

Eradication of Poverty: A Paradigm Shift to Islamic Economic System

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Introduction

Poverty is a multidimensional phenomenon and a global issue with many faces. People can be said to be in poverty when they are deprived of income and other resources, needed to obtain the conditions of life - the diets, material goods, amenities, standards and services - that enable them to play the roles and help in fulfilling the participatory obligations of their society. Prof. Peter Townsend, an eminent scholar who conducted several researches on poverty observes that the people are poor when they become unable to get resources to make a comfortable life in accordance with the customs and standards of their society in which they are living. He further says that individuals, families and groups in the population can be said to be in poverty when they lack the resources to obtain the type of diet, participate in the activities and have the living conditions and amenities which are customary or are at least widely encouraged or approved, in the societies to which they belong.¹ The monetary approach is most commonly used to identify and measure the poverty. It identifies poverty with a shortfall in consumption or income. Historically also poverty has been related to income, which still remains at the core of the concept today. In the words of Gillin and Gillin people are poverty stricken when they fail to get adequate income to manage their livelihoods. It is that condition in which a person because of inadequate income cannot maintain a scale of living high enough to provide for his physical and mental efficiency and enable him to take care of his natural dependents so as to function usefully according to the standards of the society, of which he is a member. When the income of a person is not adequate to

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maintain a level of living according the prevailing standard of living, such a state is called poverty.² Traditionally, the absolute poverty concept has been adopted in which absolute minimum standards of living are fixed in terms of in-come/consumption expenditure translated from nutritional requirements measured in calories.³ Poverty is an income level below some minimum level necessary to meet basic needs. This minimum level is usually called the “poverty line”.⁴ Poverty line refers to “the inability of an individual or household to afford a socially perceived normative minimal basket of basic human needs that is expected to be reflected in some normative minimal standard of living that should be assured to every individual/household”.⁵

Planning commission of India attempted to define poverty line in much more broader ways so as to include education, health, nutrition, etc.⁶ However, the poverty line approach treats each household independently and scales it on the basis of its average per capita expenditure level. In this approach, all relational dimensions go missing.⁷ The conventional definition of poverty in terms of income poverty is being broadened with the inclusion of ‘human poverty’ in terms of denial of choices and opportunities for living a tolerable life.⁸ Though the consumption measures represent material standards of living- food, clothing, shelter, transportation, fuel, education and so on- they also correlate closely with wider notions of capabilities and well being.⁹ The concept of poverty is defined with respect to social perception of deprivation of basic human needs. In Amartya Sen’s understanding, capabilities are absolute requirements for membership of society. Poverty is deprivation of basic capabilities.¹⁰ It generally refers to social deprivation from descent quality of life. Poverty can be defined as a social phenomenon in which a section of the society is unable to fulfil even its basic necessities of life. It reflects the lack of access to various basic necessities such as nutrition, health care, education, housing, security and opportunities for overall future improvement.¹¹ Amartya Sen has identified three major approaches to the poverty. The biological approach, the inequality approach and the relative deprivation approach. Biological approach relates to the ability of an individual or household to

achieve a minimum daily nutritional requirement. Inequality approach examines the political and economic factors. The relative deprivation approach emphasizes that poverty has both an objective and culturally determined dimensions.¹² Thus concept of poverty has been defined both in terms of its quantitative aspects as well as in terms of its qualitative aspects.

Poverty is a major problem facing most nations in the World. It has destroyed or adversely affected societies and families all over the world. It is as old as the civilization itself and many ideologies have been developed to cope with this problem. But poverty refuses to die. There are a number of factors responsible for poverty and the most obvious reason is the lack of household income. In order to solve the problem of poverty around the globe, particularly in 'third world' countries, there are many organisations which are working to improve their standards of living by providing them incentives. According to the Asian Development Bank, alone in the Asian and Pacific region, over 900 million people in about 180 million households live in poverty (i.e. those who earn less than \$1.00 a day). More than 670 million of these poor live in the rural areas, most of them rely on secondary occupations, as agriculture alone is not enough to provide for their growing needs.¹³ This employment includes a whole range of paid employment, from micro enterprises over services such as carpenters and weavers to self-employed businesses such as food stalls, tailoring and shoe repair. The problems of the poor go well beyond the lack of income. They suffer a broader syndrome of disadvantage. This disadvantage reflects in the way that they are excluded from the formal financial system of the society.

