup>25</sup>, Ahmad bin Abi Diyaf mentions especially in the section devoted to the revolution of Ali bin Ghatem, that the ruling authority at that time (i.e 20 years before the

French protection), took only 36 Tunisian riyals a year from all the inhabitants of cities and tribes. Until Sadiq Bey doubled the tax amount from 36 Tunisian riyals to 72 Tunisian riyals and this led to the revolution. Ibn Abi al-Diyaf also mentions that another institution in Tunisia was existent, the Waqf Administration, that the Bey resorted to its funds to pay the budget deficit. However, we do not find any mention of the zakāh institution, even by reference to other sources.

After the independence in 1988, an attempt was made by civil society in the city of Sfax (capital of the south of Tunisia), to form the founding body of an association for the collection and distribution of zakāh. It was founded by Ahmad al-Aswad<sup>26</sup>. One of its members, Al-Bashir bin Jedidia<sup>27</sup>, informed us that the first year, the association collected 300,000 Tunisian dinars and one million Tunisian dinars during the second year. However, this experience ran into strong political and administrative opposition and ended in failure. Subsequently, a Zakāh Fund was established at the request of the government. Al-Tuhami was elected as Chairman of the Higher Islamic Council and Director of Al-Zaytouna University. This Fund will be discussed in detail later.

### 3.5.2 REGULATORY & POLICY FRAMEWORK

The collection and distribution of zakāh requires a license to be obtained from the Presidency of the Government pursuant to the higher order of 1922 revised on 21 December 1944. However, there is no legal text that prevents charities from accepting zakāh money in cash or in kind. This is

23 Free of charge motels  
24 Free of charge hospitals  
25 P5-6

26 No additional information about the person  
27 Retired Professor of Islamic Education

done by many of these associations, and donors are assured to have their money spent in legitimate ways.

As part of the institutionalization of this sector and other sectors of Islamic finance, a National Committee for the Development of the Legislative Framework for Islamic Finance was established by the Ministry of Finance in 2012. It was tasked with forming seven subcommittees (Islamic Contracts Committee, Standards Committee, Islamic Banking Committee, Islamic Funds Committee, Awqāf Committee, Zakāh Committee) in order to prepare projects of interest in Islamic finance. The Ministry of Religious Affairs has the task of preparing the Awqāf and Zakāh projects.

A first committee was formed for the purpose of issuing a draft law that would create a new institution for collecting and distributing Zakāh. The Ministry then decided to change its composition, since it did not show any signs of progress and form a new committee to submit a draft law to create a “Zakāh House” after 8 sessions.

- The first Ministerial council was conducted on 1 March 2013 to consider this project (32 points in 4 sections and a memorandum of reasons):

The establishment of a public institution supervised by the Ministry of Religious Affairs of a non-administrative nature with a legal status and financially independent.

- \* Administrative organization.
- \* Financial Management.
- \* Sharī'ah Supervisory Board.

It was asked for its chapters to be shortened, and some amendments were made to it so that the Constituent Assembly could discuss and ratify it. It was condensed into 3 chapters (the first in the creation, the second in the resources of zakāh funds, the third in the Sharī'ah Supervision Committee). For the same purpose, an order for administrative and financial management was prepared, including 30 chapters in 2 sections. And to this date, this is still on the National Assembly's agenda.

- A second Ministerial council was conducted for the same purpose on 2 May 2014, after which the government spokesman called upon the National Constituent Assembly to speed up the discussions regarding the creation and ratification of the Tunisian Zakāh House law.

### 3.5.2.1 INSTITUTIONAL STRUCTURE<sup>28</sup>

In 1989, the state issued a fund for zakāh pertaining to the Tunisian Social Solidarity Union<sup>29</sup>. In its second chapter, the Principal Law describes the main function of this fund, which is to “collect zakāh resources in a special fund, to be disbursed according to religious teachings.” It also states that its budget is independent and that its accounts are separate from income and disbursement from social solidarity accounts. It is also to be administered by a national body composed of 11 members and by the President of the Supreme Islamic Council. Its management will be done in accordance with Islamic teachings and in consultation with the Supreme Islamic Council regarding matters of religious character.

28 “Zakāh Guid , Republic of Tunisia, Prime Ministry, The Higher Islamic Council.

29 A consortium of charities under the supervision of the Ministry of Social Affairs

This national body is represented by regional bodies and some local bodies, each of which has a special fund which uses the material resources available to the Tunisian Union for Social Solidarity in the center or in the regions. The first national symposium on zakāh funds was held on 22 June 1992. It was the first and last, thus making the status of the zakāh funds classified as follows:

- Funds operating and seeking to carry out what is entrusted according to the decree and Sfax is at the head of these bodies,
- Inactive funds, and
- Funds that don't exist at all.

Chapter 15 of the Zakāh Fund's Bylaws stipulates that the regional organization of the Zakāh Fund is composed of 11 members:

- A representative of the organization known by his religious reputation as a member of the governing body of the regional committee for social solidarity and chairman of the regional committee to facilitate the Zakāh Fund;
- A representative of the Supreme Islamic Council, or one of the

imams, preachers or religious guides, and fill the role of vice-president;

- Member of the governing body of social solidarity and to be a general secretary;
- Treasurer of the Regional Committee for Social Solidarity and to be the assistant treasurer; and
- 5 other members, including representatives of the people reputable for righteousness and good behavior.

The observer for the activity of this Fund notes:

- The activity of the Fund began in 1989 (the year in which a campaign was launched against some political opponents who could benefit from these funds at the discretion of the political and security authorities), and completed its activities in 2006.
- The income position of this Fund was weak, given that the supervisor of this institution is the Government.
- The expenses of this Fund were almost equal to its income, with no knowledge of the citizens of the disbursements.

### Zakāh Fund

Banks & CCP	Old Balance	Income of the month	Expense of the Month	Extra Balance
BEST BANK	75,724,453			75,724,453
CCP 3050-00	28507,7			28,507,7
CASH	0			0
<b>Total</b>	<b>104232,15</b>			<b>104232,153</b>



As of 14 January 2011, the Fund had no activity. The value of the Fund's resources as of March 2014 was 104,232,153 Tunisian Dinars (USD 37.01 million), according to the latest report submitted by the Tunisian Social Security Union.

### **3.5.2.1 SUPPORTING INFRASTRUCTURE**

- The Tunisian Association of Islamic Finance, established in accordance with the provisions of Decree No. 88 of 2011, a scientific association concerned with deepening scientific research in the field of Islamic finance. The Association of Religious Affairs submitted a draft law for a Tunisian Zakāh house supported by a preliminary study, with a caption explaining the reasons and an explanatory appendix to some terms prepared by Dr. Abdul Sattar al-Khuwaildi, Secretary General of the International Islamic Center for Reconciliation and Arbitration based in Dubai.
- The Tunisian Association of Islamic Economics, established in accordance with the provisions of Decree No. 88 of 2011 (the official Journal 18/1 October 2011). The aim of this association is to:
  - \* Support scientific research in Islamic economics.
  - \* o Conduct studies aimed at achieving balanced, sustainable and stable development by benefiting from the institutions of the Islamic economic system.
  - \* Provide advice to government bodies and public and private economic institutions that wish to apply the principles of Islamic economics and finance.
- The Tunisian Association of Zakāh Sciences, which was called the Tunisian Association for Zakāh, was established in accordance with the provisions of Decree No. 88 of 2011 (Official Leader 74/2012).

It cooperates with all relevant structures and organizations nationally and internationally in the area of zakāh. It organizes annual international seminars and awareness seminars for preachers and imams, in cooperation with the Ministry of Religious Affairs. It is also a member of the Board of Directors of the Global Union for Zakāh Rite. It is linked to several international partnership agreements, interested in the jurisprudence side of the studies, seeks to deepen scientific research and dissemination, and is a scientific reference in the jurisprudence of zakāh companies and accounting. It also issued a guide to zakāh accounting for commercial activities.

In December 2016, the Association, in cooperation with Zaytouna University, presented to the Prime Minister the draft law "Establishment of the Tunisian Zakāh Foundation". This project, before it was sent, received the approval of Dar Al-Iftaa after some amendments. This draft is not very different from what was stated in the first draft prepared in the first version of the Sub-Committee tasked on the behalf the Ministry of Religious Affairs.

### 3.5.3 ZAKĀH COLLECTION & DISBURSEMENT<sup>30</sup>

There are no official statistics that gives real figures on the amount of zakāh in Tunisia, but some of the figures presented in some studies prepared by consulting firms mandated by official institutions can be used to indicate the amounts that can be collected. The Tunisian government

and the Ministry of Religious Affairs commissioned a consulting firm to prepare a study to diagnose the reality of religious space in Tunisia and to prepare a vision for its rehabilitation, during which a survey was conducted during September and October 2014. The survey consisted of 1,200 interviewees representing citizens over the age of 18, with respect to the following criteria:

- Distribution between men and women.
- Distribution by educational level.
- Distribution between urban and rural areas.
- Geographical distribution by Governorate.

The results, at the individual level, showed that about 20% of all respondents paid zakāh. And that the initial estimate of collection of zakāh funds ranges widely between 400 and 1,100 million Tunisian dinars annually (without accounting for the zakāh of companies, which represent the bulk of zakāh funds). It may be noted that such numbers are estimates only, and, as mentioned earlier, there is no systematic data available on the actual zakāh mobilized in Tunisia.

Based on the studies provided by experts and researchers in the Islamic economy, the rate of 5% of the national product can be considered a reasonable proportion to estimate the zakāh proceeds. Tunisia's gross national product for 2012 is estimated at 71 billion dinars; it therefore means that the state can collect about 3.5 billion dinars, or about 13% of the projected budget for 2013 and more than half of the annual borrowing amount<sup>31</sup>.

30 Archive of the Ministry of Religious Affairs

31 These figures were presented in the dissertation of Professor Hassan Kaneish, Chartered Accountant on the 9th page

Some other figures<sup>32</sup> also indicate that the zakāh funds in Tunisia account for about 12% of Tunisia's budget and 5% of the gross national product per year to reach US\$1,500 million annually. Zakāh funds are also relevant to the money invested in the Tunisian stock exchange, reaching about 200 million dollars annually<sup>33</sup>.

In the above-mentioned study, Tunisians were asked about the extent to which they differentiate between zakāh and the taxes paid to the state, and who has the right to collect their zakāh if they found difficulties in spending it. The following are the results:

- Less than 40% of the respondents are convinced of the difference between zakāh and taxes paid to the state.
- 84% of those who pay their zakāh have no difficulty in spending it on their beneficiaries, compared to 13% who find it difficult.

Interestingly, a study conducted by the Tunisian Association for Zakāh Sciences (ATZ) to assess the zakāh potential in reducing/alleviating the poverty of 250,000 families, declared the recipients of the social subsidies of the Ministry of Social Affairs in 2017 and came up with the following: If the zakāh is collected in 2017, the portion of each above-mentioned family would be:

- 71 Kg of Olive Oil per year/ family
- 73 Kg of Dates per year / family
- 18 pieces of bread daily/ family

32 In the book of the rehabilitation of religious space according to the Constitution of 2014

33 "The Zakat in Tunisia, Reality and Prospects," at the Islamic Social Finance Workshop in the Arab Maghreb Countries, Tunis, 15 Ramadan 1438/10 June 2017

- TND 370 per month / family (coming from Banks deposits)
- 54,000 line of finance for each unemployed to establish a micro-project valued at TND 10,000 each (coming from the listed actions in the stock market).

These figures do not take into consideration the zakāh that can be collected from other types of non-listed companies, liberal professions, gold and silver<sup>34</sup>.

An estimation of the potential of zakāh in 2018 was also performed by the ATZ and amounted around TND 5 million (i.e. USD 1.745 million).<sup>35</sup>

### 3.5.4 TRANSPARENCY, ACCOUNTABILITY & GOOD GOVERNANCE

Almost all projects submitted by the Islamic Finance Sub-Committee, or associations, emphasize the need to provide guarantees for the establishment of such an institution based on transparency and good governance, so it must be:

- A public institution with a non-administrative nature with a legal status and financially independent
- An institution supervised and monitored by the state (the Ministry of Social Affairs for the social role it can play and to reduce political tensions, or the Ministry of Religious Affairs considering the link of zakāh to religious matters).

34 Presentation of Achraf BOUDAIA, Chartered Public Accountant and Head of Tunis bureau of the ATZ, delivered on March 27th, 2018

35 Presentation of Achraf BOUDAIA, delivered on October 16th, 2018

And the institution must maintain its accountability in accordance with the laws and arrangements in practice, and be monitored by the State Controller. In the year 2014, around 36% of the respondents prefer that the state supervise the organization and disbursement of zakāh, while 46% of the respondents prefer the supervision of the organization of zakāh to be transferred to a reliable and independent institution.

- To create with it a Shari'a Supervisory Board to monitor all transactions in terms of legality, income and disbursement.
- Data relating to zakāh payers should not be disclosed, or used to harm their claimants or beneficiaries (recall of Basic Law no. 63 of 2004 of 27 July 2004 on the protection of personal data).
- Raise zakāh funds through all means available; such as the transfer of remittances or direct deposits in postal or bank accounts, while respecting the privacy of zakāh payers, not to be disclosed to fiscal authorities, and respecting their will to receive a certificate if they so desire.

### 3.5.5 STRATEGIC ANALYSIS & RECOMMENDATIONS

#### *Strengths*

- The existence of a ready-made sector project submitted by at least two governments, subject to discussion, ratification and implementation.
- Development of the sector is part of the general struggle of post-revolution governments trying to put in place an Islamic financial system.
- The existence of a sector-specific fund within the Tunisian legal system pertaining to the Tunisian Union of Tunisian Solidarity.
- Research and seminars organized on this sector.

#### *Weaknesses*

- The current experience of the Zakāh Fund is not successful.
- There is no special law that encourages the payment of zakāh.
- There is no study that deals with all zakāh funds in detail.



### **Opportunities**

- The existence of an Islamic financial system (Islamic banks, Takaful insurance companies, Islamic investment funds).
- Requests from parts of civil society to develop the sector.
- The relative success of the two neighboring countries, Libya and Algeria, and some other Islamic countries.
- Deepening social inequality and the state's need for additional financial resources
- The trend towards establishing zakāh institutions and encouragement from civil society is in line with the global trend towards encouraging non-governmental organizations and the private sector to play a role in community development.
- There is a general international trend towards mobilizing financial resources from local communities.

### **Threats**

- The negative impact of some media.
- Political disputes over everything related to religious affairs.
- Lack of sufficient political will to advance the sector.
- Government fear of creating additional tax burden on citizens.
- Fear of people in power controlling this sector and disbursing its funds in ways other than legitimate ones.

### **Recommendations**

- Build a working group (which can emerge from active civil actors in the field) to communicate the cause to various parties and develop a vision leading to a gradual access to the desired situation.
- Encourage the political will to advance the cause and reassure the concerned parties.
- Develop mechanisms of coordination with the Ministry of Social Affairs and social benefit programs to reduce the burden on the state budget (can be used here from the ID program).
- Establishing a legal framework regulating the zakāh sector.
- Amend the tax legal framework to encourage the payment of zakāh by deducting the amount paid from the amount of taxes.
- Focus on the distribution of zakāh in a way that enriches the need of the liquidators, and in a way, that helps the beneficiaries to create their projects.
- Develop an information plan to introduce the sector and raise awareness of the importance and positive effects of paying zakāh

## 3.6 SUCCESS STORIES & GOOD PRACTICES

### 3.6.1 ZAKĀH FUND, LIBYA

#### **Introduction**

One of the success stories in the zakāh sector in Libya is the outstanding sharp increase in the value of zakāh funds raised over the last five years. This is due to Fund's staff commitment, and their efforts to achieve good performances despite the current tough economic circumstances. In addition, donations, grants and charities collected from philanthropists, as a result of the advocacy and public awareness and education efforts carried at all administrative levels. This was positively reflected on the performance of the fund, whether in the collection methods (direct collection, or through zakāh offices, or bank accounts) or by the ways of disbursing zakāh funds, such as paying zakāh to some beneficiaries to buy cars to be used as taxis. Hence this has improved life quality for the needy and has made them avoid demand and allows them to secure permanent and decent revenues. Also, part of the Fund's success contributed in financing the construction of 52 apartments for poor youth and help them to marry.

#### **Organization Structure**

The organizational structure of the Libyan Zakāh Fund consists of seven main divisions, headed by the Chairman of the Board of Directors. These departments are: Advisory Board, of Planning and Supervision, Financial and Administrative Affairs, Legal, Internal Audit, Investments,

and the corporate communication department. Financial and Administrative Affairs which deals with the affairs of employees and social researchers and finally the collection department, includes two units: the preparation and supervision unit, the Jibaya unit and finally the Zakāh Distribution department which includes the Accounts and Supervision unit and Social Studies unit. These departments collaborate in an efficient manner and each fund's branch in Libya has a small structure like the main office structure in a manner that each branch collects and disburses Zakāh to its beneficiaries in the same city in a semi-independent manner. However, its relationship with the main branch is purely organizational and administrative and feeds the main office with required data and information monthly and annually.

In addition, the Fund adopts three Sharī'ah committees dealing with the Sharī'ah related topics of the Fund. Ultimately these committees support the activity with the Sharī'ah provisions with regards to the collection and distribution of the funds. These committees are:

- Independent advisory committees in each of the Zakāh Fund's branches in Libya specialized in investigating and assessing zakāh beneficiaries' applications and providing legal and legitimate provisions for each case.
- A special committee reporting to the advisors' office and its role is to support the advisors in solving issues and matters raised by Zakāh Fund's branches or from one of the departments within the Fund. It helps find fatāwa concerning all the legal issues at stake.

- Dar al Iftaa to which the fund refers when required.

The Zakāh Fund relies on qualified Libyan employees being paid from the Libyan state and not from the fund itself. It also works in compliance and full transparency giving effective and real information about the fund. It also publishes data and information in special reports that are easy for the public to understand. The fund also runs surveys through questionnaires to zakāh beneficiaries and payers in order to collect their feedback with regards to the fund performance. Finally, the fund calls auditors and to evaluate the Zakāh Fund's work and operations and to highlight any deviations or excesses.

Best practices within this sector include:

- Establishment of good administrative of zakāh system within the Fund and the preparation of a simple documentary course.
- Implementing a developed follow-up and supervision system, and rely on computer systems to relate the main office to its branches
- Building an expanded database for all categories of zakāh payers beneficiaries as well as link the Zakāh Fund with other public institutions, such as the National ID System, the Social Security Fund and Solidarity Fund, Wealth Distribution Fund, and Ministry of Social Affairs.
- Zakāh Fund must be open to charitable NGOs and associations in order to coordinate efforts and avoid duplication in collection and disbursement.

- Benefit from previous experiences locally and internationally.
- Taking audacious but promising initiatives: the Zakāh Fund worked to open zakāh branches in cities in Libya where zakāh was not collected and formally disbursed for hundreds of years, and the external observers have determined that the work of these branches in such cities will never work, but statistics within short period has proven the opposite. These small cities have become competitive with the big cities in their collection of zakāh, and this is due to that the citizens' interest in paying their zakāh to a respected and trusted organization.

### **Governance**

The Zakāh fund operates under the supervision of four official and non-official bodies monitoring its activities which increases people trust towards the Fund and thus increase the number of the zakāh payers and the fund's size. The fund is transparent in its operations by publishing data and information regularly on monthly and yearly basis. This information includes the amount of the collected funds and the detailed disbursement disclosed in an easily understandable manner in order to reassure whoever wants to check the management of the funds. The four bodies are:

- The Fund's Board of Directors, which draws the yearly action plan for the fund and its branches, and supervises its execution.
- Administrative Audit Bureau: which is a governmental body that

supervises and controls all state-owned institutions, including the Zakāh Fund. Its main role consists on appointing the staff, branch managers and members of the Board of Directors.

- Libyan Audit Bureau which is in charge of the follow up of all Fund's operations including zakāh collection, monitoring Zakāh distribution, and disbursement to final beneficiaries. The audit bureau also monitors consistency of the funds allocated from state to Fund's staff and ensures that Zakāh Fund complies with financial regulations in both zakāh collection and disbursement.
- All Libyan citizens: All Libyans can have a control on the fund, especially zakāh payers, donors and charities, and have the right to ensure that the collected zakāh has been paid to appropriate beneficiaries.

Zakāh Fund has established social research teams in all Libyan cities. Men and women teams in charge of carrying social research for zakāh applicants. In fact, the applicant is required to provide documents proving his critical needs and poverty. In addition, the researcher visits him at his/her residence to check his living conditions and certify his need for Zakāh. Accordingly, despite the harsh economic conditions, Zakāh Fund contributed to alleviate poverty rates in Libya and assisted in building 52 apartments in the city of Tripoli and contributed to the marriage of 52 young men and women. In addition, among another success of Zakāh Fund is buying cars for a group of poor people to work as taxis drivers.

### **Challenges**

- Lack of coordination between the Zakāh Fund and other state institutions, as well as civil society organizations is a major obstacle facing the Fund and preventing it from achieving its objectives.
- Zakāh Fund is constrained by the lack of information and data. Relying only on its own database is not sufficient for its work because some relevant information is not being shared by the other actors in the poverty alleviation activities.
- Political and economic instability and insecurity in Libya is a serious obstacle, especially in regard to the field executive department's activities, Zakāh collection and social research.
- Lack of fatāwa as well as laws and sound regulations are two main factors in non-investment and recycling of zakāh funds.

## **3.6.2 TUNISIAN ASSOCIATION OF ZAKĀH SCIENCES, TUNISIA**

### **Introduction**

Founded in 2012, the Tunisian Association of Zakāh Sciences deals with the accountancy and Fiqh of the obligation of Zakāh. It is headquartered in Sfax and has four branches in Tunis, Gafsa, Nabil and Sousse. Cooperation agreements have been made with the Ministry of Religious Affairs, Zaytouna University and the Sudanese Zakāh Chamber and the Jordanian Zakāh Fund.

The association was elected at the founding session of the Global Union for



Zakāt Rite as a member of the Board of Directors, and the association's president was appointed as the supervisor on the union affairs, plans and programs in the French-speaking African region.

The association is always committed to be:

- Independent and far from all political conflicts.
- A scientific reference in the jurisprudence of zakāh.
- A specialized body in the calculation of zakāh for institutions and individuals.
- An active party in the awareness and training sessions related to zakāh.

### **Organization Structure**

The highest authority in the Tunisian Association of Zakāh Sciences is the National Conference which convenes every three years and elects members of the governing body for a term of three years subject to renewal once only. Next is the National Council, which convenes every six months to evaluate the activities of the association and control projects and activities for the upcoming period. The governing body, which represents the association with the official Tunisian and international bodies, ensures the implementation of the decisions of the National Council.

The four branches of the association operate under the supervision of the governing body, and help individuals and

companies to calculate their zakāh. The executive board appoints an executive director for the association who cannot be a member of the governing body of the association and is responsible for the management of the association in terms of financial and administrative management and currency. Since the foundation of the association, Sheikh Habib has adopted this plan.

The association has a Sharī'ah and accounting committee at its headquarters in Sfax as well as in the four branches. The Sharī'ah and Accounting Committee is formed by the decision of the Board of Directors of the association. The governing body also appoints a chairperson for the Sharī'ah and Accounting Committee and its members and also appoints its rapporteur.

The Sharī'ah and Accounting Committee is entrusted with the following:

- Counting and calculating zakāh for individuals and institutions.
- Answering all legal and accounting questions related to zakāh in particular, and the Islamic economy in general.
- Conducting research and studies related to the objectives of the association.
- Assisting universities and all scientific bodies related to zakāh in particular, and the Islamic economy in general.
- Training students specialized in Islamic finance.

### **Governance**

- Compliance with decree No. 88 of 2011 dated 24 September 2011

concerning the organization of associations.

- To comply with the legal system and bylaws of the Tunisian Association of Zakāh Sciences.
- The Association accounts shall be revised by a committee of expert accountants in accordance with the law number 112-93 concerning the maintenance of accounts in the Tunisian Republic.
- Monitor the accounting of the association annually by an auditor who is a member of the body of Tunisian Accountants.
- Deposit all revenues of the association in a bank account, and all expenses exceeding the amount of 200 USD are paid in writing or using a bank transfer.

### **Contribution to Knowledge**

The Association contributes to increasing knowledge in the field of Zakāh through:

- Supervising the training of 1,000 university professors and students from the bachelor and master's degree students in economics and Islamic finance in Zakāh Accounting in the faculty of Economics and Management in Sfax, and Zaytouna University and the Higher Institute of Technological Studies in Rades.
- Organizing national and international forums and seminars. The association organized the previous four sessions of Sfax International Conference on Islamic Finance in cooperation with the Faculty of Economic Sciences and Management of Sfax, Zaytouna

- University, Sfax University, Gafsa University, the Islamic Research and Training institute in Jeddah, and Al-Zawia University in Libya. 1,200 participants benefited from these four events.
- The association also organized four international seminars on zakāh in Tunis
  - The publication of “Sanabel”, the first is written every three months in 3,000 copies, of which 10 were issued, and the second is electronic and it was monthly distributed to more than 20,000 e-mail addresses.
  - Organizing training courses according to an agreement with the Ministry of Religious Affairs to train preachers and imams. 2,150 imams and preachers attended the 2016 and 2017 sessions.
  - Organizing awareness sessions in the field of Zakāh for various professional sectors and scientific groups. The total beneficiaries for the year 2012 to the end of April 2017 was more than 6,000 beneficiaries.
  - Furnishing the Zakāh Mail program, which was broadcast weekly by Zitouna Radio Channel for the Holy Qur’ān from January 2017 to the end of Ramadan during the same year.
  - A weekly live broadcast on the Facebook page of the association about Zakāh. Various professional activities throughout the summer of 2016.
  - Publication of the first book by the association in March 2017 entitled: “The Fiqh and accountancy framework for the Zakāh of business activities” in 5,000 copies. These books were used in training seminars organized in cooperation with the Ministry of Religious Affairs and the Tunisian Union for Industry, Commerce and Handicrafts.
  - The association will soon issue its second book under the title “Zakāh of Agricultural Activities”. It will be dedicated to educating farmers and helping them to calculate their zakāh.
  - ‘Hello Zakāh’ mechanism: Putting voice distributor on the number 53.600.100 to answer all questions related to jurisprudence and accounting for callers by 4 legal accountants’ experts. The association receives hundreds of calls each month from Tunisia, Algeria and Libya.
  - Creation of the Facebook page “Tunisian Association of Zakāh Sciences” that has 64,000 followers.
  - Creation of the association’s website

### ***Contribution to Poverty Alleviation***

The contribution of the association is to fight poverty by calculating the zakāh of hundreds of companies whose zakāh exceeds 200,000 USD annually and urging them to spend their zakāh to start projects for unemployed graduates and for the poor.



### **Challenges**

- Convince the government and the Assembly of People's Representatives to accept the law related to the Tunisian Zakāh Foundation.
- Bad legacy related to the way Tunisian people deal with the National Solidarity Fund 26-26.
- The lack of expertise in the jurisprudence of zakāh and its accounting due to the absence of teaching zakāh accounting in Tunisia for more than 50 years and the absence of any scientific reference on how to calculate zakāh.
- Lack of awareness on the role of zakāh and the culture of zakāh as a cornerstone of the economic system.
- Political rejection from several political parties in Tunisia.
- Being accused of political affiliation to parties of a religious nature.
- Difficulty in dealing with expenses, with no contribution of the state to pay administrative expenses and equipment.
- Restrictions on many charities that collect and distribute zakāh funds, and prosecution of defaulters among them by the government under the Supreme Decree of the year 1922.



# 04 AWQĀF

## 4.1 ALGERIA<sup>1 2</sup>

### 4.1.1 OVERVIEW OF THE SECTOR

The institution of waqf has been in existence in Algeria since the arrival of the Islamic conquest of the Maghreb in the Seventh Century. However, it has witnessed major ups and downs at different points in time in history. The Ottoman period in Algeria (before 1830) was characterized by the development of awqāf and their spread throughout the country, from the late 15th Century until the beginning of the 19th Century. The expansion continued until waqf accounted for a large proportion of the urban agricultural property. During this period, economic and social awqāf expanded to include real estate and agricultural lands, in addition to many shops, hotels, bread ovens, oases, waterways, tanks, lime kilns, and many other estates, farms, orchards and parks. The awqāf sector comprised several charitable organizations with a religious character, had a legal personality and a special administrative status. Examples include the awqāf institution of the two Holy Mosques, the awqāf institution of the Algerian Great Mosque, the Awqāf Subul

1 Data delivered by the Ministry of Religious Affaires & Waqf

2 "Financing the Local Development from an Islamic Perspective: The contribution of the funds of Zakāh & Waqf", Wasila Essebti, PhD Thesis, University of Mohamed Khidhr University, Biskra, Algeria

Al-Khairat, the awqāf institution of Bayt al-Maal, and the awqāf institution of people of Andalusia.

During the colonial period, the French administration through its decrees and successive decisions and laws regarding the waqf, undermined the foundation of the waqf system and destroyed its features, contradicting what was noted in the article 5 of the Treaty of 1830 on handing over of the city of Algiers, which recommended the preservation of the assets of the awqāf. The colonial forces worked to destroy the structure of the awqāf. Many of the Algerian awqāf were lost during this dark period of its history, which made the search for these properties and reallocation of what stood for it almost impossible without the efforts of the Algerian state in the legislative and financial fields. International efforts have also helped to recover many of them in the period from the mid-nineties to the present (funded by the Islamic Development Bank).

The initial period after independence was not very encouraging for the awqāf sector. In contrast, the period from the end of the eighties to the beginning of the nineties, observed a strengthening of the legal status of the awqāf, albeit at a slow pace. The beginning of the 21st Century witnessed further legislation in the field of awqāf and investment.

Post-independence, the awqāf sector in Algeria was put under the control of the government and regulated by the French law which was perhaps the primary reason why awqāf were excluded from the social work arena. However, the waqf properties continued to exist, and were distributed as the waqf of schools, seminaries and mosques.

## 4.1.2 REGULATORY & POLICY FRAMEWORK

The colonial France, in the early years of the occupation, enacted several resolutions and decrees, which include the following:

- Decree of “Debarmont” on September 8, 1830: This decree led to the confiscation and seizure of all waqf assets. The next day, “Debarmont” issued another decree granting itself the right and authority to manage and dispose of the religious property by renting and distributing the rents to the beneficiaries.
- Decree of 7 December 1830: In December 1830, the French general Joseph Clozel, issued a decision to abolish the Custodian of the Two Holy Mosques under the pretext that its revenues were spent on foreigners.
- The report of the French Minister of War dated 23 March 1843, “The expenses and incomes of religious institutions include the budget of the French government”: This decree authorized the Europeans to own the awqāf and to put the same

under the supervision of the Director General for the Public Property Department.

- Decree of 31 October 1838: The decree was issued to facilitate the liquidity of the awqāf and the controlling process of the waqf.
- Decree of 30 October 1858 and Act of 1873: This decree was followed by the last resolution, known as the 1873 Act, which aimed at eliminating the deadlines of religious institutions in favour of the European settlement expansion in Algeria and the elimination of the economic and social foundations of the Algerian people.

The existence of waqf properties after the independence pushed the Algerian legislators to organize and regulate the legislation necessary to run the awqāf according to a legal administrative system, which responds to the nature of these properties and responds to the objectives for which they were established. Several laws have been put in place to ensure the good functioning of the Awqāf Department in Algeria.

While there was a Ministry dedicated to Awqāf in 1963, the subsequent years witnessed a gross neglect and marginalization of the sector. The absence of a national policy for awqāf led to its slow and steady demise in the Algerian society. The waqf administration was soon limited at the national level to a branch office of the Ministry of Religious Affairs. As part of the restructuring of the Ministry of Religious Affairs, a Directorate was established under the name of “Directorate of Religious Rites and Waqf Properties”. After the

promulgation of the 1989 Constitution, which approved the protection of waqf properties, the name was changed to the Directorate of Awqāf and Religious affairs. The issuance of the law of awqāf 91/10, which was based on the background of the regulation of waqf property and protection, marks the beginning of a new era for the waqf sector in Algeria. With an increasing official interest and the expansion of waqf activities, the process of recovering

Regarding the laws of the administration of awqāf after 1991, the Directorate of Awqāf has tried to cover the lack of legal texts by using the brochures and notes specific to the modalities of the organization and management of waqf property and the control of income. The legal texts include:

- Ministerial Circular No. 37 of 05/06/1996 determining how to pay rent for awqāf.



property from nationalized waqf and those encroached upon by private by individuals and institutions was seriously taken up. The Awqāf became a self-contained Directorate after the issuance of Executive Decree 94/490 of 21 Rajab 1415.

- Memorandum No. 01/96 dated 03/07/1996 specified for how to pay the waqf rent.
- Memorandum No. 03/96 of 17/07/1996 containing financial reporting (according to standard forms) and dates of dispatch.

- Ministerial Circular No. 56 of 05/08/1996, addressed to the governors and principals, which includes the subject of expanding the circle of interest in waqf property.
- Memorandum No. 01/97 dated 05/01/97 containing organizational directives for the management of awqāf, especially regarding the rationalization of the waqf financiers, the relationship of the waqf path to the tenant and the documents to be provided in the waqf files.
- Memorandum No. 02/97 dated 19/07/1997, which includes the need to care for the development and valuation of property waqf.
- Executive Decree No. 98/381 of 01/12/1998 sets forth the conditions for the management, protection and the means of managing the waqf property. It contains five chapters - general provisions, status, management of waqf properties, renting waqf properties, financial provisions, and the final provisions. This decree gave an administrative and organizational boost to the awqāf department in Algeria.
- Law No. 01-07 of 22 May 2001 amended and complied with Law No. 91/10 of 27 April 1991. It contained a series of amendments, most notably the details of the investment and development of waqf property. The Department of Awqāf is entrusted with the tasks to invest and develop waqf according to the formulas specified in the law.

The law also gives the authority in charge of awqāf the right to conclude contracts.

#### **4.1.2.1 INSTITUTIONAL STRUCTURE & SUPPORTING INFRASTRUCTURE**

The Department of Awqāf in Algeria is not an independent administration. This is evidenced by Executive Decree No. 146/2000. Article 3 of this Decree states that the Directorate Awqāf and Hajj includes sub-directorates for dispute resolution, investment, and of Hajj and Umrah. It was observed that each sub-directorate had a group of offices whose staff was usually below the required level. The sub-directorate for research on waqf properties and disputes includes office of research and registration of waqf properties, office of technical studies and cooperation and office of disputes. However, the sub-directorate of awqāf property investment includes office of investment and development of waqf properties, office of the management of resources and expenditures of property waqf and office of waqf property maintenance.

#### ***Awqāf Committee***

A focus on the central administration of the Awqāf in Algeria shows that it is not an independent administration, but a branch of a larger administration, mentioned earlier as the Awqāf Committee. This committee consists of:

- Director of Awqāf
- Sub-Director of Awqāf Investment
- In charge of legal and legislative studies

- Director of Guidance and Religious Rites
  - Director of Media Department
  - Director of Islamic Culture
  - A representative of the interests of state property
  - A representative of the Ministry of Agriculture and Fisheries
  - A representative of the Ministry of Justice
  - A representative of the Supreme Islamic Council.
- or less than ideal rent
  - Supervise the preparation of a model book of conditions for the rental of waqf property or its adoption in the light of jurisprudence of awqāf and regulations
  - Examine cases of renewal of extraordinary leases
  - Propose after the study, the priorities of the regular expenditure of the available waqf funds and the emergency spending

The powers entrusted to this committee include the management, investment and protection of the waqf properties, in particular to:

- Examine cases of settling the status of public and private awqāf, where appropriate, and prepare standard records on a case-by-case basis
- Study or adopt standard documents for the work of waqf agents
- Oversee the preparation of the working manual of the waqf supervisor, or adopt his proposal, and the necessary documentation
- Examine cases of termination of the functions of the head of the waqf property, and adopt standard documents for each case
- Study the standard documents relating to rental of waqf property and approve by auction, conciliation

### **Central Awqāf Fund**

The centralization in the management of the awqāf in Algeria led to the creation of the Central Fund for Awqāf, which was established based on a joint ministerial decision between the Ministry of Finance and the Ministry of Religious Affairs No. 31 dated 2 March 1999. The resources and revenues collected are deposited in this Fund, after deducting the authorized expenses.

## **4.1.3. CREATION, PRESERVATION & DEVELOPMENT**

The waqf administration in Algeria was subjected to a series of changes through the various laws and decrees that were aimed at preserving and developing them. However, all these laws could not make them a modern and effective administration in carrying out their tasks.

The number of awqāf properties was 10,615 in 2016 increasing marginally from 10,401 in 2015.

**Table 01: Number of awqāf in Algeria as reported in November 1842**

City	Algiers	Annaba	Oran	Constantine	Total
Number of Awqāf Properties	1,798	75	132	1,692	3,697

#### 4.1.4 TRANSPARENCY, ACCOUNTABILITY & GOOD GOVERNANCE

The vastness of the Algerian land and the central character of the administration of awqāf in Algeria made it extremely difficult to manage waqf property efficiently and ensure the principles of transparency and good governance.

Article 23 of the law No. 90/25 highlights the importance of the waqf and the independence of its administrative and financial management.

The issue of the law of awqāf under the number 91/10 issued on 27/04/1991, which approved the protection and management and administration to the authority entrusted with the awqāf, marked the beginning of the independence of the laws of awqāf in Algeria in terms of various provisions related to it and management.

The Directorate of Awqāf is supposed to be independent and the specialized agency to preserve waqf property.

#### 4.1.5 STRATEGIC ANALYSIS & RECOMMENDATIONS

##### *Strengths*

- Waqf has a long history in Algeria.
- The existence of many legal texts and regulation on the waqf sector.

- The existence of institutional structure for waqf.

##### *Weaknesses*

- Lack of manpower and material resources to assist Waqf department in carrying out its tasks and to ensure serious follow-up.
- The weakness of the laws governing the awqāf in Algeria.
- Absence of adequate supporting infrastructure for awqāf sector.
- The merger of Directorate of Waqf with Hajj means neglecting the administrative aspects of the waqf during periods of preparation for hajj.
- Absence of effective accounting and financial supervision for waqf activities.

##### *Opportunities*

- The high potential of properties and real estate in Algeria
- Possible reform in the law of awqāf

##### *Threats*

- Lack of confidence among the public as the desire of waqf founders is not always achieved.
- Lack of sufficient awareness of the sanctity of awqāf among some actors.

## Recommendations

- A total of 4,621 real estate awqāf have been identified that need urgent development.
- A large number of property disputes relating to awqāf are a real challenge for the justice system that must be addressed. Records show that over 600 cases have been settled in favour of awqāf and about 400 cases remain to be resolved.
- New awqāf related investments should be tackled as part of a long-term strategy that requires a specialized management team and a high degree of experience in monitoring and managing these projects.
- There is urgent need for an apex independent institution, such as the National Awqāf Office in Algeria, that would be in a position to mobilize required human and financial resources for efficient management and development of awqāf.
- Availability of specialized talent in awqāf management remains a major constraint that must be addressed with a sense of urgency.
- Identifying, retrieving and documenting properties that have been lost since the colonial era, through the Research Directorate and the Waqf Property Survey, should be expedited with the involvement of experts in the field of surveying.
- It is important to recreate a culture that promotes waqf as an important socio-economic institution through the media by the Directorate of Information and Marketing.
- Waqf investments need to be enhanced in partnership with professionals well-versed in the art and science of investments.
- Creation of Waqf Funds and the financialization of waqf should throw up new and innovative financial instruments, strengthening the capital market, providing alternative tools for raising resources for development of awqāf as well as for meeting the social and developmental goals.
- The legal and regulatory system of waqf must be strengthened in order to provide greater protection for waqf properties, through the Directorate of Organization and Disputes, which manages the issues of endowment before the judiciary, and introduces laws and regulations that preserve waqf properties.
- Development of international cooperation in the field of awqāf, through programs and activities of the Directorate of Cooperation and External Relations would act as a catalyst for rejuvenating the global as well as the Algerian awqāf sectors.
- Finally, it is proposed that the Algerian Awqāf Department must be removed from the administrative constraints attached to the Ministry of Religious Affairs and Awqāf and be given full autonomy by establishing the National Awqāf Office.

## 4.2 LIBYA

### 4.2.1 OVERVIEW OF THE SECTOR<sup>3</sup>

Historically, Libyans have always showed great interest in the institution of waqf as one of the most important charity activities. This is because Libyans culturally are used to giving donations from their assets, real estate and lands for the sake of public utility, and because most of them are deeply religious. The supervisory authority of waqf affairs in Libya is the General Authority for Awqāf and Islamic Affairs (GAAIA), which is responsible for managing and supervising all waqf assets. Since the Islamic conquest until the beginning of the Ottoman era, awqāf in Libya were governed by the rulings of judges and scholars, derived from the Holy Qur'ān and the Sunnah. The administrative and legal organization underwent changes since the Ottoman period (1551-1911), through the Italian occupation (1911, 1947-1951), then during the reign of Qaddafi (1969-2011), and finally after the events of 17 February (2011).

Table 4 shows the geographical distribution of the awqāf assets, where they were split into services: including shops and administrative offices, housing, and agricultural land. The table shows that waqf assets are concentrated in large cities such as Tripoli, Misurata, Western Mountain and Zliten, followed by other cities such as Benghazi, Green Mountain, Zawia, Derna and Jaffara. The weakness of this classification is that it presents the assets in number of units and not in size.

<sup>3</sup> Mustafa Al-Sadiq Tabla, former Director General of the General Authority for Awqaf and Zakat Affairs in Libya, an interview on 05/06/2017



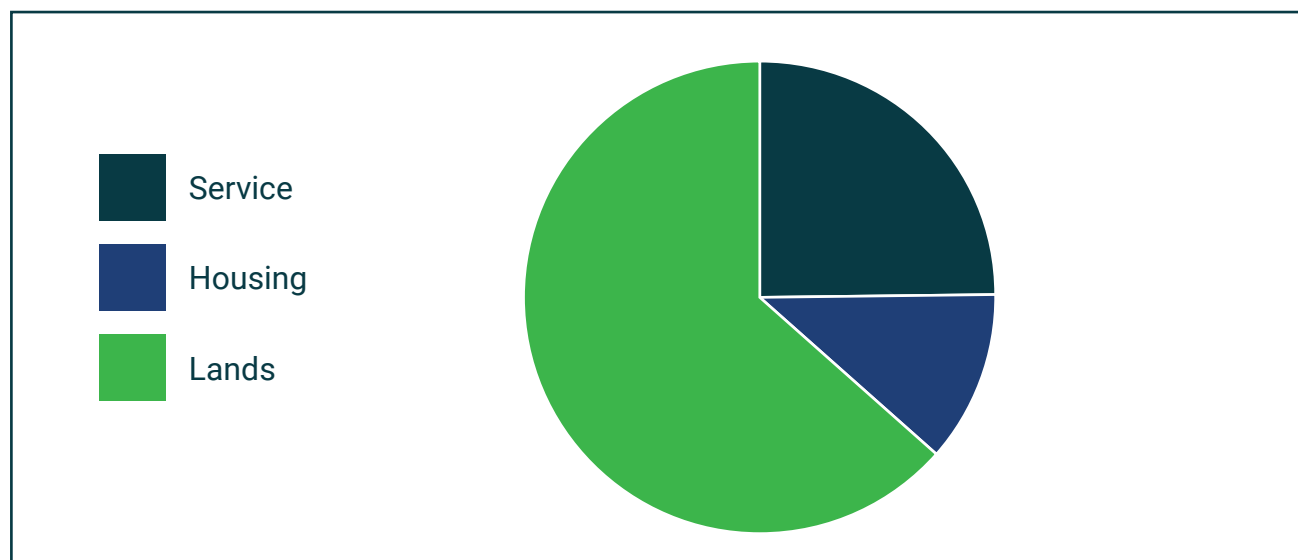
Until the year 2012, the number of awqāf assets in the western region was approximately 11,000 real estate properties (agricultural and pastoral lands, service and commercial buildings), 6,000 mosques, and cemeteries and schools of Qur'ān memorization. Some of these assets have huge areas suitable for building residential and tourist cities and others could fit to be administrative and commercial complexes that have high market values. In addition, the value of the financial assets of the GAAIA, according to the preliminary statistics of 2014, is half a billion Libyan Dinars, part of which represents cash at banks and the rest is loans to public institutions as rentals or compensations.



**Table 4. Geographical distribution of the assets of Awqāf in Libya**

City	Misurata	Sirt	Wahat	Kufra	Jdablah	Benghazi	Marge	G. Mountain	Derna	Butnan	Sabha	W. Mountain	Nalout	Ghadames	W. Coast	Zawia	Jaffara	Tripoli	Megeh	Zliten
Service	341	24	14	9	27	406	37	51	102	46	10	17	24	5	110	106	35	1253	67	60
Housing	18	2	13	0	4	253	33	147	73	58	3	5	2	0	7	46	0	561	2	72
Lands	1170	0	0	1	0	30	266	393	289	235	4	984	0	2	39	353	387	1426	627	838
Total	1529	26	27	10	31	689	336	591	464	339	17	1006	26	7	156	505	422	3240	696	970

Source: Presentation of Mustafa Al-Sadiq Tabala, Badruddin Al-Toumi, Kick-off Workshop of the Islamic Social Finance Report in Maghreb Countries, in Tunis on 15/09/1438H - 10/06/2017

**Chart 3. Distribution of assets of awqāf in Libya based on type of assets**

Charts 3 shows that approximately 64% of the assets are agricultural lands (as noted above, the unit of measurement is the number of lands and not its area), followed by businesses and shops units accounting for about 25% of total assets. Finally, the housing units account for around 12% of the GAAIA assets.

It is worth noting that there are property investments also (Table 5) for the GAAIA in the cities of Tripoli and Misurata, with a total value of 26.95 million Libyan dinars, generating an annual return of 1.74 million Libyan dinars.

Table 5 shows the value of the property investments, monthly and annual returns, and the tenor for the invested capital.

**Table 5. Investment in awqāf assets in Tripoli and Misurata**

	Project	Site	Capital	Monthly income	Annual income	Tenor
1	Administrative building	Tripoli	2,000,000	19,000	228,000	8.77
2	Administrative building	Tripoli	11,900,000	50,000	600,000	19.83
3	Administrative building	Tripoli	9,300,000	46,000	552,000	16.84
4	Administrative building	Misurata	3,750,000	30,000	360,000	10.417
<b>TOTAL</b>			<b>26,950,000</b>	<b>145,000</b>	<b>1,740,000</b>	

Source: Presentation of Mustafa Al-Sadiq Tabala, Badruddin Al-Toumi, Kick-off Workshop of the Islamic Social Finance Report in Maghreb Countries, in Tunis on 15/09/1438H - 10/06/2017

**Table 6. Summary of financials for the investment of awqāf assets**

Description	Libyan Dinars
Total investment	26,950,000
Total annual return	1,740,000
Total annual operating costs	539,000
Net annual return	1,201,000
Net return during project period	60,050,000
Net cash flow	33,100,000
Rate of return on investment	222.82%
Rate of annual return on investment	4.46%

Source: Presentation of Mustafa Al-Sadiq Tabala, Badruddin Al-Toumi, Kick-off Workshop of the Islamic Social Finance Report in Maghreb Countries, in Tunis on 15/09/1438H - 10/06/2017

Table 6 summarizes the feasibility study for the awqāf assets investment. The total investment value of 26.95 million Libyan dinars with a total operating cost of 0.54 million Libyan dinars. Net returns during the period of the project is 60.05 million Libyan dinars with an annual yield of 4.5% approximately.

## 4.2.2 REGULATORY & POLICY FRAMEWORK

One key characteristic of the awqāf system in Libya is duality. Its rules are derived from both the rules of Shari'ah and the texts of the law. The administration of rules and regulation are shared between civil donors and the official institutions. Its litigations are submitted to the legal and civil courts. This organization structure is dictated in the Article 32 of the Waqf Law No. 124/1972 which states that the GAAIA is responsible for the management of awqāf.

Before the Ottoman rule, there was no national institution managing the waqf affairs in Libya. The first institution was established under the Ottoman Awqāf Management System and was issued in December 1862. This was followed by the rules issued by the Awqāf Authority established by the Italian decree on 2/10/1917. The supervisory body for awqāf in Libya has been reorganized many times in history. The latest amendments were made by the Council of Ministers Decision No. 10/2016 concerning the establishment of the General Authority for Awqāf and Islamic Affairs GAAIA.

During the last few years, the GAAIA did not rely on the actual market price

while leasing out the awqāf property. The rental prices were determined by a decision of the GAAIA, according to the nature and classification of assets (commercial, residential, agricultural), and depending on the regions. However, these prices were not in line with the market prices and far from the real rental prices which led to decrease in the annual revenues. It is worth mentioning that the annual revenues collected during the previous years did not exceed 5 million Libyan dinars, except for what is leased to the government.

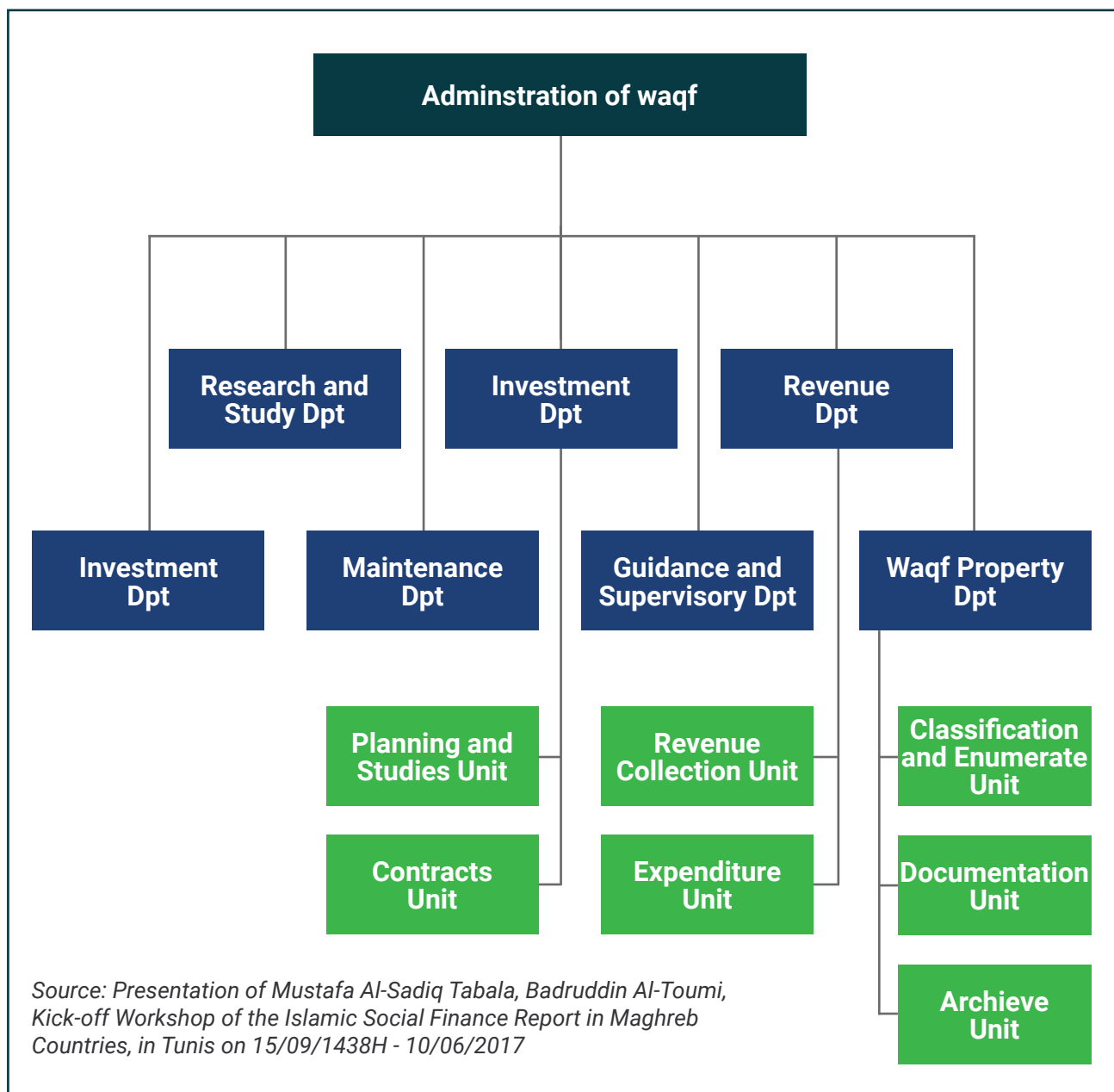
The challenges facing the Libyan awqāf sector may be summed up as following:

- Decrease of rental income of waqf assets compared to private sector owned assets.
- Some waqf users of assets benefited from them without contracts.
- Some waqf users (individuals or official institutions) did not pay their rentals.

### 4.2.2.1 INSTITUTIONAL STRUCTURE

The administration of awqāf is the key function of the GAAIA. The administrative structure consists of a number of departments: the waqf property department, the revenue department, the department of the guidance and supervision, the department of investment, the department of maintenance, the department of research and studies, and the department of projects. The waqf property department comprises of three units: classification unit, documentation unit, and archives unit. The revenues department consists of the collection unit and the expenditure unit. The investment department also includes two units: the planning and studies unit, and the contracts

**Chart 4: An outline of the organizational and administrative structure of the Waqf administration in the GAAIA.**



unit. These departments, sections and administrative units operate in a consistent manner to supervise waqf assets and funds through branches spread across Libya.

#### 4.2.2.2 SUPPORTING INFRASTRUCTURE

There are no supporting institutions in Libya, such as charities, service centers, or media channels, advocating and promoting the institution of waqf in Libya. The GAAIA is the only agency that constitutes the awqāf infrastructure in the country.

### 4.2.3 CREATION, PRESERVATION & DEVELOPMENT

The GAAIA has, to a certain extent, an organized archive where it classifies and saves documents of waqf assets and keeps track of them. However, this is only in major cities. There is usually little or no information about the waqf assets in small cities. The classification is based on the number of units of assets, (administrative, commercial

or residential units), and it does not take into consideration the areas. Furthermore, some of awqāf in Libya are still signing rental contracts for administrative, commercial and residential use at cheap prices, and are not using market-based rentals. Currently, plans are afoot to re-categorize, classify and reevaluate all awqāf assets in Libya, using modern valuation methods at market prices.

The Waqf in Libya is established in accordance with the provisions of Law No. 124/ 1971, which regulates the process and consideration of waqf assets as follows:

- The waqf shall not be recorded, and it shall not be valid, and it will be null and void unless it receives a certificate from the relevant court.
  - Any ruling of the court regarding regulating and controlling a waqf asset is a proof of waqf authenticity and the said asset is protected.
  - No action may be taken to replace waqf assets, change its features, modify its conditions, borrow it or dispose of it without the prior permission of the competent court. (Articles 2, 14, 38, 43)
  - The court only has the right to appoint waqf managers, question, take disciplinary actions (such as dismissal) against them and the complaints brought against them must be addressed to it. (Article 41)
  - Judicial authorities may prosecute employees of the GAAIA, as well as waqf managers, in the event of any criminal, civil or disciplinary liability.
  - Each waqf manager must submit annually to the GAAIA a statement of accounts supported by relevant documents on all assets under his/her management. (Article 40)
- The competent court shall be required to punish waqf manager in the case of negligence of duty. (Article 41)
  - The waqf manager deducts four percent of the net proceeds of assets and allocates them to the maintenance services of assets (Article 42).

## 4. 2.4 TRANSPARENCY, ACCOUNTABILITY & GOOD GOVERNANCE<sup>4</sup>

The accountability and governance system of the awqāf consists of several bodies, as stipulated by the laws and regulations governing the awqāf, and can be summarized as follows:

- Shari'ah Supervisory: It is carried out through specialized scholars' committees that provide the Shari'ah provisions from the Holy Qur'an and Sunnah under the Imam Malik doctrine
- Judicial supervision: It is carried out through the Libyan judiciary based on Libyan laws and legislation (Law No. 124/1971) regulating the waqf and zakāh affairs. The disputes between the GAAIA and other legal entities is settled in Libyan courts.
- Audit and Administrative office: Pursuant to Law No. 124/2013 and its amendments, the GAAIA must annually submit an annual report to the Audit Bureau in order to ascertain the validity of its financial transactions, and their compliance to the local financial and administrative regulations, especially given that it benefits from public budgetary allocations.

<sup>4</sup> Mustafa Al-Sadiq Tabala, Badruddin Al-Toumi, Islamic Social Microfinance for Small and Medium Enterprises, Workshop in Tunis on 10/06/2017

## 4.2.5 STRATEGIC ANALYSIS & RECOMMENDATIONS

### Strengths

- There is a systematic attempt to enumerate and record the waqf assets. In the province of Tripoli only, the first attempt of reclassification, based on the number of properties in 2012, identified about 11,000 real estate and 6,000 mosques, and more than a thousand schools of Qur'ān memorization.
- According to the statistics of 2014, the GAAIA has current assets exceeding 500 million Libyan dinars.
- The process of registration of waqf assets is subject to the procedures governed by Libyan law and is under the Libyan administrative control which makes it difficult to misuse them.
- There has been a new trend for the waqf funds investment through projects that are generating an annual return of approximately 4.5%.
- Amendment of rental prices (within the city of Tripoli only), had a major positive impact on waqf income.
- The accumulated waqf assets held by the GAAIA and which are spread across most cities of the country are characterized by excellent locations suitable for development projects of various types - residential, commercial and social, etc.
- Legal texts that characterize waqf assets gives them special protection compared to private and public funds. Further, the social position of waqf in the society makes people more protective towards this institution.
- Libyan society is showing more and

more interest in the awqāf sector. It is increasingly being seen to offer greater and unique options to address various social needs as compared to other official interventions.

### Weaknesses

- Waqf assets in Libya in general are characterized by low levels of revenues. The GAAIA does not adopt market price as benchmark for fixing the rentals on waqf assets. This negatively affects its general income and reduces its revenues.
- In many instances, there are either no or improper use of contracts for the use of waqf assets due to negligence and administrative corruption in the GAAIA.
- Many tenants (including public institutions) do not fulfill their obligations and have past dues with the GAAIA.
- There are frequent instances of misclassification of land as rural and of low value, while they have become urban since long time. Therefore, there is a need to reclassify them and align the rental rates with the market.
- The GAAIA does not adopt surfaces (areas) as measurement unit in assets classification, where every asset is recorded as a single unit regardless of its size.
- The GAAIA is not open for other social and financial structures, hence more inclusive strategies have to be built in order to push the sector further.
- Instability in the management of the GAAIA, mismanagement of waqf assets and the use of traditional systems in asset evaluation, prevent a move towards optimal investment. These also make it difficult to control

and detect deviations and bad practices.

- The staff of GAAIA lack adequate professional experience. There is a serious shortage of specialized expertise in the management of waqf assets.
- The present regulatory framework involving GAAIA needs a serious revisit. It lacks the characteristics of proactive and enabling framework.
- Some signs of financial and administrative corruption in GAAIA, which negatively affected its performance and weakened the people's trust.

### **Opportunities**

The waqf sector can contribute significantly to the provision of public goods in Libya. This can only be achieved by setting up a strong institution with high administrative competencies to deal with waqf in terms of identification, codification, registration of waqf assets and reviewing the regulations governing the use thereof. It is also possible to upgrade this institution through the following:

- The institution must benefit from the conclusions and recommendations from conferences, seminars and academic studies that were prepared for the GAAIA on the importance of waqf, its role and its approaches of development and the benefits of participating with financial institutions in the field of development.
- The failure of the socialist and capitalist regimes to achieve the economic well-being has led to the increasing recognition of the third or voluntary sector.
- The growing Islamic fervor in the

Libyan society has been driving people to support and practice waqf after facilitating it through new and innovative structures for investment of endowments such as waqf funds, shares, and bonds.

### **Threats**

Political and economic instability, a chaotic security situation, in addition to the permeation of administrative and financial corruption, have all affected negatively the work of the GAAIA in Libya. A large scale non-compliance regarding the flow of benefits from waqf assets to intended beneficiaries and encroachment of waqf land and real estate constitute major threats to the institution of waqf. In addition, the administrative instability of the GAAIA and the administrative conflict at the higher levels within it, are not only impacting negatively the work of the staff only, but also awqāf sector in general. The following points summarize the threats the GAAIA faces:

- Some of the recommendations and actions are based on inconsistent provisions which would blur the features of the waqf.
- Multiplicity of supervisory bodies, for example, the intervention of the judiciary in the operations of the GAAIA in terms of waqf assets and expenditures and clinging to the fatāwa that allowed encroachment of the waqf pose serious threat to the sector.
- Waqf assets and investments are not properly preserved and maintained as required and are rather neglected or exploited for cheap prices. This may lead people to move away from this noble Sunnah.

## Recommendations

- There is a need to urgently reconsider the laws and regulations governing the work of the GAAIA in Libya.
- The GAAIA is a religious institution whose role is limited to following up and supervising mosques and schools. However, it should transform itself for greater financialization of the waqf sector.
- The sunnah of waqf must be revived in the hearts of people, by involving a large group of them as well as private and public entities in the practice of collective waqf work. This can be achieved through innovative waqf types such as waqf funds, equities and bonds for the support and diversification of its accumulated assets.
- The investment of real estate assets under waqf in prime areas and locations spread throughout the country should lead to establishment of large partnerships with the public and private sectors in the agricultural, industrial, commercial and tourism sectors and in services such as communications, transportation, etc.
- Considering awqāf as a pillar of the national economy, its importance must be driven home through the dissemination of annual reports of awqāf organizations as well as other relevant information to the public. Waqf-related courses must be offered in the curricula of universities and institutes. Other mechanisms of capacity building, e.g. seminars, conferences and meetings, may be employed in order to build managerial expertise, and feed innovations relevant to this sector.
- Re-archiving and documenting waqf assets, using local and international experts, and using advanced information systems need to be urgently undertaken.
- The contracts for the use of waqf assets by private as well as public institutions must be reviewed and brought in line with modern practices.
- The re-enumeration and classification of waqf assets throughout the Libyan cities must begin.
- The GAAIA must be given more flexibility in the investment of waqf assets, and its development and activation, to participate in the economic development of the country.
- The GAAIA must be assisted in directing its endowment funds in financing small and medium enterprises for economic development, and paying more attention to investment instruments for waqf:
  - \* Ijārah: Leasing waqf assets at rentals based on prevailing market conditions.
  - \* Double rents: Reconstruction of property by the tenant, and then leased for a long time by the original owner.
  - \* Islamic investment products, such as, waqf funds, mushārahah, istiṣnā', muzārahah and musāqāh.
- Inclusion of waqf curricula in specialized colleges, and the dissemination of awareness and culture of the waqf among people.