Although the income of poor people is tiny or irregular, but there are times when poor people need sums of money, that are bigger than what they have in hand. The need for these 'usefully large lump sums' arises from life cycle events such as birth, education, marriage and death, from emergency situations or from the discovery of opportunities to make investments in assets or businesses. The only reliable and sustainable way that they can obtain these sums is to build them, somehow or other, from their savings. So the biggest

financial need for poor is to assemble ‘lump sums’ of money to cope with opportunities and demands. These lump sums can be acquired either through credit or savings. There are basically many reasons where the need for lump sums may create hurdles or obstacles for a normal living. In short, poor people want what many of the less poor already enjoy: reliable, convenient and flexible ways to store and retrieve cash and to turn their capacity to save into spending power, in the short, medium and long term. And they want it on a continuing not a one-off basis.¹⁴

Forms of Poverty

Poverty has different faces and shapes. It comes in different forms. Some of the forms are:

- Absolute poverty.
- Relative poverty.
- Subjective poverty.
- Mass poverty.
- Destitution poverty.
- Conjunctional poverty.
- Chronic poverty.
- Rural/Urban poverty.
- Primary poverty.
- Secondary poverty

All of them are interrelated, impact each other and manifest in a web of poverty disadvantage.

Causes of Poverty

Poverty is a multidimensional problem which exists at the global, national and regional level. The last few decades’ perspective on poverty have challenged the focus on income and consumption as the defining condition of poor people. A quantitative money- metric consumption (or income) - based approach is not sufficient. It needs to be expanded to measure socio-political externalities, both a result of the presence of poverty and of the introduction of policies to alleviate it. A new understanding of poverty is developed which portrays poverty as a complex set of deprivations. As Ruby Payne has made the case in her highly acclaimed work “A Framework for

Understanding Poverty”, escaping the poverty trap is dependent upon multiple interrelated factors, of which financial aspect is only a part.¹⁵

These alternative perspectives have refocused the concept of poverty as a human condition that reflects failures in many dimensions of human life – hunger, unemployment, homelessness, illness and health care, powerlessness and victimisation, and social injustice; they all add up to an assault on human dignity.¹⁶ There are many reasons for poverty. It is difficult to put all causes of poverty under a single lens. They differ from nation to nation, region to region, society to society and even from person to person. Causes of poverty can be divided into those that arise from within an individual (internal/ personal), and those that are attributable to the environment (external). Some of the factors responsible for poverty are –

- 1. Economic factors-** The monetary approach to the identification of poverty is the most commonly used. It defines poverty with a shortfall in income from poverty line. Some of such factors are-
 - a. Myopic Economic Policies.
 - b. Unequal distribution.
 - c. Slow Economic Growth.
 - d. Economic Depression.
 - e. Unproductive hoarding.
 - f. Agricultural failure
- 2. Social Factors –**
 - a. Unemployment.
 - b. Social evils.
 - c. Family Size.
 - d. War.
- 3. Geographical Factors–**
 - a. Unfavourable climate.
 - b. Insufficient Natural Resources.
 - c. Natural disasters
- 4. Personal Factors –**
 - a. Physical Weakness.
 - b. Mental Makeup.
 - c. Low educational level.
 - d. Dependency.

- e. Laziness.
- f. Extravagance.
- g. Demoralization.

Islamic Economic System and Poverty

Poverty is the central problem to sustainable human development. Poverty-reduction strategies and policies are part of overall development strategies. From times immemorial poverty alleviation of poor households was considered as a major challenge. It was assumed that various poverty alleviation programmes could be able to enhance income level of poor households through trickle-down effect. But these programmes failed to achieve the target because ‘trickle down’ effect of economic growth cannot be achieved if the growth is not accompanied with infrastructure development; which is essential for speedy percolation of the benefit of such programmes. These programmes fractured the entire society making them dependent on the subsidy and concession culture which has meant considerable ill for the overall financial system. It has led to a decline in portfolio quality and neglect of monetary savings facilities in the rural sector.¹⁷ It was argued that such interventions have not only allowed leakage of benefits to undeserving households but also underestimated the ability of the poor to save or pay market rate of interest. Moreover, subsidised credit was often diverted to politically favoured non poor households. The most undesirable aspect of this experience has been that the formal banking system has developed an ‘aversion’ to the risk of lending to the so called priority sectors and an unhealthy appetite for safer investments like government securities.¹⁸

This economic crisis of the globe has shaken the entire society. The most dominant economic systems of the world capitalism and socialism both failed to resolve the major economic problems of the mankind. This led to the concentration of wealth in few hands depriving the rest of the people. As a result the gap between the rich and the poor increased. The richest countries also failed to remove poverty and hunger. Umar Chapra, a prominent scholar of Islamic economics, observes that, “even in the world’s richest countries like U.S and Japan or the high welfare oriented countries like West Germany, U.K and Sweden, some of the essential needs of the poor-

particularly education, medical facilities and housing remain unfulfilled".¹⁹ In this terrible situation of depression and hopelessness, mankind is anxiously looking forward to an alternative system.