## 4.3 MAURITANIA<sup>5</sup>

### 4.3.1 OVERVIEW OF THE SECTOR

The country has known the institution of waqf since the advent of Islam along with the emergence of private educational institutions - the Mahadras. The Mahadras were mobile seminaries moving from one location to another and benefited from the profits of the charitable awqāf. The awqāf comprised herds of livestock from camels, cows and sheep, under the responsibility of the teachers and mandated persons. In the cities and settlements, the term waqf was associated with the mosque and its scientific and religious institutions in addition to some other public interests. The awqāf were in the nature of:

- Palm gardens and agricultural lands are disposed in the interests of the mosque and its annexes and villages of the hosts and to feed the needy people.
- Residential housing for Islamic sciences students and strangers.
- Free water well for people and livestock.

In addition to these, awqāf were also in the nature of family awqāf that benefited the relatives (daughters, divorced or widows, and other relatives in need) that were dispersed across the Mauritanian society in the countryside and cities. Such awqāf were also in the nature of residential housing or gardens of palm trees, farms or

<sup>5</sup> Paper "Overview on Zakāh & Awqaf Sectors in Mauritania", Abdallahi Ould Addoud, Deputy CEO of the Awqaf National Institution (Mauritania) presented during the Kick-off Workshop of the "Islamic Social Finance Report", held in Tunis on 10 June 2017 and co-organized by IRTI (IsDBG) and Zitouna Tamkeen MFI

livestock.

The emergence of the independent state has been accompanied by enormous challenges. Among its tasks is the transfer of the nomadic society to a state of stability and the establishment of a modern entity, which necessitates keeping up with developments in the waqf in terms of legal texts and investment methods.

### 4.3.2. REGULATORY & POLICY FRAMEWORK

In this context, in order to organize this important institution, since the late 1970s, the Mauritanian authorities have worked to develop a legislative and regulatory framework. Awqāf was part of the mandate of the Ministry of Islamic Affairs until the establishment of a national authority for the surveillance of the awqāf properties in the country in 1982 under decree No. 119/82. This structure has taken three names throughout its history:

- Mauritanian Awqāf Institution created in 1982, by decree No. 119/82.
- Islamic Awqāf Institution in 1984, under the decree no. 128/84.
- National Awqāf Institution - the current name of the institution - in 1997, by decree No. 57/97.

The waqf sector in Mauritania still suffers from a clear legislative gap. It is managed by regulatory decrees and some miscellaneous articles in laws related to the issue of waqf, such as, the law governing mosques, the law of obligations and contracts.



However, the text of the Constitution of the Islamic Republic of Mauritania, dated 20 July 1990, states in article 15 that “the right to property is guaranteed, the right to inheritance is guaranteed, the property of the waqf and the property of charitable institutions are recognized and protected by law.”

The following facts define and describe the legal, regulatory and policy environment for awqāf in the country.

- There is no dedicated law to regulate waqf, contrary to most Arab and Muslim countries.
- The legal order No. 127/83 regulating real estate properties and its amendment does not mention waqf.
- The legal order governing public institutions does not consider the institution of waqf. The characteristics of the main types of public administrative and commercial institutions, with mixed capitals, are insufficient to accommodate the nature of the waqf institution.
- The laws governing the establishment and functioning of associations and non-governmental organizations do not refer to the waqf. In fact, the properties of these associations are similar to those of waqf properties. Their activities are similar to the activities of the awqāf. These are properties that are both private and public and at the same time beneficial to the public.

### 4.3.2.1 INSTITUTIONAL STRUCTURE

The decree No. 57/97, issued on 28 June 1997, established a public institution called the National Awqāf Institution.

This decree sets out the functions of the institution as follows:

- Control and maintain all places of worship, the mosques, cemeteries, appointing those responsible and supervising the activities related to them.
- Manage all waqf funds.
- Ensure the rehabilitation and care of orphans and help the poor.
- Coordinate and organize the assistance provided by foreign charities of an Islamic nature which allowed them to function in Mauritania.
- Undertake developmental and investment projects in different fields.

The administrative structure of the National Awqāf Institution consists of:

- A board of directors, including the president and eight members that represent various ministries and charity organizations.
- General administration.

The National Awqāf Institution continues to rely almost entirely on annual grants received from the Government, including workers' wages and a budget for management, despite their industrial and commercial nature.

These resources, which are revenues generated by the printing and publishing unit owned by the institution in addition to the rental of some shops, which constitute a total of about twenty percent of the total annual income of the institution.

Because of this, the role of the National Awqāf Establishment is mainly concentrated in the following:

- Registration of awqāf and preservation of their title deeds (often the floor of mosques) and issuance of waqf deeds
- Follow-up of disputes related to the awqāf of mosques with the judicial authorities
- Issuing post-inspection statements at the request of some implementing bodies for some projects related to mosques
- Recommending some studies directed to funding institutions after examination and analysis and related to mosques and educational complexes.
- Preparation of some preliminary studies of projects submitted by the awqāf to the funding agencies.
- Supervising the distribution of some aid such as sacrifice, clothing and food provided by charities and embassies of some Islamic countries in some seasons.
- Maintenance and restoration of some mosques, such as the old mosque.

The publishing unit of the institution, in cooperation with the Ministry, prepares

and translates the Hajj guide and issues a detailed annual Hijri calendar for all the national territory, distributed by the ministry to all mosques in the country.

This is in addition to the usual activity carried out by the publishing unit of printing for research, literature, magazines, publications and others.

#### 4.3.2.2 SUPPORTING INFRASTRUCTURE

They are some actors in Mauritania that help improvement of awqāf knowledge or practice such as Chinguitty Center for Islamic Finance, University of Abdallah Yassin, the Modern University of Chinguitty, the Mechoura Center, etc. These institutions organized some seminars related to awqāf with the support of national and international institutions.

### 4.3.3 CREATION, PRESERVATION & DEVELOPMENT

Policies for promoting the sector are to develop and improve the following aspects:

The legislative aspect: The institution of awqāf has witnessed the enactment of a law to protect waqf property and control the behavior of the trustee manager and ensure the achievement of the conditions of the endower.

The financial aspect: Through investment projects, the financial position of the National Awqāf Institution has improved over time leading to an increase in its revenues, and a decrease in its dependence on the aid provided by the state. The institution is also in the process of launching short-term investment projects that are now fully developed and can be implemented, including:

- Establishment of a fuel supply station including a laundry and maintenance complex.
- Establishment of a unit for the manufacture of bricks, which is a popular commodity in view of the rapid urbanization that is taking place in the country.
- Opening a travel agency dedicated to the Ministry of Religious Affairs and delivering visas for Hajj and Umrah every season.

The institution is now preparing the necessary studies for the establishment of some markets, shops and residential buildings on waqf properties, and once these studies are completed they will be placed before prospective investors.

The media aspect: Through awareness campaigns, scientific symposia, conferences and forums inside and outside the country, the institution has sought to promote the waqf sector.

### 4.3.4 TRANSPARENCY, ACCOUNTABILITY & GOOD GOVERNANCE

The programs and activities conducted by the Awqāf National Establishment, or other relevant structures such as, the Committee of Mosques and Mahadras, are subjected to conformity and regularity checks at three levels:

1. The first stage is internal, and is implemented through deliberations at meetings of Board of Directors, Management Committee, Supervisory Committee, External and independent auditors.



2. The second one is intermediate and is undertaken through general inspection at the level of the Ministry of Islamic Affairs.
  3. The third and last one is at the top and concerns three structures: the General Inspection of Finance, the General Inspection of State and the Court of Auditors.
- The Awqāf National Establishment has been working to achieve social stability and a sense of compassion among the members of society and to protect it from the maladies that usually arise in societies where the spirit of material selfishness prevails.
  - There is a close relationship between the sustainable Islamic endowment product and the objectives and principles of sustainable development.

## 4.3.5 STRATEGIC ANALYSIS & RECOMMENDATIONS

### *Strengths*

- Waqf has played an active role in the cultural construction of the Islamic Mauritanian society through its contributions to the social, economic, political and even environmental sectors.
- Waqf has contributed to the provision of stable resources to provide public services and social institutions with the necessary tools to meet the needs of the national community.
- The system of the waqf has helped reduce stratification among members of society, through material and moral support for the fragile classes of society.

### *Weaknesses*

- The Awqāf National Establishment is yet to reach anywhere near its potential in terms of contribution to the economic and social development of the country, although almost four decades have elapsed since its establishment.
- To date, there is no legal framework regulating the Awqāf National Establishment, which has caused interference in its powers with other bodies affiliated to the Ministry of Islamic Affairs.
- The Awqāf National Establishment suffers from negligence and mismanagement, due to lack of

accountability and law. As a result, it suffers from a huge trust deficit vis-à-vis ordinary citizens of the country.

- The national institution is yet to benefit from the investment opportunities available to it.
- The National Awqāf Register contains more than a hundred waqf deeds. However, most of the awqāf are not subject to the institution's guardianship.
- The Awqāf National Establishment does not have a clear strategy for the advancement of awqāf.

#### Opportunities

- The mobilization of significant additional financial resources from waqf is likely to improve the financing and development of the Department of Islamic Affairs in the general budget of the Government.
- The launching and developing of Islamic financial institutions open a new perspective for investment of waqf financial assets.

#### Threats

- Lack of confidence among citizens about the public management of awqāf.
- Lack of honesty and responsibility of certain beneficiaries who are in charge of the management and exploitation of the assets of the awqāf.

#### Recommendations

- There is an urgent need to issue a legislative framework that regulates the functioning of the Awqāf National Establishment and grants it full independence from the guardianship of the Ministry of Islamic Affairs.
- Awareness of the importance of awqāf among investors and businessmen needs to be enhanced through training courses in the field.
- The awqāf sector must seek to restore confidence between them and the citizens.
- Awareness campaigns may be undertaken in various national wilayas (provinces) with a view to spreading the culture of the waqf.
- Successful experiences of waqf should be documented and shared widely.
- The publishing unit of the National Establishment should be strengthened through partnerships.
- Various investment instruments may be developed to facilitate financing of the waqf assets.

## 4.4 MOROCCO

### 4.4.1 OVERVIEW OF THE SECTOR

Moroccans have shown continuous and permanent interest in awqāf since the Islamic conquest. They have provided many distinct examples that highlight the strong position that Islamic civilization attaches to the role of community-wide cooperation among the members of society.

While the rules and regulations of awqāf seem to have taken shape at the beginning of the 20th Century, they were dispersed in various legal texts. Most of them were issued during the colonial rule. These texts have been systematically collated and reviewed, leading to the issuance of a code of awqāf in 2010 which is considered one of the most important pieces of waqf legislation in the Islamic world.

This code has come into force to preserve the privacy and the particularity of waqf and provide it with modern legal means to ensure effective preservation against aggression, crime and injustice. It has come with administrative systems that facilitate its utilization and benefits, as well as investment tools that enable it to contribute to economic and social development projects. The code adopted the unity principle to consider waqf as one financial entity, emphasize public interest in its disbursement, and underlined the intention of the waqf founder (waqif).

This regulatory and policy environment helped the awqāf sector overcome some serious problems related to waqf sales and exchanges, family waqf (waqf ahli) and customary rights. It also created new possibilities of developing and

activating the institution of waqf through mechanisms such as partnership contracts for the development of waqf investments and the issuance of waqf bonds to seek public charity.

The code considered His Majesty the King as the highest trustee of waqf. This task is carried out under his direct authority by the Minister of Awqāf and Islamic Affairs, which makes waqf in Morocco a non-governmental sector. In 2019, the code of Awqāf was amended and completed by Dahir No 1.19.46 published in official bulletin No 6759 of 11 March 2019, which can enhance the regulations related to Awqāf in Morocco.

The Directorate for waqf administration has been created inside the Ministry of Awqāf and is managed through awqāf trusteeship. The Supreme Council for Financial Control of General Awqāf was created to follow up and inspect the financial management of general waqf.

The revenues from Agricultural properties (85000 Hectares) ranged from USD 6.2 million to USD 8.8 million between the period 2006-2007 and 2016-2017. As for the urban properties, (57,028 units), the revenues increased by 8% from USD 19.4 million in 2007 to USD 36.4 million in 2017; whereas the revenues from monetary replacement reached USD 66.7 million from 2007 to 2017 and for this period the ministry approved 472 Waqf replacements.

#### **Historical context**

Historically, waqf in Morocco is always considered as an exclusive heritage of Moroccan Muslims, left by the ancestries as a material guarantee of the stability of Islam and the continuation of its rules

and principles. The Moroccans recognized the importance and the sanctity of waqf, and they keep on preserving some of their wealth in the name of Allah for charity and solidarity, and therefore the prosperity of citizens was often correlated to the prosperity of waqf.

Morocco, like other Islamic countries, came to know of general waqf with the arrival of Muslim conquerors. Mosques were the first type of waqf institutions, dating back to the days of Uqba ibn Nafi 'al-Fihri (681-683). And over the successive stages in history, different kinds of waqf emerged

recognized the sanctity and the importance of awqāf, they kept striving to preserve them from any aggression or behavior contrary to the objectives for which they were created. In the era of Al-Adarissa (789-921), the Mosques of Al-Qaraween and Al-Andalus in Fes as well as Bab Dakkala Mosque in Marrakech were built. The era of the Almoravids (1056-1147) witnessed the construction of many schools that were a destination for students of science from all regions at the charge of awqāf. More interest was given to science and knowledge promotion, and



in religious, educational, social and health areas due to the progressive practice of waqf in the social life of Moroccans.

In addition, when the Moroccan sultans

the first library in Morocco was established in the era of the Almohads (1121-1269). The Marinids (1244-1465) were also interested in the organization of waqf; they made trustees for waqf in various cities



(trustee for every waqf) and they worked for establishing scientific schools and libraries. For example, they built new ones and expanded the old ones in the cities of Taza, Meknes, Sala, Marrakech and Sebta. They also took care of building mosques and hospitals by hiring doctors to take care of patients. In the era of Wattassides (1462-1554), the interest in scientific courses was a governmental mandate that was not less than the position of the judiciary, fatwa and the ministry and waqf revenues were used to help the patient and the homeless. However, the mismanagement of waqf funds during this period caused a decline. This was one of the problems that were faced by Sa'adis (1554-1659). In their period, awqāf organization focused on the construction or renovation of mosques, reviving some schools and establishing others, the establishment of many watering places next to the mosques. However, it has been noticed that social waqf was absent in this era.

The most important stage in the history of waqf system in Morocco started with Alawite dynasty (since 1640/1666 AD), where new environment and context emerged and made the Kingdom of Morocco embrace the waqf because the sultans of Morocco were perfectly conservative in the principle that waqf cannot be sold or lost which create a positive impact in the hearts of Moroccans who become more encouraged to donate and make waqf. In the era of Mawla Ismail (1672-1727), all waqf properties were recorded in special official books known as waqf transfers "Hawalat". The General Trusteeship of Waqf was established under the name "Trusteeship of the Trustees".

In this period many distinguished awqāf were created in terms of purpose and the beneficiaries such as awqāf in the city of Fes, including a house dedicated for wedding and to spend the honeymoon for the poor and needy, waqf for the removal of stones from the roads, waqf for good loans without interest; awqāf in the city of Marrakech, including a refuge/ shelter where 6,000 blind people could sleep, eat and read; and the establishment of hospitals called "Bimarstan" in many Moroccan cities such as Fes, Marrakech, Meknes and Tetouan to treat the sick and the disabled people; and other awqāf dedicated to washing and burying the dead from the poor and strangers.

The significant role of the waqf continued in the era of French protectorate, where Sultan Moulay Abdel Hafiz (1908-1912) excluded the religious institutions and Islamic sanctities from interference by the protectorate authorities. For the same purpose, Sultan Moulay Yusuf (1912-1927) issued more than 35 Dhahir to organize waqf and set ongoing acts to protect them. The waqf continued to follow the same rules and regulations as those established in the beginning of 20th Century, which was known as the "awqāf regulations", with special reference to the provisions of the Islamic Sharī'ah derived from the Maliki jurisprudence.

During the post-independence phase (from 1956), the organization of awqāf kept using all decrees issued by the King, despite the development of the trusteeship institution for waqf, which moved from "Benniqa Al-Ahbass" and replaced by Ministry of Awqāf having a modern structure. With the development of Moroccan society, the need arose to organize waqf properties and

preserve them with many legal procedures for their development and investment, in order to achieve the desired goals. This is reflected in the issuance of the Awqāf Code in 2010, combining the legal texts related to waqf and its jurisprudential rules in harmony with the Maliki School.

In 2019, the code of Awqāf was amended and completed by Dhahir No. 1.19.46 published in official bulletin No. 6759 of 11 March 2019. This amendment can enhance the regulations related to Awqāf in Morocco.

## 4.4.2 REGULATORY & POLICY FRAMEWORK

The issuance of the Awqāf Code on 23 February 2010 and its amendment on 11 March 2019 are considered as a very important event in Morocco, because the legal framework of waqf has been updated and modernized to preserve waqf, activate its economic and social functions, rationalize its management and development and overcome the previous weaknesses in rules governing waqf. For example, in the previous legal texts governing waqf before the issuance of Awqāf Code, there was no legal requirement about how a waqf is established as well as its consequences and effects, which means that it was necessary to refer to the Fiqh in this matter. Conscious of the importance of this issue and the necessity to organize it with decisive regulation that would put an end to the differences and ambiguity, the legislator of this Code decided to allocate the first section to this purpose. The first chapter treats the elements and conditions of waqf and the second chapter was dedicated to

its consequences and effects.

The Code mentions that a general waqf is a legal entity since (art. 12) that cannot be seized or acquired by possession or prescription and it may not be acted on or disposed of except in accordance with the requirements of the Code (art. 11).

The Awqāf Code affirmed that the debts owed to the general waqf are considered as preferential debts and are not subject to prescription. They have a priority of collection after the dowry (Mahr), alimony (Mout'a) and other expenditures due to the wife, children and parents as per the family code in Morocco. In addition, the Code provides general awqāf with several exceptions regarding the conservation fees, litigation, expropriation for public interest and for seeking the public charity.

The Code has five sections in addition to the introductory section that contains general provisions about the definition of waqf, its types and the methods of its establishment (article 1). This section indicated that the trustee functions are assigned to the King and executed under his authority with delegation to the Minister of Awqāf and Foreign Affairs (article 2).

However, the code of Awqāf (2019) stipulated many details in Article 2a related to Awqāf strategy that should be established by the ministry, which should be based on global and detailed diagnostic of Awqāf properties as well as to:

- Determine the goals to be achieved in order to ensure the protection, development, and valuation of Awqāf.
- Determine the means to achieve the mentioned goals.



- Establish an accurate timetable for implementing this strategy.
- Adopt the governance system in order to properly implement this strategy, including the necessity of updating and improving Awqāf management as well as the definition of the tasks and obligations of the various stakeholders.
- Establish a joint committee to supervise and control the implementation of this strategy and the extent to which its objectives are achieved.

The main directions of this strategy, as per Moroccan Vision of 2030, include the preservation of Waqf properties, governance in Waqf management, respect

Waqf condition, achieve Waqf objectives and its role in sustainable development, as well as improving Waqf culture.

The first section of the code of Awqāf contains 47 articles that concern the establishment of waqf and its effects. This section includes two chapters. The first one is about the elements of the waqf and its conditions, and the second one is about the effects of the waqf contract.

The second section concerns the general waqf and it contains two chapters. Chapter one includes general provisions, considering that the Waqf is a legal entity with several privileges in term of conservation and litigation. The second chapter treats the actions that occurred on the general waqf, and it allocated some articles for compensation and exchanges

in cash and in-kind, agricultural and non-agricultural leasing with adequate rental amount, the sale of the tree products, seeds and other land or materials belonging to general waqf in order to address the violation and injustice to which the waqf is currently being subjected, and to liquidate the customary rights established by general waqf in accordance with the provisions and requirements to preserve waqf rights.

In addition, article 60 stipulated that all legal actions aim at preserving them, developing their incomes in a manner appropriate to their nature, and achieving an apparent benefit of Awqāf. To this end, the Endowment Department is charged with investment and management of these funds in accordance with the rules stipulated in this code and in accordance with the strategy referred to in Article 2a.

As per Article 62, the Awqāf department may conclude, in the name of public Waqf, contracts and agreements for partnership with the public or the private sector in order to implement investment projects or income-generating social projects, with the aim of developing Awqāf income and contribution in achieving economic and social development. These contracts and agreements must be concluded within the framework of special investment that must achieve the benefit of Awqāf. The partnership must be accompanied by a feasibility study that includes, in particular, estimated revenues of the project, the obligations, contribution and share of each party's as well as the duration of the project, the guarantee of its completion and the mechanism for periodic evaluations of the various stages of project completion.

The third section concerns the family waqf (Waqf Ahli) and joint or mixed Waqf (Waqf Mushtarak). The first chapter has special articles about family waqf and its control, in this regard many countries differed in dealing with the problems of this type of waqf. The Moroccan legislator chose to retain the family waqf with its reorganization under a law issued in 1977 and then under the Awqāf Code by determining the ceiling of the permissible waqf allowed in three levels: the first beneficiary, his children and then the children of his children. This waqf will then be considered an heir if any. Otherwise it will be considered as general waqf if the founder (waqif) did not specify another reference. The chapter indicated that the general waqf rules in term exchanges are applied also to the family waqf; clarifying the terms of the trustee, its tasks and responsibilities, and the reasons for termination its task. Other articles in the same chapter are about the liquidation of the family waqf especially the control and the rules of liquidation, the formation of a liquidation committee to study the cases and prepare a report to be submitted to the government authority in charge of awqāf to issue the liquidation decision and then publish each decision for onward information of the same by the committee to the concerned people having the rights. The second chapter concerns the joint or mixed waqf (Waqf Mushtarak).

The fourth section concerns the control of the financials of a general waqf. Basically, the first chapter contains the principles of financial and accounting organization of general waqf followed by the financial supervision and control of general waqf in the second chapter.

For example, the article 134 stipulated that the preparation of waqf budget must take into account the objectives and contents of the strategy mentioned in Article 2a as well as the reliability of the estimates in light of economic and social circumstantial data. This budget must be prepared on the basis of programming for at least three years for total resources and expenditures.

In addition, the expenditures should be presented in the form of programs, projects and operations. Accordingly, the budget is determined and classified according to a decision of the governmental authority in charge of Awqāf, after consulting the Supreme Council for the Control of Public Awqāf' Finance (Article 138)

And as per Article 143, the budget preparation must respect the financial balance between incomes and expenditures, include all mandatory commitment and comply with the opinions of the Supreme Council of Oulemas related to public Awqāf to ensure the Sharī'ah compliance.

The fifth section includes the conclusions and transitional rules making references - in the absence of a text in the Code - to the relevant provisions and rules of the Maliki doctrine and jurisprudence.

To activate the requirements of the Awqāf Code, a decree was issued to establish "the Supreme Council for Financial Control of General Awqāf. The Ministry also worked on the preparation of regulatory texts represented in the following resolutions regarding:



- The status of the Central Controller, financial supervisor's assistants and local controllers who are responsible for monitoring waqf accounts as well as the terms and conditions of their appointment.
- The formation of the liquidation committee for the family waqf and its functions.
- The determination of the procedures for auctions, request for proposals and the direct agreement especially for cash exchanges and sales of general waqf.
- The determination of the modalities of making in-kind exchanges for waqf properties.
- The sale of quarrying materials belonging to the general and mixed waqf
- The classification of general waqf budget.
- The classification of accounting procedures of general waqf.
- The definition of how to sell tree products belonging to general and mixed waqf.
- The application of Article 61 of the Awqāf Code.
- The determination of the form of waqf bonds, how they are issued and the manner of subscription, as well as how to collect donations in cash and in kind for the establishment of religious, scientific or social projects.
- Defining the system of transactions and supplies and

services concluded by the waqf administration for the benefit of general waqf.

- Enacting the financial and accounting regulations of general waqf.

The annual budget for general waqf has been prepared every year since 2014 and it is presented annually to the the Supreme Council for Financial Control of General Awqāf for approval in accordance with the provisions and regulations of Article 143.

#### **4.4.2.1 INSTITUTIONAL STRUCTURE**

As indicated in the Awqāf Code, the Ministry of Awqāf and Islamic Affairs is the governmental authority responsible for general waqf in Morocco. After the amendment of the Decree on 26 February 2016, which provides its functions and organization, the central administration of the ministry includes, in addition to the general secretary and the general inspectorate, seven directorates including the Directorate of Awqāf, which administers the general waqf. The latter includes five sections and 20 departments, and its tasks include:

- Preparation of plans and strategies for the general waqf management.
- The management of all waqf issues such as the counting of properties, classification and preservation of documents, and waqf maintenance and preservation.
- The completion of studies and the development of plans and projects for waqf investments to take benefits from all its potential.
- Taking administrative and technical measures related to

the construction, maintenance, installation and equipment of administrative buildings and waqf properties.

- Controlling the family waqf, maintaining and supervising them, as appropriate, in accordance with the provisions regulating them.
- Tracking various claims and disputes related to waqf properties.
- Educating people about the importance of waqf, encouraging them, and supervising the procedures.

At the regional level, the Ministry is represented by external departments called awqāf trusteeships in number of 36, they manage Awqāf which are under their territories and they implement the Ministry plans.

The trustee is still the head of waqf management, his functions are still a continuation of what his predecessor had in previous eras. He is still responsible within the area of his powers on issues related to general waqf as well as the control of family waqf. These can be summarized as follows:

- Controlling waqf properties by counting the location and adjacent area with the statement of the resident or the lessee and the paid value.
- Monitoring the safety of waqf properties from the attacks from others, and to take administrative and legal measures to face the attack in case of occurrence.

- Pleading before the courts to extract the rights of waqf properties from its residents and to confront the claims of others in the case of its establishment.
- Development of waqf properties by working to raise its revenues and exploiting the surplus to buy new properties if possible.
- Maintenance of waqf properties to monitor and repair what are destroyed.
- To do everything that would preserve the institution of waqf and the respect of the term and words of waqf founders (Waqif) because of the religious and social value that reflects the extent of Moroccan adherence to the Islamic religion in the form of unity and solidarity.

#### **4.4.2.2 SUPPORTING INFRASTRUCTURE**

The subject of the waqf had and is still having great scientific attention in Morocco. In this regard, many lectures on waqf were given during the holy month of Ramadan in the hands of His Majesty the King. The most recent of these lecturers was in the 2013, with the study and analysis of the subject of "Awqāf and their economic and social roles."

Morocco also held several international conferences and seminars on awqāf including the fourth forum on Waqf Jurisprudence Issues organized by the General Secretariat of Awqāf in Kuwait in cooperation with the Ministry of Awqāf and Islamic Affairs of Morocco and the Islamic Development Bank in 2009. The third international conference about the "Awqāf

investments between social performance and Shari'ah and legal rule" was organized in cooperation with the same institutions in addition to the Islamic Institute for Research and Training (IRTI) and Dar Al-Hadith Al-Hasaniyah in 2014. These events have received great attention from Moroccan scientists and researchers and all actors in waqf sector in Morocco.

Moroccans are showing special interest in scientific research in the waqf, where they have many contemporary works about waqf such as the Awqāf Journal that has published many of these research studies. The Ministry of Awqāf and Islamic Affairs also has printed and published several books on the subject of waqf.

### 4.4.3 CREATION, PRESERVATION & DEVELOPMENT

Revenue from rental of buildings and agricultural lands is considered as the main source of revenue that feeds the budget of general waqf, estimated at about USD 45 million per year.

For this reason, the Awqāf Code contains a set of provisions and articles relating to the lease of waqf properties to protect and develop their resources (Articles 80-102) as below.

- The leasing of general awqāf properties must be authorized by the waqf administration, and the leasing value must be not less than the market value (Article 80).
- The lessee does not have the right to sublease (Taliyah) waqf properties without the written permission of the waqf

administration, and it is prohibited to subcontract at all (Article 86).

- The lessee is not allowed to acquire the right of rent on waqf properties for local or artisans' use (Article 90).
- The judgments and judicial orders issued for the benefit of general waqf in the disputes concerning their lease are final and decisive. The lessee cannot appeal (Article 93).

Among the provisions for the leasing of non-agricultural waqf property, it should be noted that:

- The leasing of non-agricultural waqf property must be for a period that is not exceeding three years, and should only be renewed after the approval of the general waqf department with an increasing rate of not less than ten per cent of the leasing value at each renewal (Article 94).
- If the lessee does not pay the rent for three months within eight days from the date of receiving a warning of performance, he is considered to be in default, resulting in the right to cancel and annul the contract and payment of compensation (Article 95).
- The administration has the right to terminate the lease contract of non-agricultural waqf property if it needs the property to establish an institution of a religious, scientific, social or administrative nature, or if the purpose is to rebuild or make



significant changes to the property. The lessee has the right to get a compensation equivalent to the rent of the last three months in the first case, and has the priority to rent of the reconstructed property in the second case (Article 96).

Among the provisions concerning the lease of agricultural waqf, it should be noted that:

- The leasing of agricultural waqf property must be for a period not exceeding 6 years, and should only be renewable for two periods after the approval of the general waqf department with increasing rate of not less than 20 per cent of the leasing value at each renewal (Article 98).
- All the constructions, trees and installations established by the lessee on the property as per the implementation of the contract concluded with him at the end of the lease relationship for any reason will be considered as general waqf (Article 99).
- It is not permissible to give the land of the waqf in Mugharsah mode (Article 102).

The Ministry relies on self-financing to invest its waqf projects, such real estate and commercial building, help for the construction and repair the mosques, repairing and maintaining waqf properties with revenues. Currently, cash exchanges are the main source of waqf investments. A total of 472 cash exchanges have been approved from 2007 to 2017. These payments were a total of about USD 467 million.

It should be noted that funds received from these exchanges should be allocated for the acquisition of new properties to replace the old ones or for investment of a benefit to preserve the waqf assets and to develop its income (Article 60). The cash exchanges follow the rules of Articles 63 to 71 whereas in-kind exchanges are subject to the rules of Articles 72 to 75 of the Code.

The exchanges of the real estate and movable properties, which are estimated to exceed 10 million dirhams (USD 1 million), are subject to the prior approval of the King as the supreme trustee. The same exchanges are subject to the prior approval of the Supreme Council for Financial Control of General Awqāf if their estimated value ranges between 5 million and 10 million dirhams (USD 0.5 million to USD 1 million). Real estate and movables exchanges with a value of less than five million dirhams, as well as the exchanges of movable assets with the specific values that are used for benefit of general waqf whatever their value, are subject to the approval of the Ministry of Awqāf and Islamic Affairs, the governmental authority responsible for Awqāf.

For the in-kind exchanges of general waqf, the replacement asset must be a portfolio, and its value must be equal or more than the endowed asset. The estimated value of exchange and replacement should be determined by a professional accountant certified in Waqf field.

#### 4.4.4 TRANSPARENCY, ACCOUNTABILITY & GOOD GOVERNANCE

The waqf is based on the voluntary initiative of waqf founders. There is

therefore the need to ensure the trust of the founders. This will not be achieved without a system of supervision that ensures that the waqf management does not deviate from achieving its objectives and fulfilling the conditions and the purposes of the founders and to hold accountable those who violate their obligations towards waqf.