If crisis in a science is symbolised by its continued inability to meet the challenges that confront it, then few would disagree that economics is in the throes of a deep crisis. The phoenix-like rise of macro-economics from the charred debris of the crash of the 1930s had generated a new confidence and a new valour among the economists. The solution of almost every problem seemed within sight. All looked green in the valley of economics. This confidence was proved false and short lived. Not only did the old problems remain unsolved, new ones emerged with threatening overtones. Mass poverty, frustrated take-offs in development, increasing disparities, co-existence of hunger and affluence, irrational use of non-renewable resources, exploitation of the poor and the afflicted by the rich and powerful, inflation and stagflation, structural deformities in relations between developed and developing countries, all of these and many more problems fail to be tackled within the framework developed by post-Keynesian economics.²⁰ The predicament of economics has been searchingly examined in a study, *Economics in the future: Towards a New Paradigm*.²¹ The near consensus that emerges in this book is that what is needed to salvage economics from the theories of crisis in which it is caught is not just some new interpretation of this or that economic theory or some changes within the current paradigm of economics, but the need is to change the paradigm itself and move towards a new paradigm under which economical problems are not studied in isolation but in the context of an entire social system.

The Islamic Paradigm of Economics

Islamic Economic system aims to address the issues of poverty and equality. It is an economic system which advocates for the raising of man in all aspects as well as economic justice for all. Economics in an Islamic framework operates with its feet firmly rooted in the value – pattern embodied in the *Qur'an* and the Sunnah. The distinction of focus is relevant because Islam's economic teachings are more focused on alleviation of poverty than achieving

affluence. Islam values prosperity and happiness. It teaches the believers to aspire for bounty in both the worlds.

Eat and drink of the sustenance provided by Allah, and do no evil or mischief on the (face of the) earth.²²

Our Lord! Give us good in this world and good in the Hereafter, and defend us from the torment of the Fire!²³

However the accumulation of wealth has been strongly condemned by both the *Qur'an* and Sunnah. Islam does not encourage affluence and extravagance that exist in the midst of widespread poverty, deprivation and inequality. Indeed, Islam does not want people to view or treat this world as the Paradise.²⁴ Any level of affluence and prosperity that is widely shared with the desired distributive effects is alright, but Islam's message is decidedly focused on removal of poverty, deprivation and inequity. It also teaches the believers to seek refuge in God from the afflictions of poverty.²⁵ This is the major factor that distinguishes Islamic economic system from others. The following verses highlight it very well:

“But seek, with the wealth which Allah has bestowed on thee, the Home of the Hereafter, nor forget thy portion in this world: but do thou good, as Allah has been good to thee, and seek not (occasions for) mischief in the land: for Allah loves not those who do mischief.”²⁶

“Righteousness is not to turn your faces towards the East and the West; the righteousness is her who believes in Allah, the Last Day, the angels, the Book and the Prophets; who gives of this money, in spite of loving it, to the near of kin, the orphans, the needy, the wayfarers and the beggars, and for the freeing of slaves; who performs the prayers and pays the alms-tax. Such are those who keep their pledges once they have made them, and endure patiently privation, adversity and times of fighting.”²⁷

Islamic economics has medieval roots, including an immense literature from Muslim scholars such as Al-Ghazali, Ibn-Khaldun, and Ibn- Qayyim. On the other hand, a better-organized contemporary Islamic economic paradigm flourished in the second half of the twentieth century, especially with the de-colonization of Muslim countries. Islamic economics is built upon the knowledge coming

from the basic sources of the religion of Islam which are *Qur'an* and *Sunnah*- sayings and living habits of the Prophet Mohammed, plus the accumulated knowledge of Islamic jurisprudence generated by consensus (*ijma*), analogy (*qiyas*) and independent interpretation (*ijtihad*). According to a comprehensive definition “Islamic economics is the science that studies the best possible use of all available economic resources endowed by Allah, for the production of maximum possible output of *Halal* goods and services that are needed for the community now and in future and the just distribution of this output within the framework of Shariah and its intents”.²⁸ Rules and regulations in Islam follow the objectives of public welfare, which are categorized as preservation of life, property, religion, reason and procreation. Asutay (2007) describes Islamic economics as a ‘system’ which owns its framework paradigm, value system, foundational axioms – such as doctrine of oneness (*tawhid*), justice and charity (*adl-waihsan*), self development (*tazkiyah*), responsibility (*fardh*) operational principles, specific methodology and functional institutions.²⁹ Because of these peculiarities, Islamic economics is seen as an alternative paradigm.³⁰

The primary properties of Islamic economics can be seen below:

1. Islamic multi-faceted point of view connecting the different parts of life together, e.g., social, economic, political and religious issues.
2. Dominance of a normative approach.
3. Importance of social altruism.
4. The approach of connecting financial sector and real sector.
5. Acceptance of no absolute ownership, no absolute scarcity.
6. Criticism of waste.