The most important provisions of the Code about the principles of financial and accounting organization of the general waqf include the following:

- All general waqf constitutes one independent legal entity, including all general waqf properties, their revenues and all other funds allocated for their benefit (Article 133).
- The preparation of waqf budget must take into account the objectives and contents of the strategy mentioned in the article 2a as well as the reliability of the estimates in light of economic and social circumstantial data. This budget must be prepared on the basis of programming for at least three years for total resources and expenditures (Article 134).
- The annual budget of general waqf includes two parts: the first part contains the resources, and the second part contains the expenditures. Each part consists of two sections, one for management and the other for investment. In addition, the budget includes private accounts relating to specific waqf projects (Article 135).
- The government authority in charge of awqāf may seek public charity automatically for the benefit of general waqf and without prior permission by collecting cash or in kind donations or by issuing specific subscription bonds, called “waqf bonds”, their revenues are allocated to establish religious, scientific or social projects. (article 140).
- The trustees–within their functions–are considered to be personally responsible for compliance with the rules of commitment to the expenses included in the annual budget of general waqf, giving orders for expenditures and liquidation; compliance with the provisions of the Awqāf Code and the texts adopted for implementation related to the management of general waqf funds, their preservation and the development of their revenues, especially to comply with the legal acts and provisions relating to the conclusion of transactions; and the collection of revenues of all awqāf under their control (Article 145).
- The financial management and accounting of general waqf shall be subject to special financial and accounting regulation, and shall be classified under specific accounting rules (Article 146)
- The contracts, supplies and services concluded by waqf administration for general waqf shall be subject to special system (Article 147).



- The waqf administration shall, at the end of each fiscal year, set the management account relating to the outcome of the implementation of the annual budget for the general waqf (Article 150).
- The general waqf shall be exempted, in respect of all their acts, operations or transactions and the associated income, from any tax, fee and benefit from any local or national tax deduction (Article 151).
- special supervision and control aimed at ensuring the safety of the operations and transactions related to the implementation of the accounts and the annual budget of the general waqf, maintaining their accounting and monitoring their conformity with the relevant texts. This control is carried out at the level of the local waqf trusteeship under the authority of the Central Controller (Article 152).
- The Central Controller, his assistants and local controllers in charge of the control of the accounts of the general waqf shall, within their respective competences, be personally responsible for the performance of control tasks (Article 155).

The most important provisions and articles of the Awqāf Code about the control of general waqf are:

- The financial management of general waqf is subject to

- In the exercise of their duties, the waqf trustees and their assistants, the central and local controllers shall be subject to the disciplinary, civil and criminal liability rules (Article 156).
- A council for the follow-up of the financial management of the general waqf, called the Supreme Council for Financial Control of General Awqāf, will be held next to His Majesty the King (Article 157)
- The council shall monitor the financial management of general waqf, study the issues related to them, give an opinion on them, and propose all measures aimed at ensuring their good management in accordance with the principles of transparency and good governance, in order to preserve awqāf and develop their income taking into the account the objectives and principles according to Awqāf strategy mentioned in the Article 2a (Article 158).
- The council conducts all research and investigation work related to public, submit a report of its findings to the King, prepare and present to Waqf authority the financial and accounting organization for approval, provide opinion on classified projects in the annual Waqf budget and on issues related to Waqf Management, carrying out an annual examination of the financial management, and finally present every suggestion or recommendation aimed at improving methods of managing public Waqf, preserving them and developing their revenues.
- The opinions of the council, which may require Sharī'ah authentication and, must be referred to the Supreme Council Oulemas for consideration and issuance of a opinion in this regard, and such opinion is considered as binding and must be communicated for adoption by the governmental authority in charge of Awqāf and to the Supreme Council for the Control of Public Waqf Finance.
- In order to assist the Council in carrying out its duties, three permanent committees have been appointed, namely Budget Committee, Examination Committee, and Studies and Research Committee. In addition, the Council can create other permanent or temporary committees to study specific issues (Article 161).

#### 4.4.5 STRATEGIC ANALYSIS & RECOMMENDATIONS

The following are some of the strengths, weaknesses, opportunities and threats of the waqf sector in Morocco.

##### **Strengths**

- Waqf has a long history in Morocco.

- Waqf has a developed legal framework in Morocco.
- Awqāf has a preferential tax framework through tax exemptions for all its actions, operations or transaction at national and local level.
- The possibility of issuing waqf bond as instruments for the benefit of general waqf in the context of seeking the public charity.
- Financial management of general waqf is subject to financial supervision and annual inspection.
- The existence of many waqf disputes and difficulties in judicial execution.
- The weakness of economic and social impact of waqf investment projects.
- The absence of major national waqf projects in the social sectors such as education, health and social welfare.
- Failure to carry out national campaigns to collect donations and issuance of waqf bonds in the context of seeking public charity for the benefit of general waqf.

### **Weaknesses**

- The absence of a consolidated national policy for waqf. This does not help to create greater synergies between the different sectors.
- Lack of community awareness about the importance of waqf.
- Lack of institutional and human capacity in the area of waqf, which prevents the utilization of all the possibilities allowed by the legal framework for the preservation and development of the waqf.
- Absence of a special procedure for the family waqf properties as in the case of general waqf properties.
- Lack of prudence in managing the waqf expenditures.
- Low levels of annual surplus for waqf investment.
- Weakness in the disclosure of general waqf funds to the public, adversely affecting creation of new waqf.
- Lack of integration between waqf and other Islamic finance instruments such as zakāh and Islamic microfinance.
- Absence of university programs for the development of frameworks and competencies specialized in the field of waqf.

### **Opportunities**

- The allocation of important financial resources for some

aspects of the awqāf sector within the general budget of the country reducing the burden on the waqf-specific budgets.

- The launching of participatory banks in Morocco, which opens a new perspective for investment of waqf-owned financial assets.
- Advanced technology-driven instruments available in Morocco to raise funds and donations.

### **Threats**

- Lack of confidence among the public as the desire of waqf founders is not always achieved because of the unity of financial liability of general waqf considered as one legal entity.
- Lack of sufficient awareness of the sanctity of awqāf among some beneficiaries from investment opportunities in waqf field, and among some parties responsible for waqf or intervening in it.
- Expropriation of the waqf lands and properties due to the laws of urban planning development.

### **Recommendations:**

- Give more attention to strategic planning, which is allowed to take advantage from Waqf potential as a community development.
- Empower institutional and human capacity in the area of waqf, to enhance the utilization of all the possibilities allowed by the legal framework for the preservation and development of the waqf.
- Give more efforts for major national waqf projects in the social sectors such as education, health and social welfare.
- Carry out national campaigns to collect donations and issuance of waqf bonds in the context of seeking public charity for the benefit of general waqf.
- The integration between waqf and other Islamic finance instruments such as zakāh and Islamic microfinance.

## 4.5 TUNISIA

### 4.5.1 OVERVIEW OF THE SECTOR

Waqf was known in Tunisia since the Islamic conquest. Initially, it took the form of mosques, such as, the Mosque of Uqba ibn Nafi<sup>6</sup> in Kairouan. Since then, the waqf sector expanded to include various religious, educational, health and social types, and covered new areas. When Hafsi<sup>7</sup> and Ottoman<sup>8</sup> sultans realized the importance of awqāf, they worked on endowing a lot of assets and protecting them from all wrong manipulation that violates the purpose of its existence.

In the Hafsi era, several schools of science were founded like the prestigious School of Kairouan in Medical Sciences and Fiqh, with its science and research spreading to Western countries during the 13th Century. The proliferation of sciences in the Hafsi era was due to awqāf, which was a tool of education sponsorship. This was in line with the foundation of awqāf institutions, especially in the era of Abbi Zakaria Al-Hafsi, and it continued under the ruling of Bayat<sup>9</sup> and Dayat<sup>10</sup> until 1705. Then came the Husseini State which increased its attention to awqāf. It provided continued education, health care and social welfare services until Ahmed Bay ruling (the first half of the 19th Century). After that some corruption appeared in the awqāf system.

6 Founded by the Leader of the Islamic conquest Uqba Ibn Nafi' after conquering

7 Hafsi Dynasti governed Tunisia from 627H/1228 to 982H/1574

8 The Ottoman governance of Tunisia started by the Dayet then the Beyet

9 Bay: in Turkish, it means the Master or the Prince, then started to be used for the Minister or the Governor of a territory related to the Sultan

10 "Day" is a title that used to be utilized for the Inkshari Warriors then it turned to be a title in the Ottoman Empire.

From the awqāf that emerged in the Hafsid and Ottoman era, we find schools and health care institutions. These were sponsored by many awqāf of land and buildings which made it possible to construct markets and hotels. Examples include the awqāf by Aziza Othmana and her grand daughter Fatma, as well as the Association of Awqāf that founded the Sadiki school<sup>11</sup>, reshaped the Zaytouni education and established the Sadiki Hospital, etc. During the Hosseini ruling, the awqāf were handled improperly and incorrectly until the First Minister Khair-eddine Bacha created, in 1874, the Awqāf Association that oversees its management and conservation.

When the French occupation started in 1881, the assets of the association were used for the interests of the colonization, and this undermined the awqāf. In 1956, after the independence from the French occupation, the government ceased the work of all public awqāf. Then in 1957, all private and common awqāf were stopped too, without trying to rebuild and reform them. Some of the reasons stated at that time, were blatantly false, e.g. the system of awqāf being a retrospective disruption to the economy, against Tunisia's interests, negative for the modernity path, a tool for tax evasion and fraud by heirs and finally, out of government reach.

The estimated value of awqāf assets in 1944, before ceasing the work with it:

- Land good for development: 482,292 hectares estimated to 401,181,000 francs.
- Land for agriculture: 57,504.8 hectares worth 7,721,960,000 francs.

11 Very famous high school in the heart of Tunis

- Trees and plantation including olive productive plantations: valued 554,473,000 francs.

In the form of buildings and construction, awqāf included 42 buildings, 759 residential housings, 3127 shops, 35 coffee shops, 47 hotels and motels, 21 spas and 46 bakeries, in addition to other religious facilities, schools, hospitals and diverse assets.

## 4.5.2 REGULATORY & POLICY FRAMEWORK

Awqāf organization started in Tunisia with the beginning of the Ottoman ruling. The process must touch two important dimensions: Sharī'ah provisions and reality. This was necessary to review the waqf system to make it in line with the needs and requirements imposed by the everyday reality.

Before the Hosseini era, meaning during the Hafsid and Ottoman ruling, waqf was ruled in accordance with the fiqh of waqf rules known to Islamic scholars, until the beginning of the middle of the 19th Century when manipulation of awqāf began in the era of Ahmed Bay Hosseini. He increased military budget and appointed some military persons as heads of awqāf. This transferred awqāf leadership from scholars to army and then later to the municipality. Thus, waqf lost its independence and came under the government control with the supervision of the municipal council at that time. General Hussein was the head of the council at that time and resigned due to his inability to stop the wrong manipulation and corruption of awqāf that was done by the Bay and his companions.

When Khaïr-eddine Bacha knew about the deteriorating situation of awqāf, he legislated the foundation of an organization to repair, oversee and manage its development and investment. So came the order of Muhammad As-sadiq Bay in 1874 for the establishment of Awqāf Association. The Association oversaw the awqāf until 1956 when the sector was made to cease all operations.

In 2011, after core political changes in Tunisia, awqāf came under discussion again through the formation of a National Commission on the development of Islamic finance in 2012. This led to the creation of sub-commissions to draft laws for different areas of concern including zakāh and awqāf within the Ministry of Religious Affairs. The bill was tabled the same year in the Constitutive Assembly for approval. The subject elicited divided opinions and controversial media comments, which led to its non-approval until today. In 2013 the committees of legislation and finances within the constituent assembly conducted a hearing of different experts in Islamic finance and laws who underlined the importance of reviving awqāf in Tunisia, and stressed the fact that this project guarantees the State supervision on awqāf, as it is entrusted to a public institution, as it is used in different other countries.

The bill of awqāf contains these eight parts:

- **Part 1:** The general provisions which define the waqf and its different types as well as the creation of the Public Trust that oversees the public awqāf.
- **Part 2:** The establishment of the waqf, structure, procedures, and conditions set by law to create the waqf.





- **Part 3:** The implications and legal consequences of waqf in creation.
- **Part 4:** Management and supervision of the waqf.
- **Part 5:** The use and investment of the funds generated by the awqāf.
- **Part 6:** The expiration of the waqf.
- **Part 7:** Judge of awqāf or judiciary specialized in looking into awqāf concerns and issues.
- **Part 8:** The final provisions are part of the main choices that govern this project and these choices can be summarized in 6 choices as follows:
  - \* Presentation of public waqf as the project adopted all the types of waqf: public, private and shared waqf.
  - \* Putting protective measures necessary to guarantee/ensure the waqf.
  - \* The variety of waqf formats.
  - \* Integration of the bill in the Tunisian legal system.
  - \* Innovation in organizing the waqf and creation of new institutions commensurate with the idea that the provision of waqf is from reasonable provisions based on jurisprudence.
  - \* Considering the previous awqāf assets and issuing a final judgment to keep them resolved.

The committee drafted this bill of Law based on the Tunisian Mudawana Fiqhiya and the most recent awqāf laws, such as the Moroccan code of Awqāf, AAOIFI Sharia Standard # 33 and other laws.

#### 4.5.2.1 INSTITUTIONAL STRUCTURE

Until eliminating the institution of awqāf after the independence from the French occupation, the association of awqāf was

responsible for supervising the awqāf sector. It was founded in 1291 Hijri / 1874 and its management includes a president, vice-presidents and treasurer.

The agents are responsible for the direct management of awqāf. The association has deputies who represent it in all states that have awqāf, including Kairouan, Sousse, Sfax, Beja, Testour, Jerid and Djerba and other regions. The internal codes and procedures were set by superior order in 1874, and contain the administrative, financial and management regulations of awqāf. They are designed specifically to prevent the worsening of awqāf, such as bad regulation and interference by personal and political considerations, etc.

The association has sought to retrieve many Awqāf that were corrupted despite its young age, but also created new awqāf. It achieved positive results in 1875 with a surplus income of 597,474 riyals. This was the result of transparency by its chairman Beyram V, and the deployment of all the reports and documents on the pages of the official government journal, accessible to everyone.

After Khaïr-eddine Bacha left the High Ministry and Beyram V left the presidency of the association, it continued on the same path, led by Sheikh Ahmed Ouertani in 1878. Besides, in 1881, the French occupation worked to use the association assets to serve its interests and the lands were stolen and given to the settlers and its close allies. Thus, the association deteriorated and especially after the release of some of the laws as an act of Inzaal, the law of upholding, the law of netting (replacement) and the law

of Mogharassah. After the deterioration of awqāf, by stealing its assets and weakening its management, the occupation created a ministry of Awqāf in 1945 that had been cancelled later, and associated to the Great Ministry until 1956.

After two months of independence, Habib Bourguiba, Prime Minister at the time, issued an abolishing order of the awqāf and dissolved the awqāf association, after being provided the necessary arguments by lawmakers to make this decision without returning to the provisions of awqāf. The awqāf then were considered state property and a massive liquidation took place for the benefit of their beneficiaries and heirs. Since then the work with awqāf ceased completely in Tunisia.

The Ministry of State Property supervises the previously named awqāf since it was moved under state ownership.

The current bill is to establish a public institution with non-administrative purpose that aims to nominate a general secretariat of awqāf and to assume the role of beholder of public and common awqāf, and to oversee the private awqāf by designating a supervisor if not designated by the waqif.

#### **4.5.2.2 SUPPORTING INFRASTRUCTURE**

Since 2011, several seminars and meetings have been held to introduce the waqf sector and the discussion around it has been carried out by associations and research centers. These include the Islamic Economics Association, Islamic Finance Association, Islamic Economy Forum in Sousse and Center for Research and Studies in Dialogue of Civilizations and Comparative Religions. Waqf is also taught in academic tracks established recently

in some Tunisian universities, including Zaytouna University, Sfax University, the Higher Institute of Technological Studies, Bardas and others. Theses have been prepared in the field of research and analysis, dealing with the Tunisian experience and other experiences from around the world.

### 4.5.3 CREATION, PRESERVATION & DEVELOPMENT

The establishment of the waqf in Tunisia began on the basis of the Aqedah and the reality inherent in the Shari'ah, which was based on the Qur'an and Sunnah and was done according to the Maliki doctrine. When the Ottomans came, they brought the Hanafi doctrine. Consequently, both doctrines were used in the courts. However, when differences emerged in the fatāwa, the scholars usually took a tolerant view based on ijtiḥad approach.

After the abolition of the endowment system in 1956 and the dissolution and liquidation of the Awqāf Society, the public endowments were attached to the state property, and the latter paid the expenses of the association and returned the private bonds either to the two positions if they were alive or to their heirs<sup>12</sup>. With regard to the annulment of waqf, we find that this work was on the basis of putting an end to some of the practices in the sector, including the establishment of a moratorium on male children to deprive women of inheritance. It can be said that the endowments in Tunisia, despite their abolition, are still implicitly practiced. This is manifested in the donation of lands

12 "Amrali" dated 20 Shawwal 1375 AH provides for the State to bear the expenses of the Assembly. The official Journal of the Republic of Tunisia No. 58 dated 1957

to build mosques, financial or in-kind contributions to build them or to endow their furniture, books etc. Anecdotal evidence shows that some companies in Tunisia have been allocating part of their profits to the poor and needy on recurrent basis.

### 4.5.4 TRANSPARENCY, ACCOUNTABILITY AND GOOD GOVERNANCE

The establishment of the Awqāf Association in the era of Khairuddin Pasha was a qualitative shift and an attempt to promote the endowments of the waqf and the direct supervision of the vast property, in addition to the appointment of agents and placed the organizational hierarchy accountable and have a central administrative system with elected deputies in different regions. This is why, the Association had special interests such as the Office of the Registrar of Disputes and Financial Affairs, the Office of Accounting for Agents, the Real Estate Department, the Land Survey Department and the Inspection Department. According to the internal arrangement, the Association is obliged to submit a report on its status at the end of each year<sup>13</sup>.

Within the framework of the current draft law, rules and arrangements have been put in place to ensure transparency, accountability and good governance, especially in the first chapter on the role of the General Secretariat of Awqāf and the fourth chapter on the supervision

13 Sheikh Mohamed Bayram V: Achievement of the Shibani in Benghlith Sfax 2011, on the paper "Experience of the Reformed Khair El-Din in the Tunisian Awqaf" presented at the Awqaf Conference, organized by the Tunisian Association for Islamic Economy and the General Secretariat of Awqaf in Kuwait in March 2012 in Tunis

of the waqf and the fifth chapter on the exploitation and investment of waqf funds.

## 4.5.6 STRATEGIC ANALYSIS AND RECOMMENDATIONS

To further diagnose the status of endowments in Tunisia and then propose practical steps to achieve the desired situation, we present below the SWOT analysis and recommendations for the sector.

### **Strengths**

- Waqf has a long history in Tunisia.
- Waqf, before the abolition of the legal framework, was based on the system of jurisprudence of the Maliki School and the Hanafi doctrine and added to the contemporary fatāwa and systems developed by Khairuddin Pasha when it founded Awqāf Association for the advancement of the sector.
- Subjecting the waqf funds to the public financial control and the incentivization within the framework of the draft law, as is the case for companies of all types, with exemption from taxes.

### **Weaknesses**

- Lack of awareness and marketing of its importance aggravated by a complete absence of any discussion in the media and mosques.
- Lack of interaction between economists and sociologists and the decision-makers on the benefits from endowments and their positive role in economic and social development.

- Difficulty in retrieving the waqf properties for loss of documents.
- Weakness of the religious faith, with respect to raising funds for the benefit of the waqf or voluntary work, and the absence of highly competent professionals and frameworks in the field of waqf and volunteers for charitable work.
- Poor control over public funds, including waqf funds, which leads to corruption and deviation, with weak legislation or absence of deterrence.

### **Opportunities**

- The Tunisian desire for civil work and its drive for volunteer charitable work.
- Easy use of modern means of marketing for the importance of the endowment and fundraising.
- Possibility of benefiting from the studies, conclusions and recommendations of the conferences and seminars that were prepared about the endowment, its importance, its role in development, and its participation with the public and private sectors.
- Potential of waqf to address many of the problems that the state was unable to resolve and its inability to provide adequate public services, especially in health, education and employment.
- Possibility of issuance of sukuk and mobilization of waqf funds for the benefit of public endowments with investment methods that correspond to the economic reality, especially after the ratification of



the Islamic sukuk law, giving the waqf body the nature of the financial institution in the draft law authorizing the financing and service activities as other financial institutions.

- The bill of law related to social and solidarity economy, especially chapters 4, 5 and 6 that evokes a social and solidarity economy institution (very similar to Waqf institution), supposed to be voted on in the 2nd Quarter of 2020.

### **Threats**

- Political and economic instability and insecurity with increasing administrative and financial corruption.
- Emergence of some of the work that led to fatāwa and false jurisprudence that would compromise the unique features of waqf.
- Multiplicity of bodies of governance and the lack of competent judiciary.
- Lack of sufficient awareness of the sanctity of the endowments and related investment opportunities.
- Abandonment of most of the “high-quality” waqf lands or those suitable for construction and the buildings making the process of recovery almost impossible in many cases.
- Existence of a hostile economic policy of the waqf based on ideological issues.

## Recommendations

The current financial difficulties experienced by Tunisia and the weakness of political and socio-economic system calls for the restoration of the awqāf system because of its expected positive impact on economic and social development.

- Preparation of a clear strategy to determine the investment policies of waqf institutions and how to manage them while adhering to the legal controls and keeping away from the excessive risks involved in order to preserve capital and endowment.
- Approving the draft law of endowments to set up a body that manages this sector and helps to develop and maintain the suspended funds: the first part of the draft law of endowments.
- Enactment of laws governing the work of this body and its composition and giving it the nature of the financial institution to be able to raise funds and invest funds in order to achieve its objectives.
- Starting the revival of the waqf by following the methods of awareness-building and marketing with the participation of private and public entities in the practice of waqf and the use of Friday sermons.
- Establishment of economic institutions with high economic returns in all sectors so that the waqf becomes a reality and cornerstone of the national economy, even under other names.
- Directing the suspended funds to small and medium enterprises and activating Islamic investment formulas such as mudharabah, istiṣnā', leasing, istisqaa, etc.
- Work on the independence of the awqāf organization and management without reference to the organs of the state, except in the field of supervision and coordination, so that the waqf has an independent legal status with adequate legal roles and responsibilities and that protects the waqf from the effects of political and economic fluctuations.
- Rethinking development methods as a comprehensive value with the participation of the three sectors, especially the civil sector, including the waqf.
- Raising awareness of the importance of waqf, especially among the educated and influential people.
- Reference to the documents and archives of the Ministry of State Property and the Ministry of Justice and the archives of the courts and states to reach the fact of the moratorium before the abolition, using the experts and the use of advanced information systems.
- Reviewing the impact of the waqf contracts in line with recent developments and finding the inventory and classification of seized assets, including the property that was incorporated into the state property.
- Reviewing the legislation and laws of waqf to be able to keep pace with the reality of the contemporary waqf and give the Commission a wide range of investment assets and endowment development and activation in order to be able to participate in economic and social development.
- Directing waqf funds to finance small and medium-sized projects and paying attention to the forms of investment of waqf funds, especially in activating Islamic investment formulas such as leasing, participation, endowment funds, and suku.

# 05 ISLAMIC MICROFINANCE

## 5.1 ALGERIA

### 5.1.1 SECTOR OVERVIEW

Since independence, Algeria has made huge efforts to recover all its rights and sovereignty including independent monetary policies and issuing a local currency. It started with launching the Algerian central bank in 1963 and the Algerian dinar later in 1964.

During the 1970s and in the beginning of the 1980s, the changes that were brought to the Algerian financial sector have demonstrated some limitations and weaknesses and addressing them has become urgent from both management and governance points of view. Before that, the creation of the financial money market in June 1989 gave the opportunity to the non-banking financial institutions to access the money market. From that moment, the Algerian banking sector has witnessed several improvements and adjustments in order to cope with the fast-paced financial industry. These upgrades have been more and more inclusive to further cover SMEs and very small businesses, namely through microfinance.

Microfinance in Algeria is considered a key vehicle to absorb unemployment and alleviate poverty. Financing amounts through microfinance vary from 50,000 Algerian dinars to 400,000 Algerian dinars

with a maturity between 12 to 60<sup>1</sup> months. The public authorities consider it as a tool aiming to achieve development and increase employment rates as it targets the most challenged among its population who have been suffering from high unemployment rates.

The first microfinance experience in Algeria goes back to 1999 and aimed at creating 15,000 projects in several sectors. However, it has not met the expected success as highlighted in the 2002 international conference which was a meeting of several prominent microfinance experts to discuss “the Algerian microfinance experience” and its resolutions.

### 5.1.2 LEGAL FRAMEWORK AND MICROFINANCE POLICIES

Microfinance in Algeria is a key component of the public policy to fight unemployment and social exclusion. Between 1999 and 2002, the government has launched a microfinance program under the leadership of the social development agency<sup>2</sup>, providing loans ranging from 50,000 Algerian dinars to 350,000 Algerian

1 Official Journal N° 6, 2004

2 As a representative of the Ministry of Labor, Social Protection and Vocational Training, and is replaced locally by the representative of Youth Employment and the National Unemployment Insurance Fund

dinars at a 20 percent interest rate. This program has not succeeded due to several handicaps and constraints<sup>3</sup>.

There are three other major initiatives undertaken by the Algerian government in order to reduce unemployment and promote very small businesses and SMEs programs. This consists of creating specialized national agencies which are:

- **The National Agency to Support Youth Employment<sup>4</sup>:** It was created in 1996 and had a special purpose. It operates under the lead of the prime minister and the supervision of the minister in charge of employment and has an independent funding and management, and has 48 regional and local branches across the country.
- **The National Agency for Microfinance Management<sup>5</sup>:** It is a decentralized network of 49 units in each region of the country spread across the country and supported by follow up cells in the smaller rural regions. This body provides fast loans with small amounts (1,000,000 Algerian dinars maximum) with a short or long tenor and which are generally subject to a government subsidy in terms of soft interest rates and a guaranty from the collective guarantee fund for microfinance. Based on its recent publications, the agency has granted 726,359 loans up to now. All of them are interest free. This agency builds a decentralization

strategy through and big network of local associations and partnerships to facilitate access to financing<sup>6</sup>. It offers two types of financing of which one is a partnership of five public banks. The first one is a 36-months interest-free loan to buy raw materials (Agency–Beneficiary) and is given directly through the agency and should not exceed 100,000 Algerian dinars. It targets the people who have basic production equipment and machines but without funds to buy raw materials (we note that the financing value in the southern region can reach 25,000 Algerian dinars). The second one is three parties financing (Agency-Beneficiary-Bank) and consists of loans granted by the agency and a bank to create projects which would not cost more than 1,000,000 Algerian dinars. The agency gives 29% of the loan value and the bank 70% of the remaining amount. The entrepreneur comes with only 1% of the funding.

- **The National Fund for Unemployment Insurance<sup>7</sup>:** Created in 1994 as a national institution of social security, <sup>8</sup>it has been in charge of monitoring and supervising the social benefits for the dismissed employees as part of a restructuring plan.

These three bodies offer technical and financial assistance to small business owners through subsidized loans with preferred pricing and also through training

3 Website of the Ministry of National Solidarity, Family and Women's Issues

4 [www.ansej.org.dz](http://www.ansej.org.dz)

5 [www.angem.dz](http://www.angem.dz)

6 Microfinance Gateway, Alegria Portal: <https://googl/tM8cGj>

7 [www.cnac.dz](http://www.cnac.dz)

8 Under the tutelage of the Ministry of Labor, Employment and Social Security



programs in the fields of financial and administrative management of SMEs.

It is worth noting that there is a difference between the three institutions in terms of the maximum amount which could be granted and the nature of the targeted population and the social objectives despite that they all operate almost in the same manner in implementing their programs.

We note also that the banks are key partners to these institutions given that they offer the complementary financing to the small projects according to the partnerships requirements between the institutions and the banks.

Concerning the legal and regulatory framework of the sector, it is defined by the Government. The Ministry of National Solidarity, Family and Women's Issues has developed proposals for the development and improvement of the legal framework of microcredit institutions. The Ministry of Finance is responsible<sup>9</sup> for overseeing the legal use of funds under the microfinance framework provided by the Ministry of National Solidarity.

Below are a number of decrees, including the organization of the sector, namely:

- Executive Decree No. 134-11 dated 17 Rabi 'Al Thani 1432 corresponding to 22 March 2011 amends and completes Executive Decree No. 04-15 dated 29 Dhu al-Qa'da 1424, corresponding to 22 January 2004, which defines the terms and conditions of the subsidy provided to beneficiaries of microfinance.

- Executive Decree No. 04-14 of 29 Dhul-Qa'da 1424, corresponding to 22 January 2004, which includes the establishment of the National Agency for the Management of Microfinance and the definition of its basic law.
- Executive Decree No. 04-15 dated 29 Dhu al-Qa'da 1424, corresponding to 22 January 2004, sets out the terms and conditions of the subsidy provided to beneficiaries of microfinance.
- Executive Decree No. 04-16 dated 29 Dhu al-Qa'da 1424, corresponding to 22 January 2004, includes the establishment of the Joint Guarantee Fund for microcredit and the definition of its basic law, amended and supplemented.
- Executive Decree No. 05-414 of 22 Ramadan 1426, corresponding to 25 October 2005, specifying the modalities for the management of special allocation account No. 302-117 entitled "National Fund for Microfinance Support, amended and completed"<sup>10</sup>.

The Government has officially waived interest on loans for microfinance. In parallel, the ceiling of interest-bearing small loans has been raised, particularly those for the southern states. According to Presidential Decree No. 13-73 on the Microfinance Authority signed by the President on 25 April 2015, microfinance recipients can benefit from an interest-free loan to buy raw materials to start the activity, not to exceed 10 million centimes (before it was limited at 3 million

9 Ministry of Finance Website

10 Official Journal

centimes) and could reach the amount of 25 million at the level of the ten southern states.

### 5.1.3 ISLAMIC MICROFINANCE INITIATIVES

#### **Non-governmental organizations**

NGOs play a prominent role in microfinance. Some of these organizations have recently begun to become independent financial institutions licensed in accordance with the banking laws in force. Founded in 1989, Toussia Algerian Association<sup>11</sup> is one of the most important associations with significant experience in the field of microfinance through the establishment of a program that includes providing support to small business owners. It is currently improving its working methods and procedures in supporting borrower activity and is currently working on becoming a specialized financial institution in the field.

#### **Local Development Bank**

The Local Development Bank is urging Islamic finance to be launched through the *Ijārah*, *Mudaraba* and *Murabaha* modes, which have been approved so far and are widely known among Algerians. These funds are expected to be directed towards investment and finance of housing and real estate projects as well as consumer finance, which are the most sought after by citizens. In addition to financing, a savings-related product is expected to be launched in which the saver will take a profit margin.

#### **Al Baraka Bank**

It is part of a development project funded by the German International Cooperation

Program DEVED-GTZ and with the participation of the Ministry of Small and Medium Enterprises in the city of Ghardaia.

By the end of 2008, FIDES Algérie was established in cooperation with the Al Baraka Bank of Algeria to facilitate the access of artisans to adequate financing for the practice of their craft activities. This institution studies and evaluates craftsmen's projects and their access to finance. On the basis of this study, the Financial Services Corporation sends these applications to Al Baraka Bank of Algeria to provide financing for such approved projects. The Financial Services Corporation, under the agreement with Al Baraka Bank of Algeria, ensures continuous follow-up of craftsmen who receive financing.

### 5.1.4 STRATEGIC ANALYSIS AND RECOMMENDATIONS

#### **Strengths:**

- 98% of the Algerian people are Muslims.
- 75% of the population are in the youth category.
- Application of Islamic law in the affairs of citizens.
- Variety of approved forms of financing.
- Validity of financing modes for all sectors.

#### **Weaknesses:**

- The lack of a financial system for granting Islamic microfinance.

11 [www.touizzaalger.jimdo.com](http://www.touizzaalger.jimdo.com)

- Link with public banks that do not pay sufficient attention to microfinance because they focus their expertise on other activities.
- Absence of private banks that encourage competition in microcredit, eliminating the incentive to grant such loans.
- Difficult administrative and executive procedures in processing files and approving projects.
- Lack of specialized competencies in Islamic microfinance.

#### **Opportunities:**

- Popular demand for funding in accordance with the Shari'ah.
- General orientation of the government towards Islamic finance in general and Islamic microfinance in particular.
- Possibility of positive effects on the national economy by financing the real economy.

#### **Threats**

- Slowdown in finding the necessary legal and regulatory framework.
- Absence of clear strategy for developing the sector.
- Unequal competition with traditional microfinance.

#### **Recommendations**

- Simplify and ease access to the administrative procedures so that file processing and project approval becomes more flexible.
- Establish microfinance institutions focused on financing business, craft and service activities as well as consumer loans.
- Set up a retail bank for low income customers, providing all kinds of financial instruments for microfinance.
- Establish cooperative financial networks that are in line with the specific social and economic realities of Algeria so as to meet the needs of the population in rural areas and in this context can benefit from the experience of the National Fund for Agricultural Cooperation.
- Establish independent and specialized branches in Islamic microfinance at the level of commercial banks.
- Cancel tripartite funding and limit bilateral funding and raise the ceiling between agencies and banks.
- Strengthen governance in MFIs.
- Align the MFIs with their social mission.
- Provide training for specialized human resources in Islamic microfinance.

## 5.2 LIBYA

### 5.2.1 OVERVIEW OF THE SECTOR<sup>12</sup>

During the last century, successive Libyan governments did not pay any attention to small and medium projects, due to political reasons, and due to dramatic changes in political administration from a socialist economy to the capitalist economy. Moreover, the Libyan economy depends on the oil sector as the sole source of income, and therefore, Libya is not interested in any private economic activities that may help to promote or participate in the economy. Recently, however, the Libyan government has changed its strategy, and allowed the private sector to participate in economic development, and to alleviate the burden on the state. Accordingly, a series of state-owned investment projects has been privatized, and allowed the establishment of individual and collective private enterprises, in the form of joint stock companies. During 2001-2002, approximately USD476 million was allocated from state budget to finance small and medium-sized enterprises. The number of projects that were financed through banks amounted to 6,329 productive activities and 1419 service activities. However, this did not contribute to economic development due to the lack of appropriate environment. For example, administrative chaos, conflict of laws and legislation, and political and administrative confusion of the governments has resulted

in failure of most of these projects. It should be noted that in Libya, the focus is on financing small and medium-sized enterprises, not micro enterprises because of the relatively high average income of Libyans. Therefore, investors are able to finance micro-family projects from their own income or savings, so their interest or their need for financing is for small and medium enterprises, however, the Libyan law did not neglect them, and they refer to them in Law 321/2002.

During this decade, especially after issuance of legislation related to Islamic finance, and the abolition of interest-based banking, attention has been given to this sector. For example, the establishment of a group of Islamic Finance Funds to finance small and medium enterprises under the supervision of the National Program for Small and Medium Enterprises (NPSME), which provides assistance for these projects. Despite this initiative, the political divisions, security chaos and the difficult economic conditions experienced by Libya recently have prevented funding or implementation of any project.

### 5.2.2 MICROFINANCE LEGAL & POLICY FRAMEWORK

For a long time, there was no clear policy in Libya regulating the work of small and medium-sized enterprises, or cooperative societies, because of the state's totalitarianism and its reliance on oil income in economic development. However, during the last two decades, there was a new direction towards capitalist economy. It allowed the establishment of individual projects, partnerships or joint stock companies in all economic fields, including health service, education service,

<sup>12</sup> Thurya Alwerfally, Requirements for the Qualification of Small and Medium Enterprises, Supervision of the Globalization and North African Economies, University of Hassiba Ben Bouali Balchlef - Algeria First International Forum 17-18 / April 2016

financial service, trade sector, industry sector, agriculture sector and the tourism sector (Figure 6). A number of laws and regulations have been issued, such as Law 321 of 2002, which regulates, defines and classifies microenterprises, and small and medium-sized enterprises. This law also covers supporting infrastructure and tools of financing. Law No. 73 of 2011 also stipulates that small and medium-sized enterprises are financed by various financing methods (lending, Musharaka, Murabaha, finance lease, etc.) through:

- Direct finance: Borrowing from various financial institutions.
- Financing through commercial banks, and by sponsor of lending guarantee fund, for operating purposes, from funds allocated to it from state budget.
- Financing from funds allocated to SMEs from state budget, and this is done through specialized banks.
- Financing through funds allocated for pilot projects and Funds' innovation.

It is also within the policy of the government to encourage SMEs by getting the following exemptions and advantages:

- An exemption from fees for procurement services and consumption tax.
- An exemption from production and income taxes for a period of five years from the date of actual operation of the project.
- Support the procedures of the conservation of intellectual property

rights locally and internationally, for the initiatives under the supervision of the (NPSME), when it is achieved.

- Article 47 of Law No. 472 of 2009 states that financing of micro-enterprises through the Rural Bank shall be the priority of financing projects that run by women.

In addition, among the policies adopted by Libyan government in accordance with Article 7 of Law No. 472/2009, priority should be given to granting loans to the following projects:

- Projects established in less developed areas such as rural and remote areas.
- Projects using technology that will preserve the environment and protect natural resources, which develop renewable energies and work towards food security.
- Projects that provide job opportunities for Libyans and contribute to the development of human resources and improve their capabilities.
- Projects that are established by women and having a positive impact on the national economy.
- Projects that rely on local resources to be converted into final products.

In general, micro-enterprises in Libya are classified into three types: (1) service projects, (2) production projects, and (3) craft projects. Most of micro-enterprises are self-financed because investors do not need external sources of finance. They rely on their savings to finance this type of project.

Regarding SMEs, the Libyan legislator did not ignore it in Law 321/2002. SMEs are financed by borrowing from, or by subscribing to their capital through the financial market. As for the financing of these projects, theoretically, laws and regulations have been issued regarding finance of SMEs. However, in practice, they have not yet existed for several reasons: including the political and security instability during last years, and the reluctance of some state institutions (including Islamic banks) to engage in Islamic finance for higher risks in the Libyan environment.

In the current stage, Islamic finance for small and medium enterprises in Libya depends on political and security stability, providing the appropriate environment and providing the necessary support from local and international institutions for this sector. The financial resources of these projects are provided from funds allocated in the state budget under development. Loans are granted through specialized banks (agricultural, industrial and rural banks).

As for the regulatory framework, the organization of small and medium enterprises in Libya began during the last decade with the issuance of Law No. 321 of 2002. This was amended by the Law No. 205 of 2019 that further identifies and explains micro-enterprises and small and medium enterprises in Libya, and how they will be financed. The latter law classifies small and medium enterprises into three categories: (1) Micro projects: for which the capital does not exceed LYD 100,000 and has up to 5 employees. (2) Small-enterprises: for which the capital does not

exceed LYD 1 million and has from 6 to 25 employees. (3) Medium-enterprises: for which the capital does not exceeds LYD 2.5 million and has from 26 to 250 employees. The law also stipulated the establishment of a Credit Guarantee Fund to guarantee the potential default related to financings granted for productive purposes.

In 2007, Decision No. 845/2007 was issued to establish the national program for SMEs (NPSME), followed by the Law No. 73 / 2011 regarding reorganization of the NPSME. Thus, it became an institution independent of the Ministry of Economy, with the following aims<sup>13</sup>:

- Planning and development of programs for the development of small and medium enterprises and creating a supportive environment for their development.
- Addressing difficulties and obstacles of the implementation of the policies of the work of small and medium enterprises.
- Selection of proposed projects that need to be financed.
- Providing training and development of workers, equipping them with necessary skills, conducting feasibility studies, and granting assistance for the establishment and management of projects.
- Development of initiatives to become real projects, funding them, providing necessary consultations at all stages and following up on their work.

13 the Law No. 73 / 2011

- Concluding agreements with different financial institutions to obtain funds for lending of SMEs.

However, as noted above, micro-enterprises are mostly self-financed by Libyan investors. They use their personal savings. This is because of their high incomes (relatively) compared to neighboring countries. Funding of small and medium enterprises is coordinated with the commercial banks and the specialized banks, namely Agricultural Bank, Industrial Bank and Rural Bank. Finance is achieved by various financing methods, such as lending, participation, Murābahah, finance leasing and others.

One important milestone has been reached toward the improvement of the Micro, Small, Medium Enterprises (MSMEs) financing ecosystem in the beginning of 2020, when the Central Bank of Libya issued the Resolution No. 1/2020 dated 12/2/2020 urging banks in the country to establish administrative units specialized in financing MSMEs, to conduct feasibility studies for them and to provide them with the required technical and economic advisory and support.

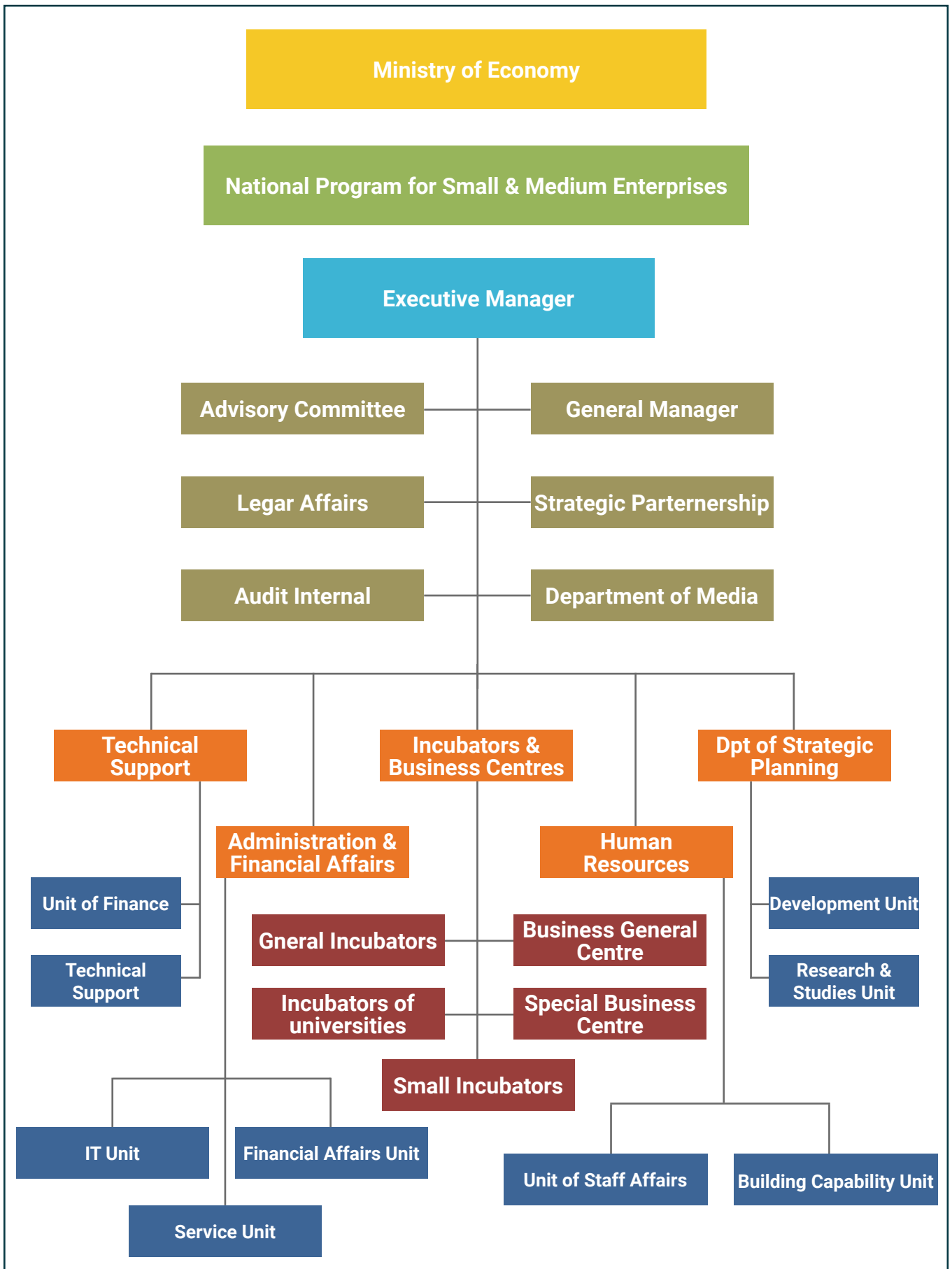
It should be noted that after the abolition of interest-based banking, the Central Bank of Libya can no longer activate monetary policy as it did in the past in terms of directing credit to productive projects, including small and medium enterprises, through the use of interest rates in directing bank credit to certain sectors or certain investments. The Central Bank of Libya has not yet developed an alternative monetary instrument instead of interest rates,



which has negatively affected the revival of various types of economic projects in Libya, and thus negatively affected the Libyan economy in general.

Chart 7 illustrates the institutional structure of the NPSME. It is an institution affiliated to the Ministry of Economy, headed by a General Manager assigned by the Ministry, followed by a group of advisory and legal departments, and five major executive departments, including department of strategic development and planning, department of human resources, department of incubators and business centers, department of administrative and financial affairs, department of project monitoring, and technical support. These departments include group of sections and units as shown in chart 7.

**Chart 7 Organizational Structure of the NPSMEs**

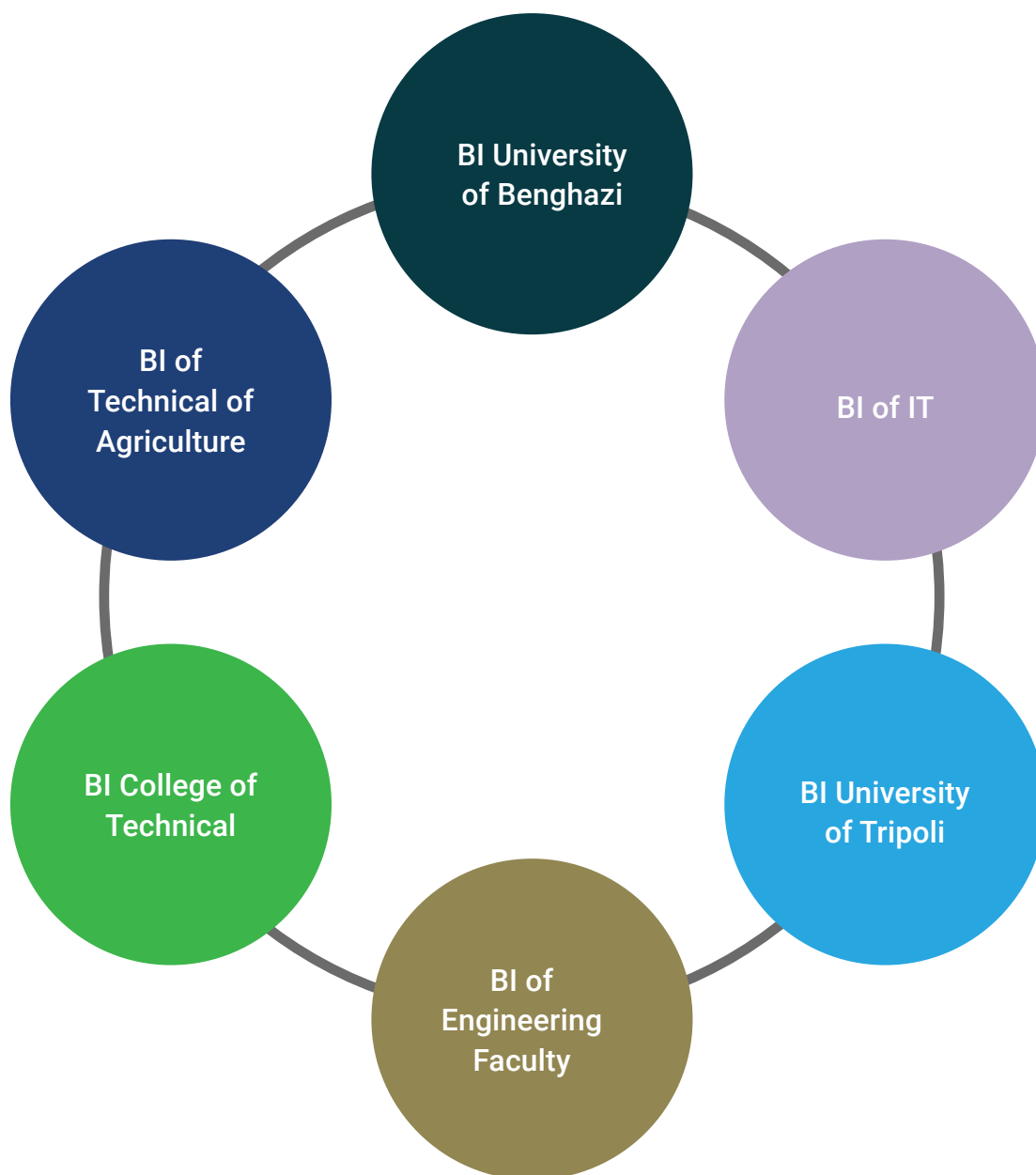




The aim of the (NPSMEs) is to establish incubators and business centers. It is the main component of the program for reducing the failure rate of the emerging projects, by supporting projects to start in early stages, and providing necessary technical support and advice. The main business incubators described

in Chart 8 include Benghazi University Business Incubator, University of Tripoli Business Incubator, and business incubators of Faculty of Engineering in Misurata, business incubator of the Technical College of Bani Walid, business Incubator of Information Technology and Communication, and Incubators of Agricultural Technologies.

### Business Incubator (BI)

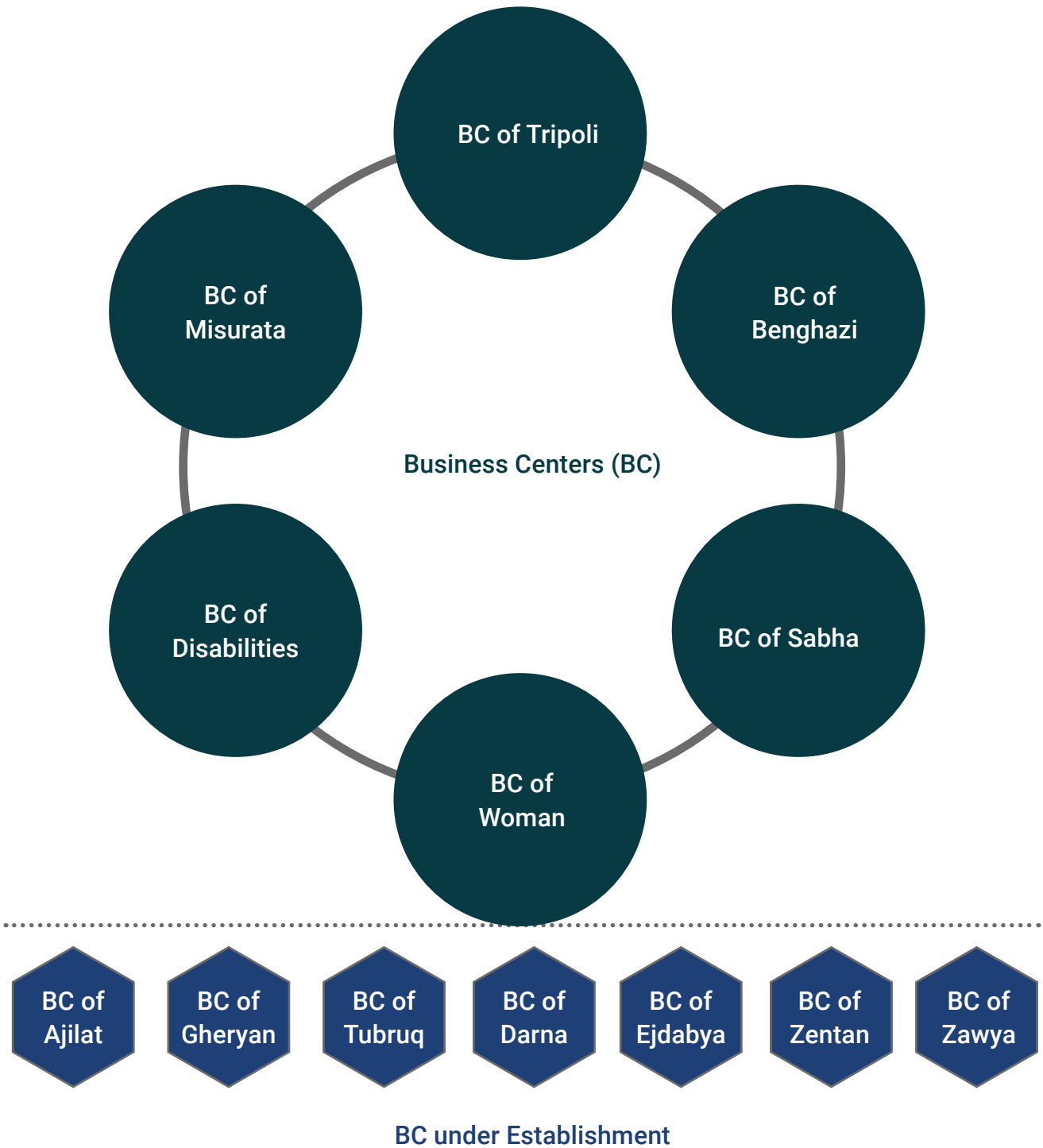


Source: Administration Department of the National Program for Small and Medium Enterprises.

The main business centers shown in Chart 9 include Tripoli Business Center, Benghazi Business Center, Sabha Business Center, Misurata Business Center, Women’s

Business Center, Business Center for Disabilities, as well as other business centers in different Libyan cities that will be established soon.

**Chart 9: The Established Business Centers and Business Centers under Establishment**

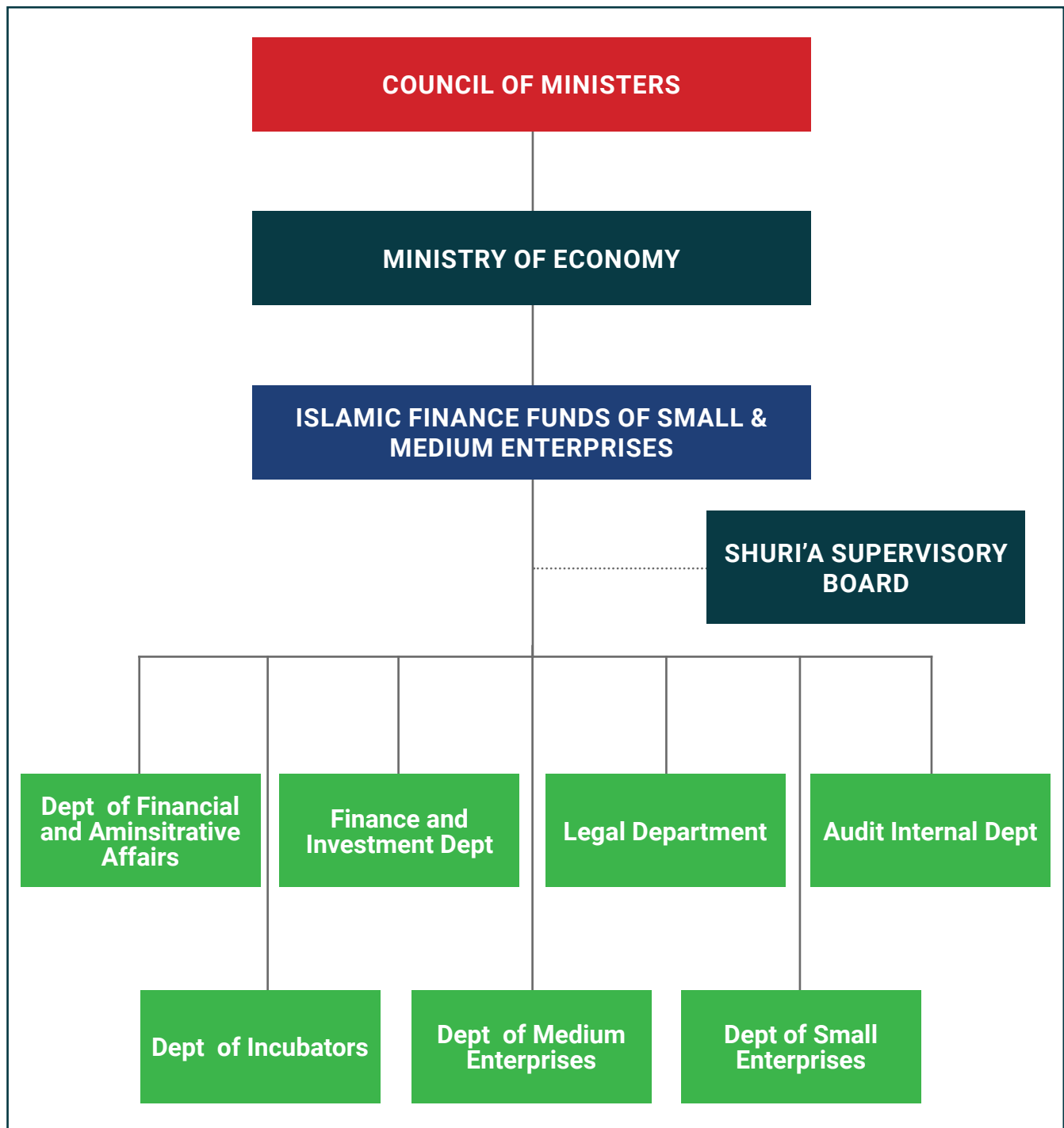


Source: Administration Department of the National Program for Small and Medium Enterprises

Chart 10 shows the organizational and administrative structure of Islamic finance funds for small and medium-sized enterprises. It is one of the main bodies of the Ministry of Economy, and has an independent Sharī'ah Supervisory Board.

It has also seven different departments including finance and investment department, small enterprise department, medium enterprise department, incubator department, financial and administrative department, and audit department.

**Chart 10: Organizational Structure of Islamic Finance for Small and Medium Enterprises**



Source: Administration Department of the National Program for Small and Medium Enterprises.

## 5.2.3 ISLAMIC MICROFINANCE INITIATIVES

In the context of diversifying sources of financing for SMEs in Libya, and the new trend towards Islamic financing formats, four Islamic finance funds were established in accordance with the Laws No. 515, 516, 517 and 518 of 2013, in order to regulate and finance SMEs. The laws allow the establishment of Islamic finance funds to finance small and medium-sized projects according to Islamic law, with a capital of 800,000 LD (640 million dollars) distributed on four major Libyan cities, each city granted 200,000 LD (160,000 dollars). These four Islamic financial funds are:

- Fund of Theqa (Trust) for SMES in Sabha.
- Fund of Mubadara (initiative) for SMEs in Darna.
- Fund of Ebda'a (creation) for SMEs in Benghazi.
- Fund of Ebtekar (innovation) in Misurata.

## 5.2.4 STRATEGIC ANALYSIS & RECOMMENDATIONS

### *Strengths*

- Issuing a group of laws and legalizations that regulate and organize SMEs since the last decade.
- Establishment of Islamic Financial Funds (IFFs) to finance SMEs.
- The intention of government to diversify Libyan economy, and

reduce dependence on the public treasury, through involvement of private sector in small and medium enterprises. This is proved by allocation of funds in state budget to finance such projects by granting them loans through specialized banks.

- Establishment of institutional structure, incubators and business centers, and creation centers.

### *Weaknesses*

- Financing difficulties: Establishment of difficult conditions for borrowers by banks to prevent implementation of these projects.
- Organizational difficulties: Absence of clear administrative and regulatory structures in Libya, as well as administrative instability of supporting institutions.
- Functional difficulties: Daily problems faced by projects' owners, which include problems of production and marketing.
- Competition difficulties: High production costs, lack of quality, as a result, such projects unable to compete locally or internationally.
- Other difficulties are:
  - The absence of institutions supervising these projects in various stages.
  - Lack of adequate encouragement such as exemption from taxes and customs duties, reduction of interest on loans and banking

facilities and protection from foreign competition.

- Lack of infrastructure such as industrial zones for establishment of projects in different Libyan cities.
- Administrative bureaucracy and complex administrative procedures, both in obtaining licenses, or import of machinery, equipment and raw materials.

### **Opportunities**

- The existence of the intention of the government in terms of interest in the issuance of laws and regulations that organize it.
- The existence of the supporting bodies, as well as financial institutions.
- The ability of using Islamic Microfinance in financing these projects, whether in Islamic or specialized banks or even commercial banks.
- Libya is a rich country, it has various wealthy sectors include oil, agriculture, tourism, fishing, or human resources.
- Possibility to diversify its economy, and allow participation of the private sector in economic development by establishing small and medium enterprises based on this diversity.
- The recent Central Bank

resolution urging the banks operating in the country to establish administrative units specialized in financing MSMEs, to conduct feasibility studies for them and to provide them with the required technical and economic advisory and support.

### **Threats**

- Political and economic instability in Libya are the most important obstacles to growth of this sector.
- Administrative and financial corruption in many public institutions are an obstacle to the success and development of the SME sector.
- Failure of Islamic finance institutions such as Islamic banks or banks that have Islamic windows in financing of small and medium enterprises in Libya.

### **Recommendations**

- Enact legislation and laws governing the SMEs as facilitating the procedures for obtaining licenses, financing and marketing.
- Regulate human resources of these projects and provide them with legislative cover to preserve and guarantee their rights.
- Motivate private sector to establish small and medium enterprises.



- More interest for providing training and rehabilitation programs, and attract graduates and provide consultancy and feasibility studies.
- Establish a database and linking it with banks, and investment funds.
- Enumerate and evaluate Awqāf assets and reinvestment.
- Identify the activities and areas of interest of each bank.
- Determine funding ceilings for projects according to the number of jobs in each project and nature.
- Provision of land and industrial zones for the establishment of projects.
- Formation of legitimate bodies and committees in supporting institutions for small and medium enterprises.
- Utilize Islamic financing tools to finance such projects.
- Cooperation with international support bodies such as Islamic Development Bank.
- Benefit from the experiences of others in the development of Zakāh funds and Waqf funds.

## 5.3 MAURITANIA

### 5.3.1 OVERVIEW OF THE SECTOR

Microfinance in Mauritania is not exclusively Islamic. The approvals granted by the Central Bank of Mauritania are general and universal and allow their beneficiaries to finance both conventional and Shari'ah-compliant operations.

The microfinance sector began with the creation of the Association for Credit and Small and Medium-Sized Enterprises (ACMPE) and the Mauritania Development Initiative (IDM), two funding structures dedicated to the reintegration of Repatriated from Senegal in 1989.

The opening of the first Caisse Populaire d'Épargne et de Crédit (CAPEC) in 1997 was the first action to reflect the launch of a national policy for the development of a Microfinance sector.

In 1998, a specific law was enacted regulating cooperatives and savings and credit mutual: Law 008/98 of 28 January 1998.

After a few years of implementation, it has been found that this regulatory framework, although it has allowed some development of microfinance in Mauritania, has remained a constraint to the actors of the sector in several fields.

To this end, a revision of this legal and regulatory framework has been initiated: a new law (Ordinance No. 005/2007) is promulgated as well as its implementing texts (4 instructions are enacted).

As for the Charitable Associations, the voluntary sector has grown since the

advent of political pluralism in Mauritania in 1991. According to the data available at the Ministry of Interior, there are over 8,500 formally registered organizations according to the law provisions, through the approval of the Ministry. We excluded from this associative networks, cooperatives of agricultural production, artisans, fisheries, oases, and cooperatives of savings and credit (microfinance). These types of associations are subject to other laws and regulations.