The most important peculiarity of Islamic Economic system is that it does not allow the circulation of wealth among the wealthy only; it ensures that money reaches the poor as well. This is exemplified in the following verse of Qur'an:

“What Allah has bestowed on His Messenger (and taken away) from the people of the townships, belongs to Allah, to His Messenger and to Kindred and orphans, the needy and the wayfarer; In order that it may not (merely) make a circuit between the wealthy among you. So take what the Messenger assigns to you, and deny yourselves

that which he withholds from you. And fear Allah. For Allah is strict in punishment.”³¹

According to the economic law of Islam the disposal of wealth can be done in two ways (obligatory and non-obligatory distribution). The obligatory distribution is the paying of poor due which is the third divine duty of a believer. Non obligatory distribution is the disposal of alms and generosity on a kindness basis. Even though it is not compulsory obligation but it is highly desirable. Islamic charities play a major role in poverty alleviation. The broad term of charity is called *sadaqa*, when it is compulsory, it is called as *zakat* and when its benefits is expected to be permanent, it is called *sadaqa jariah* or *waqf*.³² *Zakat* and *sadaqa* engage in poverty alleviation through income distribution and wealth transfer. On the other hand, the *waqf*– the perpetual charity, is used for long term investment to improve the non-income aspect of the poor such as health, education, physical resources, and employment.³³ Since Islamic charities include various types that have distinctive characteristic. Hassan (2010) provides a comparison of Islamic charities as poverty alleviation tools as below:

Table 1: Comparison of poverty alleviation tools in Islam
Source: Hassan, Kabir, 2010

	Zakat	Sadaqa	Waqf
Compulsory/ Voluntary	Compulsory	Voluntary	Voluntary
Rate	Fixed rate	Any amount	Any amount
Spend	Generally spent in one year	Generally spent in one year	Generally Capitalized
Investments	Generally not invested – needs to be discharged as soon as possible	Generally not invested – may be discharged according to need and mandate	Invested in social or economic asset
Time for payment	Generally paid in <i>Ramadaan</i>	Can be paid at any	Can be paid at any

How payment is made	Generally paid in cash or stocks	Can take the form of any asset	Can take the form of any asset – cash, land,
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Role of Poverty Alleviation tools in Islam (*Zakat, Sadaqa, Waqf*)

While the important role of charitable and non- government organizations or the ‘third sector’ is getting acknowledged recently in the overall economic growth and welfare programs of the economy, Islam has introduced these kinds of institutions since its inception more than 1400 years ago.³⁴

“Charities (*sadaqat*) are for the poor (*al-fuqara*’), and the needy (*al-masakin*), and for those employed to administer [the funds], for those whose hearts have been [recently] reconciled [to the Truth], for those in bondage and in debt, in the cause of Allah, and for the wayfarer. [Thus it is] ordained by Allah. And Allah is full of knowledge and wisdom.”³⁵

The importance of equality within Islam is clearly evident in the focus of resource redistribution through Islamic charities such as *zakat*, *awqaf* and *sadaqa*. Almsgiving to relieve the poor is one of the five pillars of Islam, and the Quran repeatedly emphasizes its importance. The Quran provides several terms to address almsgiving. *Zakat*, *sadaqat*, and *khayr* are the most current and are often interchangeable within the Quranic text. *Zakat*: mandatory almsgiving, i.e. (1) the obligation [*fard*] for Muslims to give a certain proportion of their assets to the benefit of the poor; and (2) generally, the value of 2.5 per cent of their assets other than residence and working tools per year. The Quran mentions the term *zakat* 32 times. An example of its usage can be found in the Quran;

“Piety does not consist of merely turning your face to the east or to the west. Rather, the pious person is someone who believes in God, the last day, the angels, the book, and the prophets, and who out of his love gives his property to his relatives, orphans, the needy, travellers, supplicants, and slaves; and who performs the required prayers and pays the *zaka.t*”³⁶

Zakat

Zakat, one of the five fundamental duties (5 Pillars of Faith), is an annual levy on wealth above some threshold (revenue), the proceeds of which were to be distributed (expenditure) to the needy.³⁷ From the revenue side, and as part of the Islamic faith (duty), *Zakat* would be paid willingly. From the expenditure side, it is a right for the poor and a claim on the wealth of the rich. The word of *zakat* in Arabic means to grow or to increase and when referred to people it means to improve or to become better.³⁸ The *Zakat* system developed by Islam created the first universal welfare system in human history. This system reached its pinnacle during Khalifa Umar's time, a time when, hardly anyone was in need of charity. *Zakat* plays a major role in eliminating poverty from the society. It is the most important socio-economic institution in the entire Islamic system. It is strongly believed that *zakat* has a significant role to play vis-à-vis solving the socio-economic problems faced by the mankind, on the one hand, and be a wealth-creating institution, on the other. It is sure that an era of prosperity will come if the poor due is implemented in a proper way because it is a major tool for the public welfare. It would eradicate poverty. Many of the social evils which are a result of poverty can be controlled. So the institutionalization of poor due can ensure wellbeing of every family and can create a prosperous community.

Sadaqah

Sadaqah (charity) is another means of establishing a social justice system in Islam. This category comprises all the 'ordinary' alms that are given by Muslims, which are strongly encouraged. It is not obligatory but strongly recommended. It is an ever continuing profit used for the welfare of the humanity. The word *sadaqah* comes from the root word of *sidq* which implies giving away goods and funds for the sake of God in expression of faithfulness and in realization of the belief in resurrection and afterlife. *Sadaqah* can take many different forms, material and non-material. It may include various forms of charity, such as, *tabarruat* (donations), *heba* (gifts), *infaq* (charitable spending) and may indicate any act of kindness and charity. It has many of the same purposes as *zakat*, mainly to achieve social solidarity, social cohesion and to strengthen the sense of unity.

and brotherhood between Muslims. The total amount of *sadaqah* collected through the institution/organization is very low because it is voluntary in nature. People give *sadaqah* to the poor directly, instead of routing it through the institution. *Sadaqah* is usually given to the closest relative or neighbours who are in need. It is less structured and thus its use as an instrument of socio-economic development is limited. However, the increasing awareness of corporate philanthropy and corporate social responsibility as form of services to the community creates a potential to generate more *sadaqah* from commercial business rather than personal *sadaqah*.

Waqf

Waqf means “stand still, hold still, not to let go.” It implies holding from consumption and sale and not to let go. *Waqf* plays an important role in Islamic charity. The glorious history of Islam tells that many of the companions of the Prophet donated a certain portion of their property as *Waqf* charity. Qurtubi, a prominent scholar of Tafsir has said in his *Al-Jami Li Ahkam Al-Qur’an* that “the *Waqf* properties created by Abubakr, Umar, Aysha, Fatima, Amr bin As, Jabir and Zubair were well known among the people of Makkah and Madina”.³⁹ It consists of making an endowment of property or blocking it for the benefit of a religious foundation or the common good. The concerned structures will assume the responsibility of managing the endowment and distributing the yield or usufruct amongst the needy. The *Waqf* must be real estate property or quantifiable riches. This property or wealth should yield a continuous and lasting profit, in contrast to consumable wealth. That is the reason it is also named as “*sadaqah Jariyah*” or “ongoing *sadaqah*”. A wide variety of charitable activities including the opening of public hospitals, asylums, libraries, caravanserais, children’s education, care and rehabilitation of physically disable people can be carried out under the banner of the institution of *waqf*. *Waqf* can therefore effectively address the issue of poverty in a new and comprehensive approach.

Conclusion

The poverty alleviation tools like *Zakat*, *Sadaqah* and *Waqf* can contribute in both micro and macro context to the improving of the human capital and to the designing of innovative and special programmes for the poor and vulnerable. These tools will exert a direct influence on consumption and national output. The disbursement of accruals from *Zakat*, *Sadaqah* and *Waqf* to those who do not have financial resources to buy certain goods and services in desired quantities are likely to enter the market and thus raise the money demand. With higher marginal propensity to consume, the receivers of these funds are likely to spend proportionately greater part of their income on consumption. Given the excess capacity and unemployed resources, this phenomenon may release forces that increase output of such consumption goods as enter the poor man's budget. That may result in a different pattern of intersectoral and intrasectoral allocation of resources and alter the composition of society's output. It is obvious that the resultant change in the composition of output will be in favour of poor man budget. The expansion of these institutions and their revenues however will depend on many factors. To use these tools for the overall development in general and poverty in particular requires a qualitative change in the operation and management of these institutions.

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