Law 64-098 of 9 July 1964 governs associations and their supervision is entrusted to the Ministry of the Interior. It grants them legal personality (Article 12) and they may be recognized as being of public utility (Article 20).

Acts 73-007 of 23 January 1973 and 73-157 of 2 July 1973, mainly to specify certain provisions relating to foreign funds that may be received by associations, amended Law 64-098.

Draft legislation amending 64-098 and taking into account its shortcomings, especially with recent developments of the sector, has been prepared but not yet submitted to Parliament for adoption.

At the end of 2019, a public mission administration called the General Delegation of National Solidarity and the fight against exclusion "TAAZOUR" was created by the Presidency of the Republic.

The delegate was established by a decree issued by the president that is directly attached to the presidency of the republic, and includes projects devoted to fighting poverty, exclusion and marginalization.

TAAZOUR was established to "achieve social protection, eradicate all forms of

inequality, promote national harmony, and coordinate all interventions in the targeted areas.”

A financial cover of 200 billion old Ouguiyas will be allocated during the next five years to finance the General Delegation and enable it to implement an ambitious program for economic and social promotion for the benefit of groups that have suffered from inequality and marginalization by strengthening production tools and developing the purchasing power of the poor and enabling them to access education and health services, safe drinking water, decent housing, and energy.

### 5.3.2 MICROFINANCE REGULATORY & POLICY FRAMEWORK

Following the completion of the PRSP (2001-2015), Mauritania has developed a Strategy for Accelerated Growth and Shared Prosperity (SCAPP) covering the period 2016-2030, corresponding to Agenda 2030 for Sustainable Development.

The vision of the future, entitled “Mauritania we want in 2030”, is based on the values of Sunni Islam, and tolerance, social cohesion and peace. It aims to achieve strong, inclusive and sustainable economic growth in order to meet the basic needs of all citizens and ensure their well-being.

To achieve that, three convergent levers constitute the strategic objectives chosen to ensure that growth, in order to achieving prosperity that benefits all:

- Strategic Axe 1: Promoting Strong, Sustainable and Inclusive Growth,

- Strategic Axe 2: Developing human capital and access to basic social services,
- Strategic Axe 3: Strengthening governance in all its dimensions.

The three axes of the SCAPP are articulated at the level of the first action plan (2016-2020) around the 15 strategic projects, implemented in 59 priority interventions to be carried out in the form of reforms, programs, projects or significant actions. The development of the microfinance sector was supported in the two strategic axes 1 and 2.

Regarding the charitable sector, and in the context of the Poverty Reduction Strategy (PRSP), since its adoption in 2001, three PRSP phases have taken place through three action plans: 2001-2004, 2006-2010 and 2011-2015. According to the evaluation of PRSP III, among the main constraints that caused bottlenecks in the implementation of the PRSP during the period 2001-2015 is the “low level of ownership by national, regional and local actors and associations concerned”.

At present, a new challenge presents itself to civil Society. This is the Strategy for Accelerated Growth and Shared Prosperity (SCAPP), which covers the period 2016-2030. The authorities want to involve all networks of organizations at the grass-roots level in the economic, cultural and social development activities of the country.

For the regulatory framework of microfinance, there was the ordinance No. 005 /2007 of 12 January 2007, regulating microfinance institutions and its implementing texts, four (4) instructions



from the Governor of the BCM, governs the microfinance sector. Implementing texts in the form of instructions from the Governor of the Central Bank of Mauritania were adopted on 02 May 2007:

- Instruction No. 07 / GR / 07 on financial cooperatives.
- Instruction No. 08 / GR / 07 on prudential ratios.
- Instruction No. 09 / GR / 07 on financial transparency.
- Instruction No. 10 / GR / 07 on approval and registration.

Article 4 of Ordinance No. 005/2007 of 12 January 2007 regulating Microfinance Institutions subdivides the Micro Finance Institutions (MFIs) into three categories: Category (A) includes the non-profit and mutual-benefit institutions offering limited savings and / or credit services to their members. They must be set up as a non-profit association or as a financial cooperative. Category (B) includes MFIs in the form of a public limited company (plc) that provide credit and / or savings services to the public. Category (C) includes the programs, projects, development associations and units dedicated to microfinance that offer credit services but do not collect savings.

The microfinance institutions (MFIs) may not carry out their activities without prior authorization (MFIs of Category A and B) or registered (MFIs of category C) by the BCM; for networks, authorization may be granted on a collective basis to the union or federation (Article 20 of Ordinance 005/2007).

MFIs in category 'A' may operate independently or within a network consisting of the establishment of an appropriate structure: either union or federation.

The General Assembly (all members) have a Board of Directors (5 to 9 members), a Supervisory Board (3 to 5 members) and a Credit Committee (at least 3 members). The latter three bodies shall be elected for a period of three years, renewable each year for one third of the members. They are managed by a manager for a basic MFI and a General Manager for the network.

This order puts an end to the monopoly of financial cooperatives by opening the market to public limited companies (plc). The specific Microfinance Accountability Plan to complement this regulatory framework is not yet formally adopted, although it has been ready since 2008. The BCM in charge of sector supervision has set up a Directorate for this purpose. Article 79 of Ordinance 005/2007 establishes that the tax regime for MFIs will be specified by decree, which has not yet been enacted. An incentive tax regime would greatly contribute to the promotion and development of Microfinance.

As for supervision and governance of microfinance, the BCM supervises the MFIs (Article 3 of the Ordinance). As such, it has a mission to monitor, supervise and verify the regularity of MFIs' operations, granting and withdrawing authorization.

The Department of Professional Development and Microfinance (DIPM) of the Ministry of Employment, Vocational Training and Information and Communication Technologies (MEFPTIC) promotes the microfinance sector in

Mauritania. It includes a Microfinance Service which deals more specifically with the sector. The DIPM is in charge of the PRECAMF-PAMFEJ, the main microfinance project in Mauritania, financed by the African Development Bank (ADB).

Civil society is represented in this institutional framework for microfinance governance, through the Professional Association of Microfinance Institutions (APROMI), which was set up in 1997. It represents a framework for consultation and exchange involving all MFIs approved by the BCM. It records to its credit the development of a Code of Ethics (with the support of PRECAMF).

As for the charitable associations, the relevant regulations are based on Act 64-098 of 9 July 1964. The central state feared the emergence of associations with tribal, racial or regional connotations. This is why the law has concentrated the power of approval of associations, no matter what their nature, size and scope is, at the central level, in the hands of the Minister of the Interior. Thus, associations of young

people or artists in the country had to obtain the authorization of the Minister in Nouakchott.

The draft law on associations, foundations and networks of associations, repealing and replacing Act 64-098 of 9 June 1964 on associations, states in its explanatory memorandum that “the voluntary sector is growing rapidly. It is an important lever for the implementation of development policies and democracy. However, the legal framework that governs it does not reflect this situation”. The draft, however, only brings in three innovations in relation to the law which it seeks to repeal, namely:

- ✓ The proposed provisions regulate associations, foundations and networks of associations.
- ✓ The project defines the categories of associations according to the territorial scale to which they relate.
- ✓ The power to authorize associations has been decentralized to the territorial authorities with regard to those operating in their respective

constituencies. This last innovation is an effort to bring the administration of the public in this area closer.

## 5.3.4 ISLAMIC MICROFINANCE INITIATIVES

### 5.3.4.1 MICROFINANCE INSTITUTIONS

In 2018, the microfinance sector saw the entry into operation of 6 MFIs including 5 of category 'B' and the termination activity of 4 under category 'A' institutions. Thus at the end of 2018, the sector had 24 microfinance institutions in activity including 3 networks: i) les Caisses Populaires d'Épargne et de Crédit (PROCAPEC / CAPEC), ii) Caisse d'Épargne et de crédit, iii) l'Union Nationale des Mutuelles d'Investissement du Crédit Oasien (UNMICO), 15 Category B institutions and one category A. The three microfinance networks are present in all regions of the country.

Most newly accredited MFIs want to comply with the Shari'ah and sometimes display them in their corporate names,

such as Tamwil Kasb El Halal, Islamic Finance Development, El Ibdaa Bank and Tadamoune for Islamic Finance. The sector also includes non-accredited MFIs that carry out their activities for the most important, supported by government projects or programs or technical partners. These are mainly NISSA BANKS, and BEIT EL MAL, supported by the NGO, Research and Technological Studies Group (GRET).

- **Financing:** At the end of 2018, Microfinance institutions posted a net credit outstanding of MRU 0.4 billion, up 11% compared to 2017, in connection with FADES credits for CAPEC. CAPEC's share in loans from microfinance institutions represented 34%, while the remaining 66% was shared between other institutions. Compared to the banking system, the outstanding loans distributed by MFIs at 12/31/2018 represented 1% of total credits.
- **Deposits:** In 2018, deposits from microfinance institutions increased

by 13% compared to 2017, following the entry into operation of the new institutions as well as the increase recorded at the CAPEC level. The distribution of deposits shows that CAPEC holds more than 68%, compared to 32% for the other institutions. This deposit volume represents only 2% of the total deposits collected by the banking system as at 12/31/2018.

- **Products offered:** The Islamic products offered by the MFIs are for their quasi-totaled transactions of murabaha with purchase order, not to say tawarruq, because the unacknowledged purpose of the clients is often the acquisition of cash to finance consumption expenses or working capital for their sub-projects. The maturity is generally short-term, less than one year, because the resources available are also short. The average loan is of the order of MRO 350,000 and the profit margin varies between 14% and 20%, with a real guarantee (saving, wages or income domiciliation) or personal (down payment or solidarity surety). Microfinance institutions have introduced other Islamic products, such as ijara muntahia bitamlik, but they are still rare.

#### **5.5.4.2 CHARITABLE ASSOCIATIONS**

For organizations that have been accredited, more than 50% of them are involved in the social / charitable sector and some areas such as development, health and the environment are only

secondary sectors.

Due to a lack of nationally collected resources, these charitable associations are easily turning to the Gulf countries or donors such as the Islamic Development Bank, Saudi Fund, Kuwaiti Fund or other similar Arab institutions. They derive almost all of their funding. They focus on charitable social actions (protection of widows and orphans, health, water supply, income-generating activities), or the construction of religious infrastructures or support for Qur'anic schools of instruction.

These associations have different profiles. Some are well structured with headquarters and permanent staff and also members of national and international academic organizations, while others are more akin to informal neighborhood committees, which are not very visible at national level and are oriented towards private international networks of charity. It should be recalled that international Islamic Non-Governmental Organizations (NGOs) were all forbidden and their offices closed in May 2003 as part of an anti-Islamist campaign. The banning of international NGOs and most of the local NGOs that served as their intermediaries did not put an end to their activity, but sometimes made it quite uncontrollable and clandestine. These NGOs often escaped state control, as they were often informal before being restricted in the past few years as part of the prevention of terrorist acts. This phenomenon is followed fairly closely by the Mauritanian authorities, through the National Directorate of Civil Society.

Among the most active structures in the field of beneficence and charities, we can

cite:

- ✓ The Al Khair Association
- ✓ Association Besma wa Emel
- ✓ The El Irada Association
- ✓ Association of mosques and mahadras.

such as exemption from taxes and customs duties, reduction of interest on loans and banking facilities and protection from foreign competition.

- Administrative bureaucracy and long procedures complex for obtaining licenses.

## 5.3.5 STRATEGIC ANALYSIS & RECOMMENDATIONS

### **Strengths**

- A generally adequate regulatory and supervisory framework for microfinance and civil associations.
- A separation of the promotion (MEFTIC) and supervision (BCM) functions of the sector of microfinance.
- An active involvement of the private sector.

### **Weaknesses**

- Financing difficulties: Stable and long-term resources are limited.
- Organizational difficulties: Weak organizational and human resource capacity.
- Functional difficulties: Customers of these institutions face the daily problems of production and marketing, and control of legislation.
- Competition difficulties: High production costs, lack of quality and result in competitiveness at home and abroad.
- Lack of adequate encouragement

### **Opportunities**

- The launch of Islamic financial institutions.
- The underdevelopment of microfinance in Mauritania is likely to attract the interest of donors.

### **Threats**

- The international financial crisis is likely to reduce development aid budgets;
- The awareness needed effort to encourage the potential clients of Islamic microfinance services.

### **Recommendations**

- Adoption of national policies to develop microfinance and charitable sector.
- The need of integrated regulatory framework to include the Islamic microfinance.
- Develop the institutional structure and supporting infrastructure for the sector.
- The use of technology to count and classify the data and statistics about the sector.

## 5.4 MOROCCO

### 5.4.1 OVERVIEW OF THE SECTOR

The microfinance sector in Morocco can be described in a synthetic way as 13 Micro-Credit Associations (AMC); They are “bodies assimilated to the credit institutions” and are governed by Law 18-97 on the regulation of Microcredit and Law 103-12 on credit institutions and assimilated institutions. Among these AMCs are 3 of the 15 largest NGOs / associations in the world. They have a cumulative outstanding amount of 6 billion dirhams and 911,856 active borrowers as at 30 September 2015.

This is in addition to a good portfolio quality with a PaR30 at 4.6% as at 30 September 2015; a penetration rate of 2.7% which suggests a large margin for growth; and more than 1,600 outlets distributed throughout the country at the end of 2015. The sector emerged strengthened by the crisis it experienced in 2007-2010, and of absorption-liquidation of the number two of the sector (Zakoura Micro-Credit Foundation).

The micro-credit sector shows a high level of social inclusion, as beneficiaries attribute positive impacts in 93% of cases. The customer satisfaction rate is much higher than that of the commercial banks. The tool is recognized by all as a tool for combating poverty and financial inclusion. It is one of the Kingdom’s leading employers and has created

6,000 direct and almost 1,000,000 indirect jobs. It ranks 14th in the Global Microscope Index rankings in 2015 and gained a remarkable 30 different positions in 5 years (Rank in 2009: 44th place). The Kingdom of Morocco is the fourth African country, behind Tanzania (6th), Ghana (10th) and Kenya (11th).

The sector is covered by recurrent debates on its institutional positioning for many years, with three axes of debate:

- The expansion of banking operations that can be carried out on behalf of the financial institution itself, to the payment and collection of savings, which raises the question of the type of approval obtained.
- The pooling of certain functions and the network operation of AMC of size small to medium, in particular with the Solidarity Microfinance Network (RMS).
- The preservation of the social dimension of micro-credit and of “social sustainability” within: (1) a change in the authorization, and (2) a related evolution of the legal form (towards Public limited company or cooperative company).

It is noteworthy that the new Banking Law No. 103-12 on credit institutions and assimilated institutions that include a chapter for participatory “Islamic” banks offers important advances in microfinance sector by laying down the principle of the possibility for a credit institution to be approved with a form of cooperative society. Therefore, the microfinance institutions can provide Islamic products to their customers.

## 5.4.2 MICROFINANCE REGULATORY & POLICY FRAMEWORK

The adopted policies for microfinance in Morocco can be analyzed at micro, macro and meso Levels.

### 5.4.2.1 AT MICRO LEVEL

At this level, we can distinguish between 4 axes:

- **Categories of financial institutions and authorized transactions:**

Banking and microfinance law in Morocco offer a variety of legal approvals and forms for carrying out banking transactions.

The minimum capital for obtaining an authorization is no longer an obstacle for the three largest Moroccan AMCs, nor indeed for a major investor. Some banks aim to offer savings and money transfer services to AMC's target clientele, and have even launched products dedicated to low-income clientele.

However, the distribution of micro-credits by banks or finance companies remains marginal. The reason for this non-involvement of banks and companies financing in credit to income-generating activities, for non-wage earners, is mainly due to the significant differences in the law of market practices, in particular to the restrictions on maximum interest rates.

- **Comments on possible legal forms**

In the three categories of financial institutions described above, the essential legal forms that can be envisaged, or at least be useful in microfinance, are

the public limited company, cooperative society, and non-profit organization. Indeed, the law specific to micro-credit only allows the associative form, unlike other legislation (including those focusing on micro-credit).

However, this does not constitute a fundamental obstacle to the development of a diversified microfinance landscape if any technical bottlenecks to the exercise as a credit institution are lifted. On different continents and in very different socioeconomic contexts, microfinance often takes on a cooperative form.

Lastly, although the presence of public limited companies is clear and uncontested, and could serve both new players and AMCs who have subsidized their businesses, it is possible to detect a discrepancy between the company law in Morocco and the aspirations of certain actors in the social and solidarity economy. However, this does not call into question the very essence of public limited companies but their main purpose (maximizing the realization of profit or purpose in the general interest), and the relationship of shareholders to the profits of the company.

- **Prudential and financial regulation by institution category**

The prudential and financial regulation applicable to credit institutions reveals a major distinction between the two categories of credit institutions (banks and finance companies) included in Banking Law No. 103-12, and Micro-credit associations.

The former is subject to full prudential regulation, while the latter is subject to accounting and financial regulations

adapted to the activities authorized by their authorization, supplemented by the microcredit crisis, by additional standards - essentially prudential - in matters of governance and classification and provisioning of receivables.

In terms of institutional choices on the part of the actors, there are three main possibilities:

- Cooperative, alone or in a network. In almost all cases, these are cooperatives held by customers alone, but the opening of the capital of the network (formed as a public limited company) is sometimes found in large structures. We note that the term "Microfinance" is often refuted in financial cooperatives that more readily talk about financial services to their members.
- Joint-stock corporation under common law but with variable shareholding structures, ranging from the domination of private commercial investors (commercial banks, investment funds, etc.) to structures sometimes subsidiaries of international NGOs.
- Association and other assimilated forms (NGOs), but in almost all cases, without collecting savings.

The regulation of financial cooperatives usually involves a specific prudential approach, integrating the concept of a network, and according to the following approaches:

- Conducting prudential and financial regulations requiring great technical and financial solidarity, with the possibility of consolidating certain standards.

- Or to more decentralized prudential supervision arrangements (and based on the financial health of each).

- **Participatory finance: banks, financing companies and microfinance**

Law 103.12 on credit institutions and assimilated institutions introduces participatory banks in the banking code through the establishment of new foundations based on the principles of sharing of gains and losses, using exclusively the Conseil Supérieur des Oulémas to give its notices of compliance. The text lays down the regulatory framework for the creation, operation and activities of participating banks and defines the points concerning the scope, deposits and products marketed by the participating banks. It also provides for the setting up of an audit committee to, inter alia, identify and prevent the risk of non-compliance of their operations with the advice of the Upper Board of Ulemas. Law 103.12 applies to credit institutions and similar bodies: banks, finance companies, payment institutions, microcredit associations, offshore banks, financial companies, Caisse de dépôt et de gestion (CDG) and Caisse centrale de Garantie.

In July 2017, participatory banks became operational in Morocco. The first establishments can welcome customers and open accounts. However, the ecosystem is not yet complete, which limits the activity of these new banks. In an optimistic view, the completion of this ecosystem and the validation of other participatory instruments especially Musharakah and Mudarabah can boost forward the Islamic Microfinance sector in Morocco.



### 5.4.2.2 AT MACRO LEVEL

At this level, we can distinguish between two main axes:

- **Regulation and supervision of the sector**

The Ministry of Finance is responsible for the drafting and presentation of drafts for banking laws in Parliament. It also adopts certain texts of a regulatory scope (decree, bill). The supervision of the banking sector (in the economic sense of the term), Bank Al Maghrib ("BAM") by various laws, first for credit institutions, then for micro-credit ("AMC"). Thus, AMCs are, under the new Banking Law No. 103-12, assimilated to credit institutions, and fully integrated in the perimeter of BAM's intervention in terms of both accreditation, regulation and penalties.

In charge of supervision and sectoral monitoring until 2006, the government, through the Ministry of Finance, sees microfinance as an important lever for the role it plays in financial inclusion, the fight against poverty and the integration of economically weak, through the creation of jobs and activities generating income. The support for the development of the sector focused on broadening the scope of AMCs; the introduction of tax incentives; mobilization of financial resources for the sector; and strengthening the regulatory framework for the sector.

- **Promotion of the sector**

Promoting the microfinance sector is mainly to facilitate the creation of an environment conducive to the emergence and development of microfinance. It thus contributes to greater financial

inclusion and is generally of an entity emanating from the Ministry of Finance. The promotion of the sector is articulated generally through a national strategy or a sectoral policy letter, at the highest levels of government.

In Morocco, the sector has been heavily involved in promoting its development through various initiatives and publications, notably from the CMS and Jaïda (sectoral studies, sectoral meetings, the White Paper, etc.). The Moroccan Government, on the other hand, has focused on expansion of the scope of AMCs; the introduction of tax incentives; the mobilization of financial resources for the sector; and strengthening the sector supervision framework.

Regarding the institutional, support and advocacy framework addressing issues at the macro level, the Central Bank (BAM) has become the central actor of supervision and this has no reason to be called into question for microfinance.

The Ministry of Finance, through its role as bearer of the financial inclusion strategy, should also naturally carry the microfinance strategy, the pillar of financial inclusion. The development of a microfinance strategy is the first step in strengthening the sector's representation and support framework and should be developed in consultation with all stakeholders in the sector. This approach will thus ensure that all expectations are taken into account, ensuring the relevance and appropriateness of the whole sector of this strategy.

### 5.4.2.3 AT MESO LEVEL

On the other hand, the meso level of the microfinance sector includes all market and locally available services, which will enable

the sector to support its development in particular to reduce the transaction costs of MFIs and increase their horizons (reach more beneficiaries), build capacity and encourage greater transparency. Although the structure of the Meso level varies considerably from one country to another according to several criteria such as regulation, market maturity or the sector strategy, we usually find at least one professional association (PA). This association is usually in charge of the sector representation and often capacity building programs. The more mature a sector of microfinance, the stronger the market infrastructure and the streamlined services offered.

However, Brigitte Hems of the CGAP reminds us in her book, 'Finance for All, Building Inclusive Financial Systems', that different markets have need for different types of actors at this level. The Moroccan sector, by its maturity, has a solid meso level and different organizations with complementary missions, thus fulfilling most of the needs of the sector.

*The most important actors in the sector*

- *The FNAM:* In Morocco, the National Federation of Micro-Credit Associations (FNAM) created on 4 October 2001 under Law 18/97 governing micro-credit in Morocco, is the legal representative of the AMCs in Morocco. The responsibilities of FNAM, as set out in its statutes (2008), are assigned to it By Article 23 of Law 18-97 on Micro-Credit as follows:
  - \* Establish the rules of ethics relating to the micro-credit activity and submit to the

Ministry for Finance for approval.

- \* Ensure the implementation by its members of the provisions of the law on microcredit and the texts adopted for its application, as well as ethics, and refer the matter to the Minister for Finance.
- \* Propose to the Minister for Finance any action likely to promote the development of micro-credit.
- \* Act as an intermediary between its members and the administration and avoid exclusion of any other groupings.
- \* Designate its representatives on the micro-credit advisory board.
- \* Establish and manage any common service that will foster the development of microcredit.

The FNAM has 13 member CMAs, including 3 major CMAs, which represent about 90% of market shares, and 10 small CMAs. There are, therefore, two groups of CMAs within the FNAM, each with different needs. The FNAM has historically suffered from internal problems mainly related to these differences in needs. It has some ineffective governance within the organization, where the principle of one vote per governing member implies that the needs of large MFIs are underrepresented in order to better respond to the needs and expectations of small CMAs, the Central Bank encouraged the creation of Solidarity Microfinance Network (RMS). The objective of this network is to provide a number of

services to its 8 members, starting with the use of a shared GIS, but also to be the voice of small industries and governments. However, this initiative was not held in view of the small number of meetings, but due to the lack of an office operational efficiency and the still scattered use of GIS by all members of the network.

- The Jaïda Fund: Regarding support for the refinancing of the sector, the Jaïda Fund was a major player in the Microfinance sector in Morocco and plays a key role in supporting small CMAs, particularly in terms of refinancing and technical support. Jaïda has had a role during the period of crisis that the sector experienced between 2008 and 2010 in the refinancing of the sector, in particular the AMC. Since then, Jaïda has sought to diversify its service offer in the margins of its mission to provide the sector with new perspectives for interventions. Initially created to ensure the refinancing of the sector and contribute to the structural development of the sector through coordination and harmonization of activities of international donors.
- The CMS: In terms of capacity building, the sector relies on the CMS which plays a leading role through its training center, the only one dedicated to the sector in the kingdom. Beyond this primary mission, the center is also as a microfinance observatory and supports micro entrepreneurs, notably through financial education but also marketing of their products. The CMS has developed relationships with local and

international references, enabling it to renew and diversify its offer of services.

- Other actors at the meso level: ***A micro-credit advisory board*** has also been set up under the legal framework which governs the sector. It brings together representatives of the Ministry of Finance, Central Bank, FNAM, and Moroccan banks in charge of examining the maximum amount of micro-credits granted, the maximum interest rate than the solvency ratios of MFIs. It seems that this board is no longer active today. ***The Moroccan Centre for Banking Mediation*** was established in June 2013 and has started operations in March 2014 with the appointment of its Director. Its role is to facilitate dispute resolution between clients and financial institutions. Its action recently, as well as at international level, is still unknown to customers, both banking and microfinance. Thus, when most of the clients receiving micro-credit are not aware of its existence, the number of applications of microfinance clients would remain very low.

Regarding the institutional, support and advocacy framework addressing issues at the Meso level, the target infrastructure of the microfinance sector (meso level) should include the following functions: representation, training, financing, and observatory. There is no standard model of representation in the sector in the world. The representation of the sector can be done through one or more associations, be legislated or not, with compulsory or voluntary memberships.

The professional association representing its members at the level of the supervisory authorities is responsible for advocating the sector in order to ensure the development and promotion of an environment favorable to the good development of its members. In this context, and according to the expectations of the various AMCs and even different types of MFIs (assuming that the sector is open to new MFI statuses), MFIs could be represented through several professional associations (which is widely the case throughout the world in the flagship markets of microfinance). The important thing is that all MFIs are represented according to their expectations and that all the actors contribute to the development of the sector.

We note positively that the meso level in Morocco is already endowed with a rich diversity of actors who contribute to the accompaniment and development of the sector (training organization, refinancing, risk centre, observatory, financial education, etc.). All the needs are thus covered and the related actions can be coordinated within the framework of a financial inclusion strategy including microfinance.

Finally, and regarding the target legislative and regulatory framework for MFISs, microfinance consists of bank operations and a few ancillary operations but for the benefit of specific populations, with specific operating methods and often with a more developed social vision than in the banking sector:

- Banking operations - the profession of assuming lucrativeness and habit.
- Special populations, namely a clientele of persons excluded from

the “traditional banking sector”, whether for savings services or for the provision of credit; in Morocco, it seems that many AMC clients have a bank account, but that they are not interested or able to give them credit for their income-generating activities.

- Specific operating procedures, not only in terms of the “standing” of the agencies but also in the method of instruction of credits. The analysis is carried out preferably by the client, less in terms of his books of account than the appreciation of his entrepreneurial activity. This is particularly true for individual credit for small businesses (20,000 to 50,000 Dh) and partly for small business credit (from 50,000 Dh).
- A social vision often more developed than in banking. This must, however, be qualified. On the one hand, because the banking sector in the world (and in Morocco) is known as a cooperative bank, it is not intended to distribute profits to shareholders / members, or to enable them to realize a capital gain on the resale of their shares. On the other hand, because of this undeniable social dimension, it does not detract from the obligation to be structurally profitable, for an obvious reason of financial viability.
- These characteristics show that microfinance is not an isolated compartment of the financial sector, but that it is part of financial inclusion, that it is a “pre-banking” (a term used by certain actors in Morocco) that could contribute to “mass banking”.

### 5.4.3 ISLAMIC MICROFINANCE INITIATIVES

The microfinance sector in Morocco does not yet have a single Islamic microfinance institution. However, initiatives have been taken in the past decade to start a Shari'ah compliant microfinance institution. Although this has not been achieved yet, we will briefly discuss what we consider to be some important initiatives on three different levels of programs, funds and simple MFI.

Over the years many financial entrepreneurs saw the great potential in Islamic microfinance institutions. However, the legislation few years ago only allowed them to operate as association. Since then they were integrated in the banking and microcredit law greatly increasing the potential.

- Kahsb is one of the examples of Islamic microfinance institutions conceived but that never materialized. In 2013 with a strong business plan and a multitude of meetings scheduled during an entire year to gather investors and promote the MFI, Moroccans were looking forward to starting the first Islamic microfinance institution in Morocco. Sixty million dirhams were going to be the investment for the first year with an objective to raise the capital of the second year. The business plan stated that 90% of the turnover was going to be through Murabaha and a share of 10% of the market was going to be aimed at. The reason behind giving up on the project remains unclear.

- Babrizk Morocco was also an initiative which came very close to being an Islamic microfinance institution. The loans provided by Babrizk were at 0% which resemble Qard Hasan. However, the loan fee was considerably high close to 25% of the value of the loan. Although the fee was quite heavy, these loans were very popular especially among the population who carried at heart Shari'ah compliance.
- On the other hand, the Jaidi Fund had been a very important actor whose name appears in many Islamic microfinance initiatives. However, many of those initiatives seem to have reached an impasse. In 2014, a memorandum between Jaidi and the Islamic Development Bank was signed to create a fund of 70 million aiming at investing and encouraging the creation of microfinance institutions. The most recent information on the project is that it has been on standby for couple of years now in the Ministry of Finance. Lastly, 4US and Jaida worked very closely on developing a strategy to create an economic empowerment program aiming at converting a number of microfinance institutions to work on an economic empowerment approach. Both actors were involved in the creation of the only economic empowerment institution in North Africa, ZitounaTamkeen.

### 5.4.4 ISLAMIC CROWDFUNDING OR COLLABORATIVE FINANCING

Crowdfunding platforms started to appear in the Moroccan market in 2014. The



platforms include Afineety, Smala & Co, Cotizi and Atadamoune. Out of these four platforms, only two are exclusively focusing on Moroccan projects: Smala & Co (located in France) and Cotizi<sup>14</sup>. The Cotizi platform published some studies on innovative practices, such as the crowdfunding barometer for Morocco 2014 and on developing innovative solutions and apps in order to boost the rise of crowdfinance. In 2015, the same platform, besides crowdfunding services, launched an online petition feature to be the 1st platform offering that in Morocco<sup>15</sup>.

These platforms were working in the absence of legal framework related to crowdfunding. In April 2016, Wali Bank Al Maghreb announced a plan to prepare a specific law and regulation regarding crowdfunding. Today, Morocco is a country with great potential just waiting to be tapped. In this sense, the crowdfunding represents an incredible opportunity for financing diversification.

14 <http://www.cotizi.com/blog/le-crowdfunding-aumaroc>

15 <http://www.cotizi.com/blog/le-crowdfunding-aumaroc>

On 2 March 2018, the Ministry of Economy and Finance issued the presentation note No. 15-18 to present a draft law on Collaborative Financing or Crowdfunding. Recently, on 22 August 2019, the draft law was approved by the government council, provided that its observation and comments are taken into consideration by the general secretariat of the government and the ministry of finance and economy<sup>16</sup>. On 22 February 2020, the former draft law was adopted by the parliament.

To shed light on some of the provisions of the law, the first article defined crowdfunding or “collaborative financing” as fund collection operations via an electronic platform called collaborative financing platform (PFC) managed by collaborative financing company (SFC). The first chapter (section 1) defined and presented the providers of crowdfunding and distinguished between three categories of crowdfunding: 1) Investment operations, 2) Loans operations with or without interest

16 [http://www.sgg.gov.ma/Portals/0/conseil\\_gouvernement/CR/2019/CR\\_CG\\_22.8.2019\\_fr.pdf?ver=2019-08-28-125641-703](http://www.sgg.gov.ma/Portals/0/conseil_gouvernement/CR/2019/CR_CG_22.8.2019_fr.pdf?ver=2019-08-28-125641-703)

and 3) donation operations. Article 5 clarified the nature of these operations and mentioned that they are not included in the framework of the new banking law 103-02 or Law 44-12 or 004-71 related to call for public savings and generosity.

Article 9 (chapter 2) specifies that the collaborative financing company (SFC) must obtain agreement from Bank Al Maghrib for loans and donation category and from the Moroccan Capital Market Authority (AMMC) for the investment category. Article 48 stipulates that the collection of funds can be for profit or non-profit activities. Section 1 describes the investment category operations, while the loans category operations are described in section 2 and donation category in section.

The draft law project reserves section 5 (Articles 57 to 63) to describe the participatory or Islamic crowdfunding operation or participatory collaborative financing, which stipulates that the contract characteristics will be determined by Bank Al Maghrib and the high council of Ulemas. In this regard the SFC must send an annual report to the high council to assure the compliance to their opinions and guidance. The participatory banks in Morocco considered as account contributors for this category and will handle the SFC bank accounts and use the Takaful operators to ensure their operations.

This new legal framework may offer a huge opportunity to integrate crowdfunding in Islamic finance in general and Islamic Microfinance in particular, facilitate the operations of Islamic Microfinance institutions and enhance their role in financial inclusion and economic empowerment.

## 5.4.4 STRATEGIC ANALYSIS & RECOMMENDATIONS

### **Strengths:**

- A strong and popular demand for Shari'ah-compliant products in Morocco.
- The market represents a potential of 2 million beneficiaries.
- The existence of a very strong background of microfinance and well-developed experience in the sector is a positive aspect.
- The network of microfinance institutions around the kingdom will facilitate the integration of Islamic microfinance.
- The institutions no longer operate as associations but as MFIs under the supervision and jurisdiction of the central bank.
- The microfinance sector is considered by highly ranked officials and the elected institutions of the kingdom as a very important axe that can contribute significantly to the development of the national economy

### **Weaknesses:**

- The implementation of microfinance institutions remains quite recent in Morocco and thus still has a long way to promote and encourage on joining the sector.
- A lot of time has been spent on developing a single product rather than focusing on the entire sector.
- Endowment remains poorly developed in Morocco although this could be an important source of investment for the sector.

### **Opportunities:**

- The opening of participative banks in Morocco opened a vast horizon for Islamic microfinance institutions as windows of the banks.
- The existing law on microfinance in Morocco allows the MFIs to include Islamic microfinance products.
- The interest of many foreign funds and entities to invest in Morocco is a great opportunity to focus on Islamic microfinance.
- The existence of some consultancy firms which showed a high level of experience and readiness to work on this sector.
- Some Moroccan companies worked for years on developing Management Information Systems to closely assist MFIs in achieving their goals.
- The presence of Jaida, a very strong actor of the sector in Morocco, which holds shares in Zitouna Tamkeen, the only economic empowerment MFI using Islamic business models in the Maghreb region and using a Moroccan MIS known as 4US.

### **Threats:**

- Confusing the potential clients between Islamic and conventional microfinance.
- Adoption of Islamic microfinance products by some existing MFI might focus just on the form and neglect the spirit of the Sharī'ah.
- Adopt single products that will focus on giving loans rather than on an economic empowerment approach and objective.

### **Recommendations:**

- The creation and the development of a network in the MENA region to promote and assist Islamic microfinance institutions, but also to facilitate their integration in the economy of each country of the region.
- A close cooperation and the development of partnerships between the different institutions operating in other countries in the region to benefit from every experience.
- Focus on the development of waqf empowerment which is a new approach to waqf and can be one of the main sources to financing Islamic microfinance or economic empowerment institutions.
- Raise the awareness of all involved actors to focus on providing the infrastructure for social and economic inclusion rather than financial inclusion only.
- Finally, differentiate between Islamic microfinance and economic empowerment as two different approaches to poverty alleviation both using Islamic finance products. The objective is to identify the more significant impact of economic empowerment on fighting poverty.



## 5.5 TUNISIA

### 5.5.1 OVERVIEW OF THE SECTOR

The Tunisian experience has two basic stages in microcredit and microfinance. The political changes that took place in 2011 played a pivotal role in the change of the state policies.

The first phase<sup>17</sup> started in 1960, through the creation of “Caisses Locales du Crédit Mutuel” as part of the implementation of development programs funded by international organizations such as International Fund for Agricultural Development (IFAD) and the World Food Program (WFP), which made the experience one of the leading experiences in the Arab world.

In 1979, some development cooperatives<sup>18</sup> such as APPEL, FTDC, SAVE THE CHILDREN, ASAD, ATLAS, FONDATION LE KEF and UTSS introduced the microcredit component to their development projects to contribute to the reduction of unemployment and job creation. These efforts were supported in the early 1980s by the Fonds de Promotion de l'Artisanat et des Petits Métiers<sup>19</sup>. In 1995, Enda Inter-Arabe<sup>20</sup> was founded and since then, it has disbursed 2 million micro loans, totaling TND 1.9 billion. Since its inception, the organization has been able to introduce microfinance in Tunisia in accordance with international standards, thus creating an opportunity to penetrate the market that is currently estimated at 1.5 million and potential project promoters.

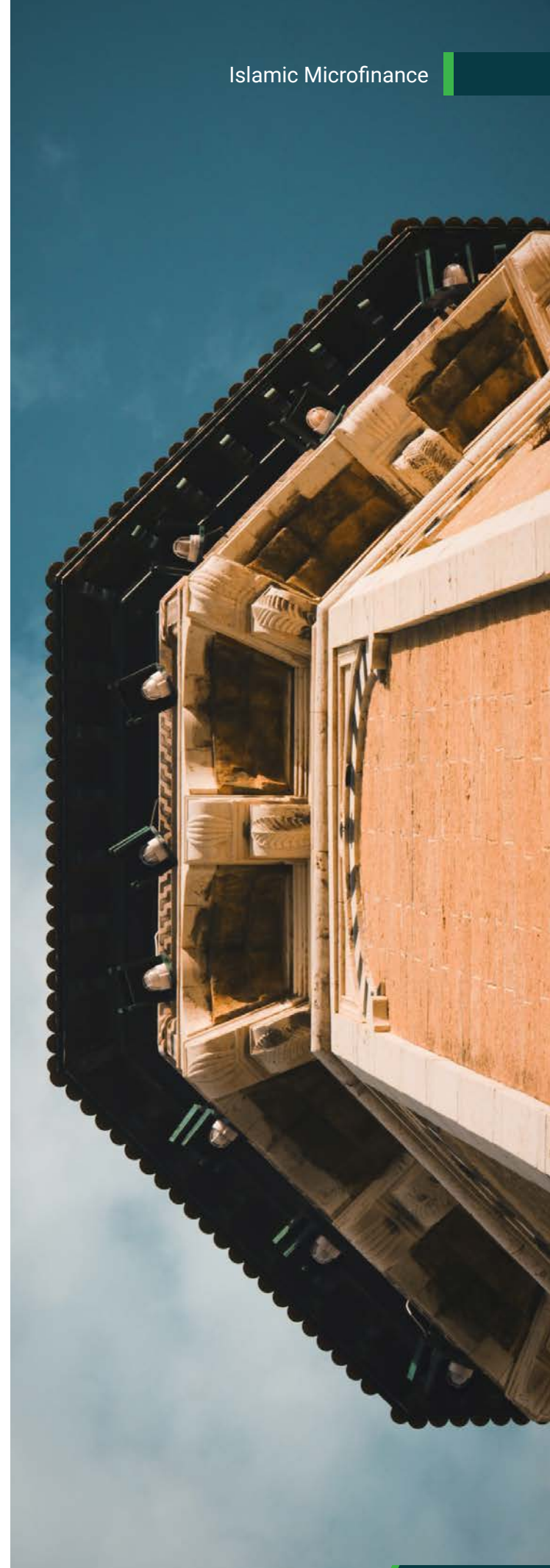
On 21 May 1997, the Tunisian Solidarity

17 The site of the supervisory authority for Microfinance in Tunisia

18 Known in Tunisia as development NGOs

19 A fund to promote crafts and small crafts

20 Enda Finance is a small credit institution that



Bank (BTS) was established by a presidential decree with the objective to achieve the maximum social and economic impact for the economic and financial integration of the poor. On 22 December 1997, the BTS held its constituent meeting to open its doors in March 1998 to finance micro projects up to 90% of their value. In 1999, the system was strengthened by specialized development cooperatives that provide micro-loans aiming to assist the economic and social integration of the entrepreneurs by financing the purchase of small production equipment or working capital. It can also be granted to improve living conditions. BTS loans have been limited to TND 5,000 at 5% interest rate and a repayment period of up to 3 years. Target beneficiaries of these loans are individuals belonging to needy families and vulnerable groups who can exercise continuous or qualified activity and conduct business as well as unemployed people. In the framework of the State Regional Development Program, Qarḍ Ḥasan<sup>21</sup> and small grants were granted in the light of a proposal by the State Council and for the benefit of unemployed young people from poor families whose income does not exceed TND 1,500 per year. The State supported these projects, which must not exceed TND 3,000, corresponds to a grant from the state equal to 10% of the value of the project. The loan is amortized over 4 years without surplus and after a two-year grace period.

The second phase was triggered by the radical political changes that took place in Tunisia in 2011, which is considered

promotes the Tunisian financial scene, an article by the Princess of Fishing on 07 January 2016 published on the website of Wajjahni <http://wajjahni.com>

21 Women and Children's Rights Support through Information Technology <http://wrcati.cawtar.org>

a distinctive leap in the field of Islamic microfinance and microcredit. In 2011, Taysir Microfinance<sup>22</sup> was established with the assistance of the French ADIE Association and was granted the Ministry of Finance's license to operate on 28 March 2014. In the same year, Microcred-Tunisia<sup>23</sup> was established and started its activities on 3 November. In 2013, ADVANS<sup>24</sup> was established in Tunis with the support of international and Tunisian investors. Following the authorization of the Tunisian Ministry of Finance, the company opened its first branch on 13 March 2015. On 21 April 2015, CFE<sup>25</sup> received the Ministry of Finance's approval for its official launch on 2 June 2015. Following the changes in the Tunisian scene, Enda organization was transformed by establishing an entity fully dedicated to microfinance services that obtained the approval of the Ministry of Finance on 31 December 2015.

With an environment disposed to opening more to Islamic financial products, Zitouna Tamkeen was granted its operating license in May 2015 and started its activities in August 2016. It is the first Islamic Microfinance institution in Tunisia and the first adopting the Economic Empowerment approach in North Africa. Moreover, the products of the BTS were supported by the Mourabaha product in partnership with the Islamic Development Bank, which was concluded in 2012 and the projects funding started by the end of 2015. Since 2011, the situation witnessed the birth of some development associations<sup>26</sup> that

22 Company's website

23 Company's website

24 Company's website

25 Company's website

26 As part of the guidebook for creating projects from zakah funds, many associations have been contacted in an official and informal manner. Most cooperatives



used primarily the mechanism of material donation and Qarḍ Ḥasan coming from the funds of Zakāh and charity.

## 5.5.2 MICROFINANCE POLICY & REGULATORY FRAMEWORK

The Tunisian government has defined many financing policies pertaining to microfinance. These policies have targeted different sectors and different social groups.

In the first phase<sup>27 28</sup>, the Tunisian State went on to stimulate the formation of institutions within an integrated strategy based on several mechanisms aimed at further developing the culture of initiative, attracting and enlightening young people work according to their programs to fight poverty and unemployment without these programs being subject to sufficient conditions and guarantees for success.

27 Mechanisms of creating projects funded by Islamic Microfinance “Ali Said”

28 Since starting the application of the Tenth Development Plan (1422/2002-1426/2006)

and promoting mechanisms of finance and guarantee. Dozens of programs, structures and funds were created, at the time, mainly by a presidential decree and laws were introduced afterwards. However, there was absence of a leading and coordinating structure to avoid programs and initiatives overlapping. At this first phase, the actors of the sector were governed by the following regulatory and legal framework:

- *BTS*: Since its inception, it has been subject to the presidential decree issued on 21 May 1997.
- *Enda*: Since its establishment, it was governed by Law No. 25 of 1992, dated 20 April 1992 and a special exemption delivered by the Ministry of Finance in May 2005 to apply a higher interest rate than the one used in the market<sup>29</sup>.

29 According the “Market study of Microfinance in Tunisia” that have been prepared by IBM Belguim in 1431/2010 on behalf of EUROPEAID, quoting the “Authorization No. 139 of the Ministry of Finance” for Enda-Inter Arabe microcredits granting, that allow it to

- *Development cooperatives providing micro-credits: Subject to Law No. 67 of 1999 of 15/7/1999*

In the second phase<sup>30 31</sup>, there was much talk about the need to prepare a vision for the future to strengthen the microfinance sector. In October 2011, a document was prepared by the Ministry of Finance containing<sup>32</sup> “The concerted vision of the Microfinance sector in Tunisia”. In that period, the government sought to establish this approach as a basic solution in fighting against poverty and unemployment, mainly aiming at reaching out to the various segments and changing their reality. The ultimate purpose of this approach was the financial inclusion of excluded populations, achieving harmonious development and strengthening the economic fabric. Among the pillars of this approach are the following:

- Setting the basic regulatory framework<sup>33</sup> to oversee the development of the sector.
- Contributing to the development of regions and priority sectors, supervising a detailed market study, better understanding of the needs of target clients and developing the appropriate framework for Microfinance development.
- Structuring the sector and the various structures and restructuring the BTS.

---

apply “an interest rate which takes account of the actual expenditure necessary for the microcredits granting and especially

The cost of resources, management and training operations and operating fees”

30 The site the supervisory authority for Microfinance in Tunisia

31 After 2011’s major political changes

32 It is the result of consultations a range of stakeholders of the sector

33 Microfinance Gateway, [www.microfinancegateway.org](http://www.microfinancegateway.org)

- Involving the private financial sector in Microfinance operations.
- Promoting and supporting the growth of the Microfinance industry through the establishment of an institutional infrastructure.

In the second phase, microfinance actors start to be subject to the following legal and regulatory framework :

- All types of microfinance institutions are subject to the Law No. 117-2011, which provides the possibility of establishing private financial institutions (limited companies) to finance micro-enterprises, provided that their capital is not less than TND 3 million.
- Development cooperatives are subject to the provisions of Chapter 58 of Law 117-2011, which was revised by another Law No. 46-2014 of 24 July 2014, to enable development cooperatives to continue their financing if the capital is not less than TND 50,000
- The BTS has been restructured into an integrated bank providing additional services such as bank accounts
- The BTS was entrusted to offer murābaḥah product in accordance with the refinancing agreement between the Tunisian Government and the BTS on 27 November 2012. The new laws also provide for the possibility of providing conventional and Takaful<sup>34</sup> Micro-insurance products<sup>35</sup> ;

---

34 Insurance Journal Revised by Law No. 2011 -117 of 5 November 2011

35 i.e Microfinance institution could only market insurance/Takaful products that have been issued by an established insurance company.

- Establishment of a supervisory authority for the Microfinance sector under the Ministry of Finance<sup>36</sup>.

These laws and revisions led to:

- Setting the ceiling of financing amount at TND 20 for microfinance limited companies<sup>37</sup>.
- Setting the ceiling of financing amount at TND 5,000 for Development Associations<sup>38</sup>.
- Setting loans granted to improve living conditions at TND 3,000 for MFIs and TND 1,000 for Development Associations.
- Development Associations can obtain loans from the BTS to strengthen their budget. However, they should not exceed an annual interest rate of 5% in addition to a 2.5% commission paid by the beneficiary by loan.

All the current MFIs and Development Associations are under the supervision of the Microfinance Supervision Authority (ACM), the governmental institution that have been created by the Ministry of Finance and which is entrusted to supervise the Microfinance sector. It is expected that the supervisory function will be entrusted, at least partially, to the Central Bank of Tunisia (BCT) at a later stage. The Supervision Authority was established in 2012 and it is composed of 9 officials and its board is composed of 8 members meeting periodically.

36 For more information, see the law number 2128-2012 dated 28 September 2012

37 Order of the Minister of Finance of 18 January 2012 fixing the ceiling amount of the microcredit and the conditions of its grant by the microfinance institutions

38 Ibid

## 5.5.3 ISLAMIC MICROFINANCE INITIATIVES

Knowing that the Islamic microfinance sector is in its beginning phase, we may treat what appears to us the most significant experiences which are those of the BTS and Zitouna Tamkeen MFI.

### 5.2.3.1 QARḌ ḤASAN FINANCING PROGRAM AND YOUTH EMPLOYMENT SUPPORT PROGRAM (YES-TU)<sup>39</sup>

The BTS financings could reach TND 150,000 and are mainly aimed at university graduates to support them in creating SMEs. Therefore, its activity belongs to meso-financing rather than micro one. In the last decade, the BTS was entrusted to implement an IsDB program based on Qarḍ Ḥasan financing. We do not have detailed information about the program characteristics and outcomes. A few years later, the BTS was entrusted to implement the YES-Tu program. This program is based on a Muḥārabah agreement between the IsDB and the Tunisian Government on 28 February 2012 with a value of USD 50 million. The program aims at economic and financial empowerment of young people, especially university and vocational training graduates<sup>40</sup>, by financing the launch of small projects. It is expected that this program contributes to improving the living conditions of the various targeted beneficiaries. The granted institutional support for the program implementation amounted to USD 320,000. The kick-off workshop was done on 6 and 7 May 2013 and the first financing was granted in December 2015.

39 Bank Brochures

40 As well as small farmers, artisans, people with special needs and skilled workers

The Bank has witnessed major challenges in strengthening its Islamic products offer. This required the creation of several committees and structures to ensure the effective implementation and good governance of the project:

- **Board of Trustees:** Its main functions are strategic decision-making, development and approval of general implementation policies and adoption and amendment of internal regulations. It has also been entrusted with approving financial reports, budgets and various administrative reports, monitoring the work of the committees, coordinating them and following up the work of the Project Management Unit.
- **Advisory committee:** Its main tasks are to assist the Board of Trustees in developing a strategy for implementing the program, studying the needs of the target groups and identifying project opportunities in cooperation with the Technical Committee and the Program Implementation Unit, coordinating with the advisory structures, technical structures, civil society and university experts, and ensuring effective project implementation and facilitating the exchange of experiences.
- **Technical Committee:** This is composed of experts from the sectoral ministries and the BTS to assist in the implementation of the program. Its main tasks are to assist the Program Implementation Unit to adhere to the policies and procedures approved by the Board of Trustees and to reach project goals.

- **Quality Assurance Committee:** Its main tasks are to ensure the Project Implementation Unit complies with the policies and procedures approved by the Board of Trustees and to monitor and follow up on the implementation of the detailed project plan in terms of quality and compliance with the timetable.

The program partners are the supporting structures of the Bank, Development Associations delivering microcredits, universities, higher education institutes and technical training centers.

To properly structure a murabaha product and implement the program, the Bank has contracted a Tunisian expert in the field of Islamic banking. In addition, a Shari'ah Board has been established to ensure the Shari'ah compliance of the program operations. Also, an internal Shari'ah auditor has been appointed reporting to the Shari'ah Board.

Although the financing started almost 2 years ago, the Bank has achieved several positive results<sup>41 42</sup>. A total 1,091 entrepreneurs were financed with a value of TND 38,332,153, which created 2128 jobs divided as follows:

These funds enabled the creation / expansion of projects and targeted different segments and different categories:

An information system module was developed to manage the murabaha product. Training and several workshops have been organized for concerned employees to ensure the full control of the new component. It is expected that

41 Tunisian Solidarity Bank

42 This was explained by the appropriate number of branches and the Tunisian citizen's thirst for Islamic financial products.

Sector	Total financing	Jobs created	Number of loans
Agriculture	529 072	24	15
Traditional industries	1 139 255	81	30
Small jobs	14 553 280	897	422
Services	22 110 547	1 126	624
<b>Total</b>	<b>38 332 153</b>	<b>2 128</b>	<b>1091</b>

the Bank would start to provide refinancing for the Development Associations under this program.

Classification per education level	Number of financed persons	Total financing	Jobs created
Higher educations	457	19 443 177	927
Other levels	634	18 888 976	1 201
<b>Classification per Gender</b>			
Female	305	10 450 053	611
Male	786	27 882 100	1 517
<b>Classification per project stage</b>			
Creation	876	30 731 479	1 695
Expansion	215	7 600 674	433

### 5.2.3.2 ZITOUNA TAMKEEN (ZT)<sup>43</sup>

It is the first Islamic microfinance institution in Tunisia, adopting the Economic Empowerment approach in accordance with Islamic finance principles. It obtained its operations license in May

<sup>43</sup> Interview with Dr. Nabil Ghallab (ZT President & CEO), published on the website of Wajahni at <http://wajjahni.com>

2016 and its actual operations started in August 2016. It currently provides financing not exceeding TND 20,000. The institution enables customers to acquire equipment, raw materials and commodities at a competitive cost. The Islamic MFI is trying to widely introduce the concept of economic empowerment throughout media presence and a series of partnerships with various sectors stakeholders. These

efforts made some actors understand the importance of this approach, adopt it and become real partners in the execution of projects.

## 5.5.5 STRATEGIC ANALYSIS AND RECOMMENDATIONS

### Strengths

- Targeting various sectors: traditional industries, small businesses, agriculture and services.
- Targeting various social groups: ages 18 to 50+ years and the level of education including Analphabet, Primary, Secondary and Higher Education.
- The responsiveness of the supervisory authorities, the Microfinance Control Authority (ACM), to Islamic Microfinance actors with respect to providing them with the necessary regulatory ground to provide new Islamic finance products.
- Several incentives have been approved.

### Weaknesses

- Microfinance programs targeting rural areas have not managed to reduce rural exodus towards coastal states, which has particularly weakened the agricultural sector.
- Although the state seeks to develop rural infrastructure to ensure that projects could be developed and to create incentive areas, the overall situation remains unpromising.

- The correlation of many activities with the tourism sector, which is a sector that proved in the first phase to be useful in bringing adequate economic activity. After the 2011 dramatic changes, the sector became fragile, especially due to the terrorist attacks and protest movements, which negatively affected the other sectors.
- Adopting only the murabaha product and using it in all fields is unpractical.
- Small projects are facing fierce competition by bigger institutions, in addition to administrative and bureaucratic complications. This made them experimenting very difficult<sup>44</sup>.
- High cost of microfinancing, which negatively affects the profitability of projects.
- Lack of a vision facilitating rural investment for investors that will enable them to reach markets in the best conditions and at the lowest cost.
- Lack of a strategic vision to accelerate the development of the Microfinance sector (facilitating the opening of branches, product development, micro-insurance, refinancing mechanisms, etc.).
- Lack of training for workers in the field of Islamic microfinance whether in associations or for-profit companies.

<sup>44</sup> A study belonging to Ayda Azza, published in the book "Mechanisms of the project launch through Islamic Financing", Ali Saeed 2014 Mayara for publication and





- Weak knowledge of the financial, administrative and accounting essentials by the owners of small projects or those wishing to invest.
- Failure to apply one of the safety standards in Islamic microfinance, which is the necessity of ensuring the eligibility of the beneficiary.
- Rigidity of the current legal framework, being not flexible enough to fit the specific regional or sectorial needs.

### **Opportunities**

- The large number of potential microfinance clients to satisfy: from 400,000 to 1,400,000 clients<sup>45</sup>.

- A large group of entrepreneurs are excluded from the financial sector given the scarcity of adequate Islamic finance institutions and programs.

### **Threats**

- Frequent political disputes and the disruption of many laws regulating the various fields of Islamic Economy.
- Poor demand for Tunisian made products due to fierce competition by imported products that have a better quality and lower prices.
- Continuity of export volatility towards Libya and Algeria.

---

distribution

45 Tunisia Islamic Finance Country Report, IRTI /

---

IsDB Group, CIBAFI, Thomson Reuters, Zawya, 2013

### **Recommendations<sup>46</sup>**

- Work on financing the economic opportunities of small investors and entrepreneurs, especially the poorest rural populations, through the provision of integrated Shari'ah-compliant financial services in the form of grants, loans, financing, deposits and savings accounts, etc.
- Establishment of a fund to cover the lack of guarantees for the most vulnerable ones.
- Simplifying documentary procedures for microfinance clients according to the nature and potential of these clients.
- Contributing effectively to reach the largest number of beneficiaries in rural areas, by encouraging the opening of branches in the interior
- Mobilizing large new investments in rural infrastructure, agricultural research and agricultural guidance services.
- Facilitating the spread of low-cost financial services through Internet and mobile phones.
- Updating legislations and laws to ensure transparent and clear execution of contracts.
- The need for complementarity between donors for Microfinance and private capital, rather than competition.
- The need to ensure that the poor and the unemployed have access to financial resources through viable institutions.
- Implementation of reforms that promote access to financial services.
- Enhancing the concept of Microfinance and empowering the target groups according to best practices, achieving financial sustainability and developing income generating activities in these areas, as well as actualizing the process of expanding these important sectors, whether in grazing, handicraft, agriculture or other economic activities.
- Integration of the rural poor into the main financial services to acquire saving and repayment habits.
- Redrawing the industrial map in such a way as to ensure that micro-enterprises and large enterprises play complementary roles. It can be modeled according to the Indian experience, which adopted a system that forces large companies to leave more than 1,200 products for smaller enterprises. This has forced them to adopt handling as a platform.
- Providing suitable ground for these projects, especially regarding competition, administrative routine and instability of prices of raw materials.
- Amending the current accounting standard (or issuing a new one) to fit the needs of Islamic microfinance actors.

<sup>46</sup> Based on a study of Hussein Al-Asraj

## 5.6 SUCCESS STORIES & GOOD PRACTICES

### 5.6.1 ZITOUNA TAMKEEN, TUNISIA

**Key ideas:** Economic Empowerment through Islamic Microfinance

#### **Introduction**

Zitouna Tamkeen is the first Islamic microfinance institution in Tunisia adopting the approach of Economic Empowerment (EE) in North Africa. The institution was founded by Zitouna Bank<sup>47</sup>, IsDB and some important local and regional actors, such as Zitouna Takaful<sup>48</sup>, Poulina Group Holding, Delice Holding and Jaida Fund for Microfinance. The institution's mission is "to participate in the financial and economic inclusion of disadvantaged populations by adopting an innovative Economic Empowerment (EE) approach via the tools of Islamic microfinance". Zitouna Tamkeen has the vision of "becoming a major pillar of Islamic microfinance at a national and international levels".

The EE approach, adopted by Zitouna Tamkeen, is an innovative approach formulated by IsDB, to achieve high socio-economic impact in its member countries. The approach considers the poor as a partner and not as a burden. The EE institution, such as Zitouna Tamkeen, acts as a link between the upstream (production) and the downstream (marketing) in a value chain. The financing of EE and capacity building projects

<sup>47</sup> The largest Islamic bank in the country

<sup>48</sup> The first Takaful company in the country

strengthens the various links in the value chains and promotes synergy between the various players in it. A fundamental pillar of the EE approach is to ensure the sustainability of micro-projects.

To achieve its vision, the institution created "Tamkeen for Development (T4D)", an NGO specialised in delivering trainings and capacity building to the beneficiaries, and it is currently creating the "International Center for Economic Empowerment (ICEE)", specialised in conducting studies and structuring Economic Empowerment projects and products.

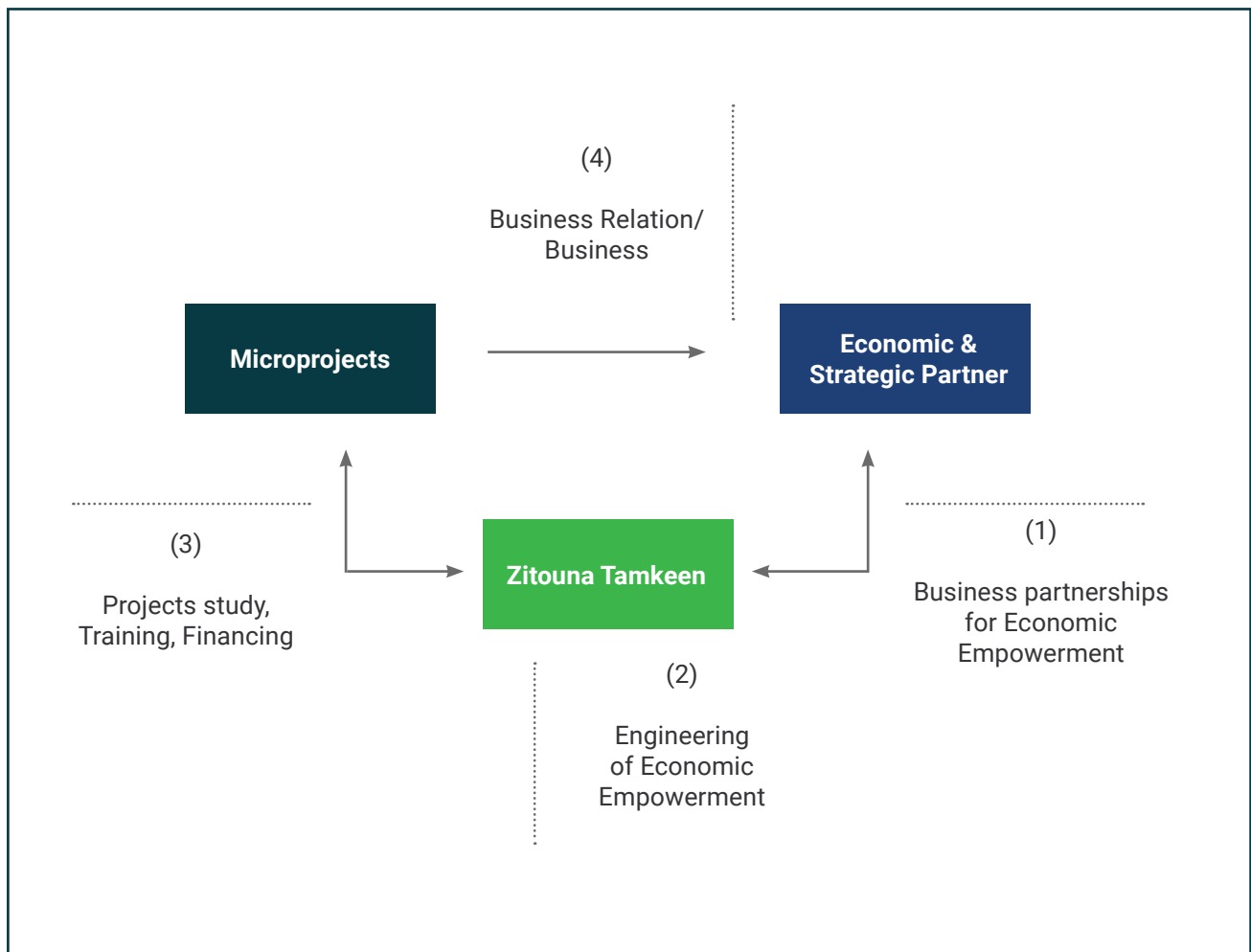
#### **The Model**

The Economic Empowerment model adopted by Zitouna Tamkeen lays on six fundamental pillars that aim to remove the 6 barriers of entry to the entrepreneurial world:

1. Finding investment opportunities.
2. Access to strong partners supporting their projects.
3. Access to markets through business partnerships.
4. Valorisation of the skills and competencies of the micro-entrepreneur.
5. Access to an adequate support infrastructure.
6. Providing the appropriate funding.

The following chart illustrates the Business Model of Zitouna Tamkeen:

**Chart 1: The Business Model.**



**Social Impact**

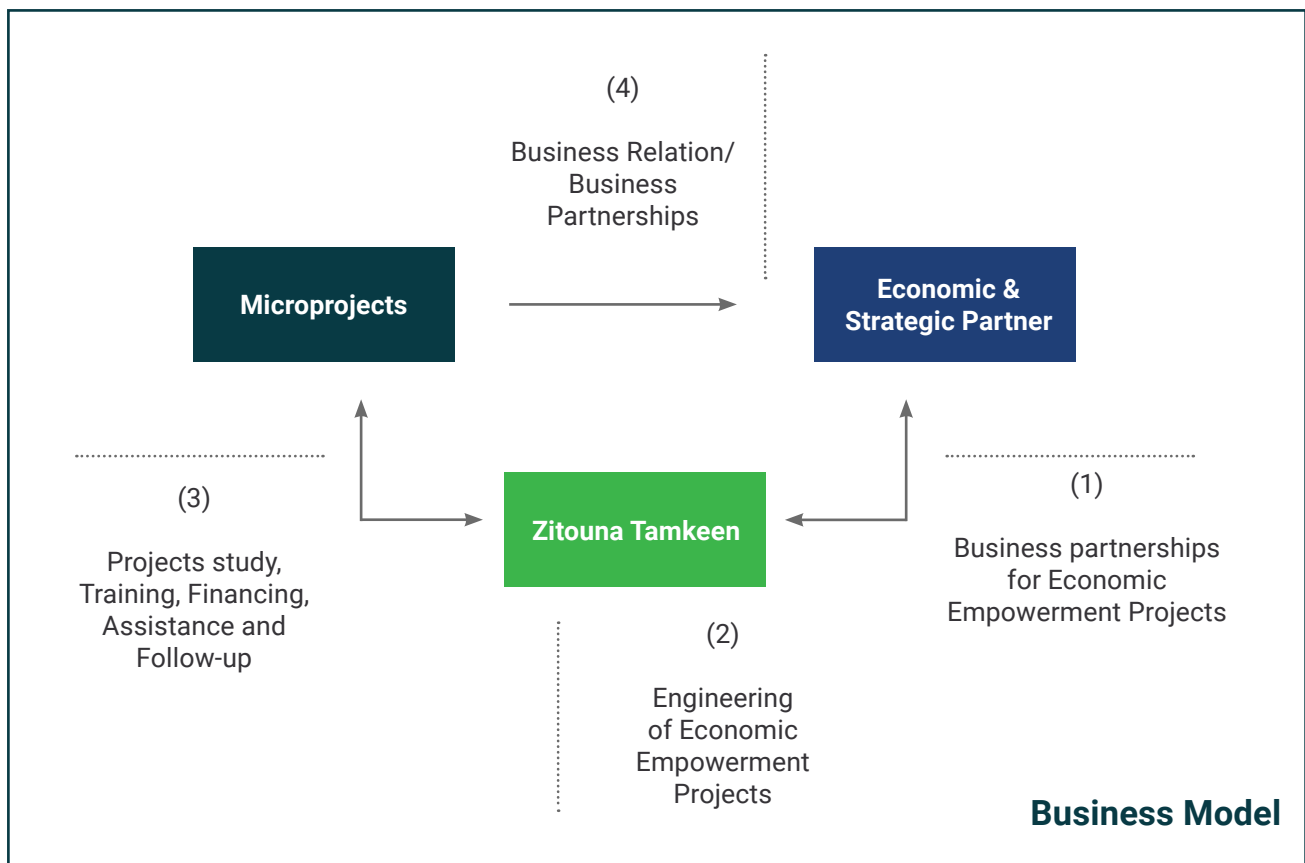
Zitouna Tamkeen does not only measure its performance through financial indicators but most importantly through social and economic impacts which are demonstrated by:

- Developing economic abilities so that they can manage their daily lives;
- Enabling them to effectively participate in economic projects;
- Enabling them to obtain

resources and infrastructure necessary to navigate, produce and market;

- Enabling them to obtain necessary financial resources and increase them;
- Enabling them to obtain adequate income; and
- Support them until they can independently manage administration and make appropriate economic decisions.

The following chart illustrates the Business Model of Zitouna Tamkeen:



### Social Impact

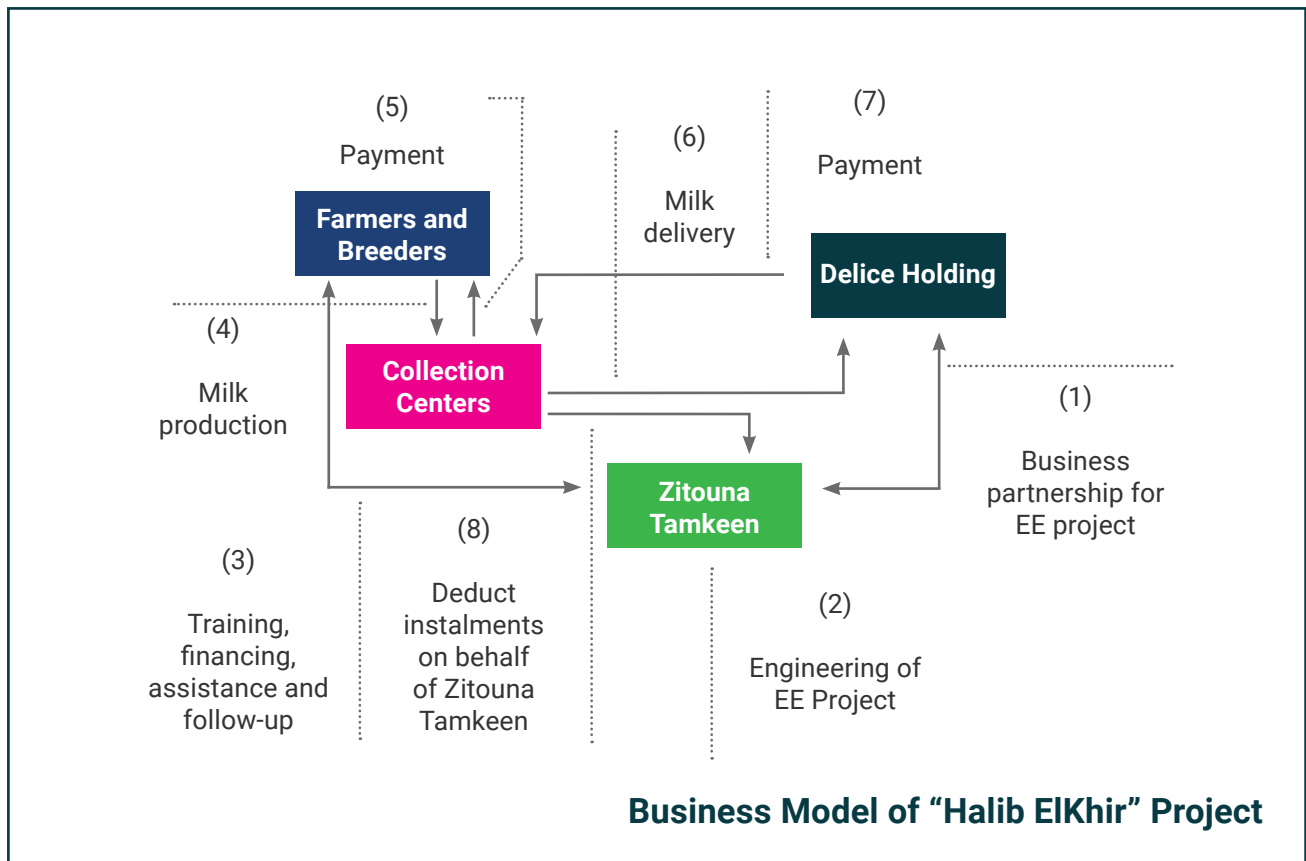
Zitouna Tamkeen does not only measure its performance through financial indicators but most importantly through social and economic impacts which are demonstrated by:

- Developing economic abilities so that they can manage their daily lives;
- Enabling them to effectively participate in economic projects;
- Enabling them to obtain resources and infrastructure necessary to navigate, produce and market;
- Enabling them to obtain necessary financial resources and increase them;
- Enabling them to obtain adequate income; and

- Supporting them until they can independently manage administration and make appropriate economic decisions.

### Halib Elkheir Project

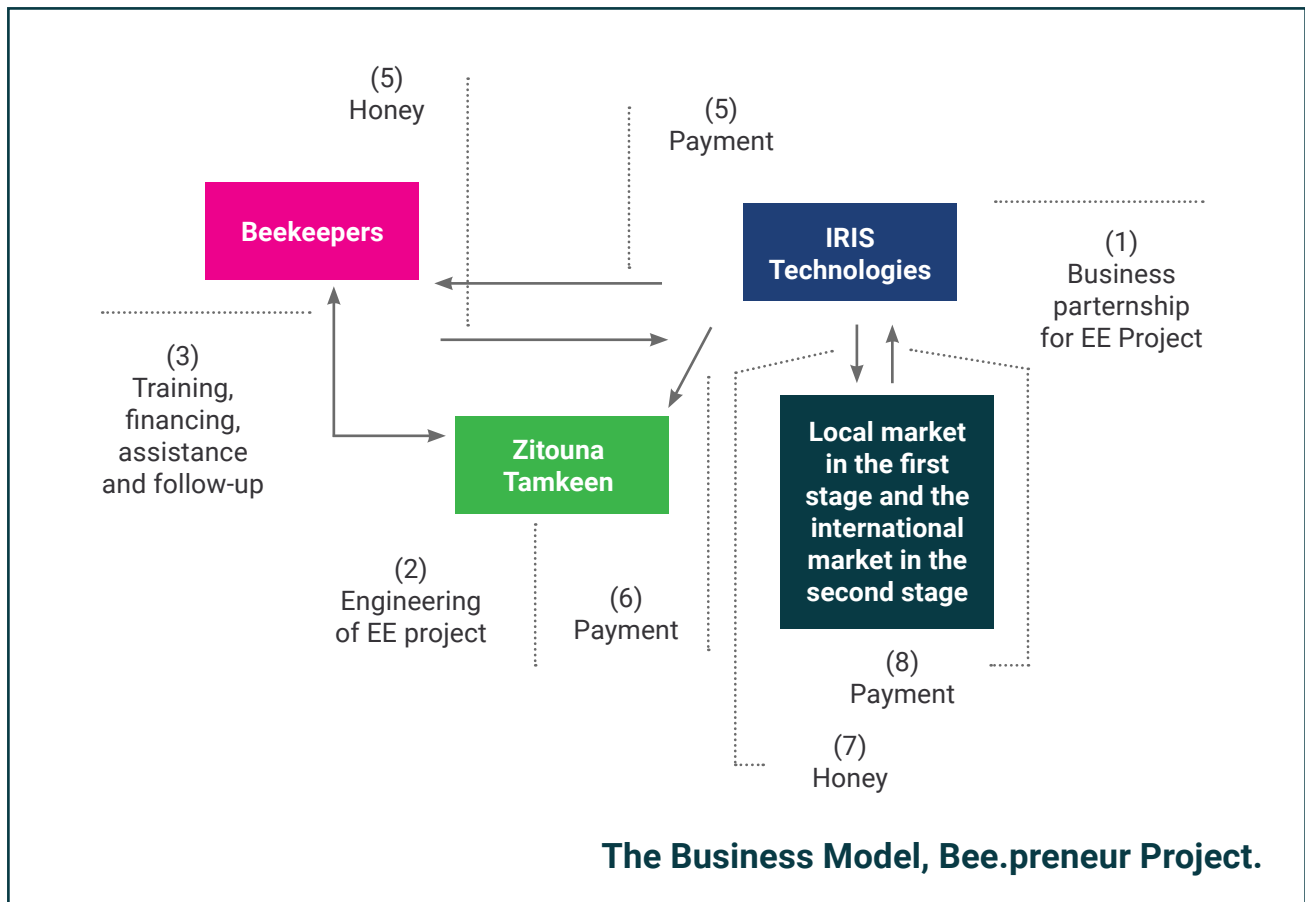
In partnership with the Tunisian leader of the dairy industry, Delice Holding (DH), Zitouna Tamkeen has launched a major project in the north-western and central regions of Tunisia, 2500 small-scale breeders will benefit from the project that will include the financing of purebred herds, milking equipment and securing an outlet for their productions by DH. This project includes a training and technical assistance program provided by livestock advisers. To ensure the sustainability of this business model, DH also acts as an off-taker and will ensure the purchase of all the production from the small farmers.



### Bee.preneur Project

Zitouna Tamkeen also built a project based on the EE approach to provide small traditional beekeepers with modern technology to improve the quality of honey and increase its production in a partnership with the first innovative tech start-up in the beekeeping sector in Tunisia, IRIS Technologies. As part of this partnership, IRIS Technologies will provide beekeepers with electronic cards dedicated to the extraction of internal data from hives, thus determining their yields by ensuring the maximum traceability of the different links in the beekeeping value chain to further enhance the production of the hives.





### **Financing Methods**

Zitouna Tamkeen aims to offer a wide range of financing products adopting the instruments of Islamic Finance. Currently, the main products are the Murabaha to the Purchase Orderer and Qarḍ Ḥasan. The authorization of other Islamic financing instruments is under approval by the supervisory authority.

### **Non-Financial Services**

A fundamental pillar for the success of microprojects is capacity building through access to training adapted to the skills required for the microproject success. This includes technical training (in the specific field of the microproject), and managerial training (soft skills training, sales techniques, marketing, etc.) related to the project finance and operations management of the microproject. This

training is provided by Zitouna Tamkeen staff and its partners. Assistance and support during the lifetime of the microprojects are an essential component of the services offered by Zitouna Tamkeen.

### **Engineering of Economic Empowerment Projects**

Zitouna Tamkeen is the only microfinance institution in the country that has a project engineering department. It focuses on creating projects taking into consideration the value chain of the business area, with the objective to contribute significantly to job creation and to reach the greatest number of beneficiaries.

### **Risk Management**

At this stage, the most crucial risk that Zitouna Tamkeen faces is the default risk.

Its risk management strategy includes establishing smart partnerships with different partners to guarantee the best quality and prices of goods when financing with Murabaha, and to ensure a market and buyers (off-takers) for the beneficiaries. Also, the monitoring and evaluation unit is responsible for ensuring the financing is directed towards the growth of the project and not used in other ways for personal consumption. In addition, staff refer to the Credit Bureau to assess the beneficiaries loan history and whether they can be granted more financing. A credibility check is also made along with the beneficiaries' qualifications and skills set. Weekly meetings are made to check default cases to identify the causes and find appropriate solutions. Moreover, as part of the financing, beneficiaries are provided with the necessary training and the skills required to manage their projects financially. In addition, Zitouna Tamkeen offers micro-takaful services for its beneficiaries through existing Takaful companies in the market.

### Challenges

As of today, Zitouna Tamkeen faces several challenges operating as a microfinance institution in Tunisia:

- The absence of a national guarantee fund dedicated to the microfinance sector;
- The lack of local solutions for the refinancing of microfinance institutions and social investment funds;
- Micro-savings are not authorized by the law;

- The law does not authorize the development of a range of micro-insurance services (sickness, travel, project, livestock mortality, etc.) although the law authorizes MFIs to commercialize them on behalf of insurance companies;
- The absence of tax incentives for microfinance institutions to intervene in regional development areas through economic empowerment projects;
- The funding threshold for microfinance institutions (currently TND 20,000) does not permit the institution to reach more beneficiaries and projects;
- The current law does not permit the financing of small enterprises in the form of companies; and
- Crowdfunding is not regulated.

## 5.6.2 AL-BARAKA BANK OF ALGERIA MICROFINANCE EXPERIENCE, ALGERIA<sup>49</sup>

Key Ideas: Financing micro-projects and women doing domestics IGAs.

### Introduction

Al-Baraka Bank of Algeria is a member of Al Baraka Banking Group. It was incorporated in May 1991 as the first Islamic Bank in the country and operates under a commercial banking license issued by the Bank of Algeria. The main activities of the bank are retail and commercial banking. The Bank operates 30 branches.

<sup>49</sup> Paper 'The Algerian experience in Shariah compliant Microfinance', Nacer Hideur, presented during the Kick-off Workshop of the "Islamic Social Finance Report", held in Tunis on 10 June 2017 and co-organized by IRTI (IsDBG) and Zitouna Tamkeen MFI



The experience of Al-Baraka Bank of Algeria in Islamic Microfinance was initiated in the framework of development project in the city of Ghardaia, funded by the German International Cooperation Program (DEVED-GTZ) with the participation of the Ministry of Small and Medium Enterprises. Ghardaia city has special cultural character and commercial traditions, which are among the important factors of the project's success.

### **The Model**

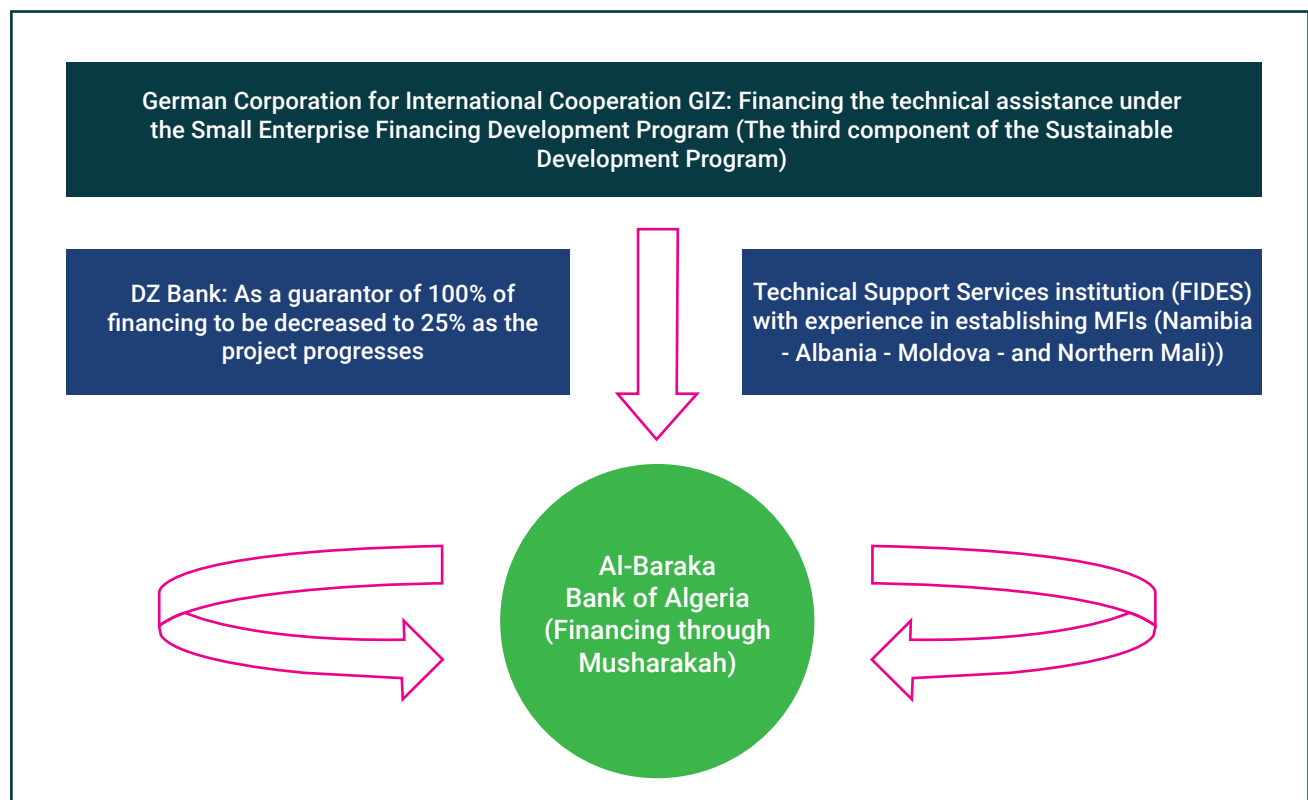
The project can be illustrated as bellow:

Distribution of the roles between involved parties: The Algerian banking law does

management party, with the objective to launch the Microfinance activity as a banking product but with the management and supervision of a specialized entity.

### **Advantages of the Model**

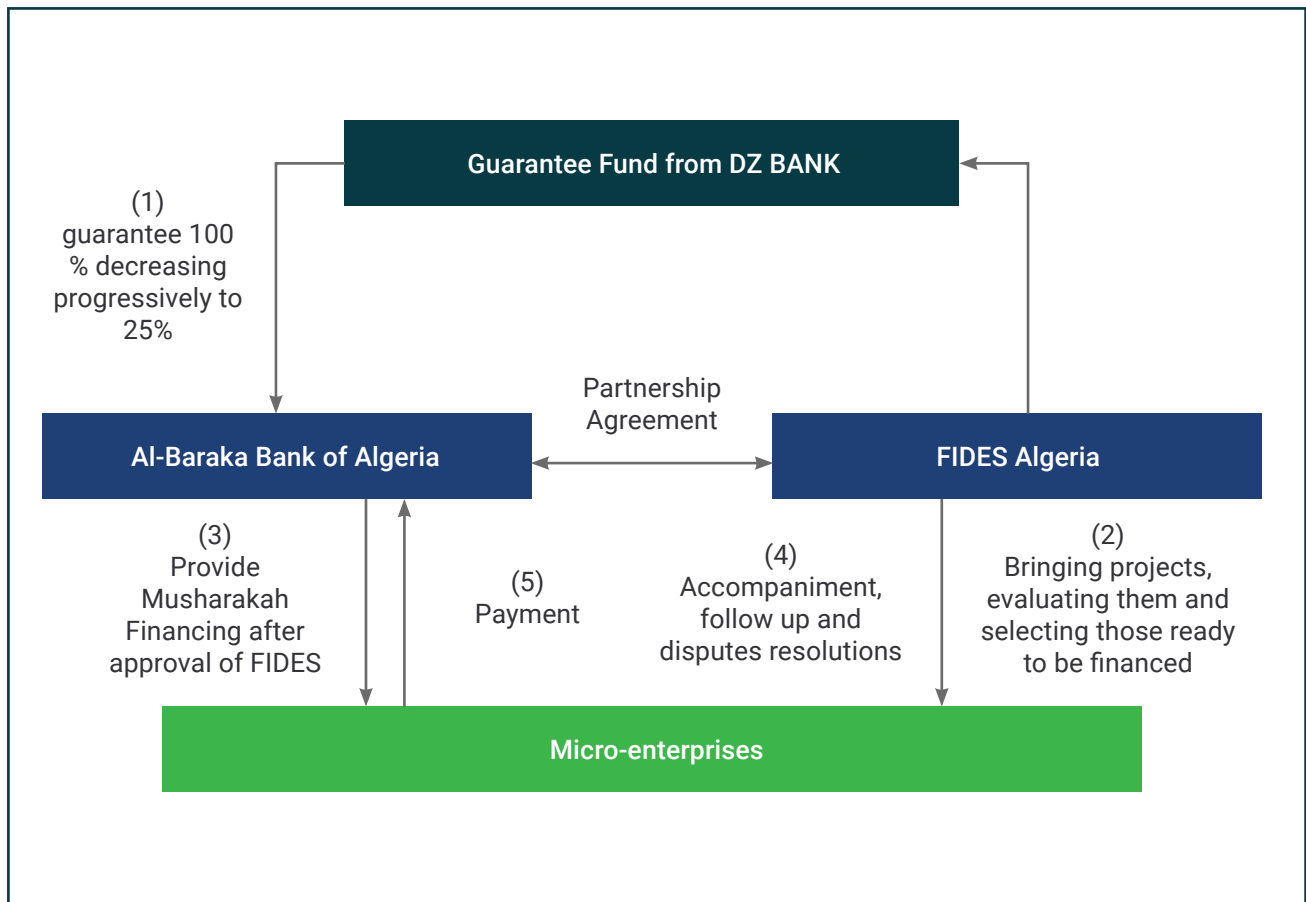
- Harmony with the cultural and social specificities.
- Involvement of relevant population representatives in product design.
- Paying more attention to individuals themselves rather than to the submitted documents.
- Appointment of Financing Officer with the ability to communicate well



not allow the establishment of financing institutions with less than a capital of USD 35 million USD. Therefore, it was necessary to divide the roles between the funding party and the follow-up and field

in the Ghardaia environment.

- Quick decision making regarding the grant of financing.
- The use a moral guarantee instead of material one.



### Financing Methods

Al Baraka Bank of Algeria provides Musharakah financing to well-chosen Micro-enterprises. Current statistics indicate that during the first year of activity, only 2 of the financed 45 Micro-enterprises did not meet payment deadlines.

- Nature of financed projects: Expansion phase (not start-up phase)
- Amount of Musharakah financing: For small equipment and working capital, the amount is from USD 500 to 3000; and for large equipment, the amount is from USD 2,000 to 10,000
- Duration: 12 to 36 months
- Mandatory savings of at least 5 monthly installments of

### Musharakah capital

- Moral guarantee of a notorious person.
- High-level jury to resolve potential disputes.

As for the financing of women domestic IGAs, they were granted Qarḍ Ḥasan & Murābaḥah financing. To guarantee the financing payment, they were organized in the form of solidarity groups (between 3 and 15).

- Nature of the financed projects: Crafts or commercial projects that are independent of each other and have solidarity in payment and discipline.
- Type of Financing: Starting with Qarḍ Ḥasan followed by a mini Murābaḥah upon renewal.



- Amount of financing: Between USD 100 and 500 per IGA.
- Duration: 3 to 12 months.
- Mandatory savings equal to 2 to 4 monthly installments of the financing.
- Contract of accompaniment between FIDES and the Group of Women for a fixed commission, not linked to the financing amount or duration.
- FIDES to pay administrative expenses to the bank for financing management (excluding wages).

### **Project Phases**

- From 2008 to 2012: The financial product was managed by FIDES, the specialized entity.
- Starting from 2012: The financing is fully managed by the Bank.
- In 2017: Creation of a Microfinance fund from the “disregarded”

funds (coming from non-Shari’ah compliant sources).

### **Risk Management**

- Organizing Women in solidarity groups.
- Mandatory savings.
- Moral guarantee of a notorious person.
- High-level jury to resolve potential disputes.
- Distribution of roles between different parties.
- Guarantee fund.

### **Achievements**

- The choice of Mushārah mode of financing was adequate to the irregular nature of micro-enterprises revenues generation.
- Reaching acceptable recovery rates due to professional accompaniment and proximity to the beneficiaries.

- Contributing significantly in increasing the size of the financed Micro-enterprises and in expanding their activities.
- Creating additional jobs.
- Improving significantly the management of the financed Micro-enterprises.
- Promoting entrepreneurship development among small entrepreneurs.

### **Challenges**

- Absence of an appropriate legal framework.
- Unbalanced or unfair competition for government programs that have preferential terms.
- Weak geographic expansion of the experiment.
- Failure to transfer expertise to the local team resulting in the lack of control of the portfolio after the withdrawal of the technical support of the specialized entity.
- The difficulty of integrating Microfinance activity into the Bank's activities.

## **5.6.3 “4US” MANAGEMENT INFORMATION SYSTEM (MIS), MOROCCO**

*Key ideas:* Customization to Economic Empowerment specificities

### **Introduction**

After more than 30 years of field experience in Islamic Social Finance

assignments, especially in Islamic Development Bank member countries<sup>50</sup>, a Moroccan team of experts was behind the conception of a Management Information System “4US” dedicated to managing Economic Empowerment operations. The development of the MIS started in 2009.

### **The Model**

Economic Empowerment approach, which the MIS adopted, is a comprehensive approach for doing business with disadvantaged population by considering them as real qualified partners, rather than burdens. It offers successful solutions to defeat almost all development challenges: access to opportunities, access to support investments, establishing smart partnerships and access to suitable financing and markets.

### **Advantages of the Model**

The particularity of 4US is that it was designed to suitably fulfill the field needs; the MIS was not adapted from a conventional microfinance nor an Islamic finance system. The system is gradually gaining in efficiency due to its deployment and utilization in different countries such as Sudan, Yemen and Tunisia, and is still on a permanent adaptation based on multiple local challenges. 4US targets four categories of beneficiaries: Individuals and families, solidarity groups, productive unions and sustainable development village.

The system has the ability to manage large-scale projects for hundreds of beneficiaries' groups, and handles most Islamic financing modes.

<sup>50</sup> ited Arab Emirates, Qatar, Bahrain, Saudi Arabia, Kuwait, Yemen, Egypt, Palestine, Sudan, Algeria, Tunisia, Libya, Mauritania, Guinea, Chad, Cameroon, Mali, Djibouti, Benin and Nigeria

Its strength resides in containing three important modules, namely Program, Financing and Business Intelligence. It also offers an observatory on the beneficiaries' needs and the potential of the Income Generating Activities (IGAs) promotion:

- Program module: With all the aspects that a program demands, starting from the launch of operations, to the stage of monitoring and evaluation, and to profit sharing at the end. It can also manage several funds, in the same program, at the same time and in a completely sealed way.
- Financing module to monitor the beneficiaries' applications through three major phases: Establishing a feasibility study of the project based on the economic and the social dimensions, the approval by a financing committee and financing the project along with monitoring the work progress and the payments of the contract's terms.
- Business Intelligence module with indicators that are relevant to Islamic microfinance field and ensuring a balance between the SEEP<sup>51</sup> financial performance and the CERISE SPI4<sup>52</sup> social performance. It is important to note that this module gives the real-time performance.
- The implementation of the

51 The Small Enterprise Education and Promotion (SEEP) Network is a non-profit organization that acts as a network for practitioners working in microenterprise development and microfinance fields. More details on Wikipedia <https://goo.gl/QXnXVm>

52 is a social performance assessment tool for financial service providers that was created by CERISE, in collaboration with the Social Performance Task Force

Observatory enables the access to a database containing any information needed to assess the poverty level in any given country, such as: identification of IGAs, micro-projects, income source of the poor, capacities of populations and key success factors. In addition, it gives access to various reports on the study of the needs' assessment of the program target beneficiaries. The reports are as follows: 1. Reports on IGAs including the scoring, 2. Reports on micro-projects with their scoring, 3. Reports on population and opportunities, potential assets, threats and territorial, and 4. Data sheets on the couples IGA/ Beneficiary and Micro-project/ Promoter available in the database.

### **Challenges**

The above-mentioned Moroccan team was the first to initiate a product with similar characteristics. However, it did not attribute enough importance to copyright protection. Therefore, many other companies are bringing into existence some systems operating in the Islamic microfinance area with similar characteristics. Then, the MIS holder's company adopted a strategy on keeping the software updated with the latest functions and modules that are inspired from the continuous evolvement of the field reality.

and several actors in the field of development and poverty alleviation.



المعهد الإسلامي للبحوث والتدريب

ISLAMIC RESEARCH AND TRAINING INSTITUTE

A MEMBER OF THE ISLAMIC DEVELOPMENT BANK GROUP

INSTITUT ISLAMIQUE DE RECHERCHE ET DE FORMATION

MEMBRE DU GROUPE DE LA BANQUE ISLAMIQUE DE DEVELOPPEMENT



بنك الإسلام للتنمية

Islamic Development Bank

## Islamic Research and Training Institute

8111 King Khalid St.

Al Nuzlah Al Yamaniyah Dist.

Jeddah 22332 – 2444

Kingdom of Saudi Arabia.

Telephone: +966126361400 | Fax: +966126378927

Email: [irti@isdb.org](mailto:irti@isdb.org) | Website: [www.irti.org](http://www.irti.org)