

6th Southeast Asia International Islamic Philanthropy Conference

Yogyakarta, 24-26 April 2018

*Ummah Excellence Through Integrating
Islamic Philanthropy and Islamic Social Finance
Into The Mainstream Economy*

Full Proceeding Book

Editors:

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PROGRAM STUDI ILMU EKONOMI
FAKULTAS EKONOMI

PROCEEDING

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Cetakan ke 2

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PREFACE

Assalamu'alaikum Warrohmatulloh Wabarokatuh

In current development, zakah and waqf attract serious attention from many stakeholders in Indonesia and also in the neighbouring countries as well. Many events have been organized to discuss on how to establish zakah and waqf institution that enable government to improve the welfare of the society. Similar effort has been conducted to enable zakah and waqf system working effectively and efficiently within the Islamic Economic System. From legal and regulatory perspectives, the enactment of zakah and waqf in Indonesia might prove its serious efforts. In Indonesia there are many zakah and waqf institutions across the country, Badan Amil Zakat Nasional (BAZNAS) and Badan Wakaf Indonesia (BWI) are among the examples beside many zakah and waqf institutions initiated by society such as LAZIS. In Indonesia there are many LAZIS operated nationwide, such as Rumah Zakat Indonesia, Dompot Dhuafa, Darut Tauhid, etc. We can also find many LAZIS institutions operated in local areas. All these establishments put together might provide a very significant contribution in the society's development. The existence of various zakah and waqf institutions may lead to the importance of developing Islamic Philanthropy to support a more sound and healthy economic system.

The 6th SouthEast Asia International Islamic Philanthropy Conference, Ummah Excellence through Integrating Islamic Philanthropy and Islamic Social Finance into the Mainstream Economy on 24-26 April 2018 in Yogyakarta Indonesia, is therefore a timely event in facilitating the discussion on that subject. This conference, reaching the 6th series, is a very good platform to those actively contribute to the development of Islamic Philanthropy in general and zakah waqf in particular. Incorporating these institutions into mainstream economic system may give a constructive and positive effect on the economic development of the society. This 6th conference is organised by Universitas Islam Indonesia (UII), through its Department of Economics and Magister of Islamic Economics and Finance (MEK), in cooperation with Universiti Teknologi MARA (UiTM) Malaysia and Institut Manajemen Zakat. It is also supported by some other institutions, such as Islamic Economic Studies and Thought Centre (ISTC), and Malaysia Doctorate Support Group (MDSG).

The issues addressed in this conference is quite broad under the the scope of Islamic Philanthropy and its related areas. This conference managed to attract around 32 papers, 22 from various campuses in Indonesia and 10 from Malaysian and Brunei universities. Not only papers on zakah and waqf but also articles on Islamic Banking Finance and Economics have been sucessfully collected through this scientific event. Hopefully this conference can contribute to the development of Islamic Philanthropy for the welfare of the Ummah as it provides ideas, ways and steps for its development.

The Organizing Committee would like to sincerely express gratitude to the IMZ, MEK of UII, Department of Economics of UII, UiTM, IESTC and MDSG that jointly held and support the forum. Sincere appreciation should also be dedicated to the Technical Committee of this conference. Great thanks are also dedicated to all authors of the papers. Last but not least, many thanks to all members of the organizing committee who has been enthusiastically put hard works to make this event possible. We do apologize for any shortcomings. May Allah SWT bless us all for this endeavor to reveal and implement His Divine Knowledge for the best of the Ummah. Amin ya robbal 'alamin.

Wassalamu'alaikum Warrohmatulloh Wabarokatuh

Yogyakarta, 24 April 2018

Drs. Achmad Tohirin, M.A., Ph.D.
Chairman of the Organizing Committee

KATA PENGANTAR

Institut Manajemen Zakat (IMZ)

Assalamu'alaikum Warrohmatulloh Wabarokatuh

Alhamdulillah wabihi nasta'in, wassholatu wassalamu'ala Rasulillah wa'ala alihi waashobihi ajmain.

Southeast Asia International Islamic Philanthropy Conference 6th terselenggara berkat kerjasama Institut Manajemen Zakat (IMZ), Universitas Islam Indonesia (UII) dan Center for Islamic Philanthropy and Social Finance (CIPSF), dan didukung oleh Dompot Dhuafa Republika, Mandiri Amal Insani, BAZNAS dan Inisiatif Zakat Indonesia.

Hasil Konferensi dibukukan dalam bentuk Prosiding ini tentunya menambah khazanah Literatur yang membahas mengenai Philantropi Islam. Tema besar kali ini "Ummah Excellence Through Integrating Islamic Philanthropy and Islamic Social Finance into Mainstream Economy".

Banyak hal yang dapat kita pelajari melalui Prosiding ini, dengan tema yang beragam mulai dari Zakat Performance and Management, Zakat and Social Empowerment, Islamic Philanthropy, Islamic Finance and Banking, Islamic Economics, Islamic Social Funds Management, Islamic Jurisprudence, Islamic Ethics, Corporate Governance, dan Shariah Issue.

Sudah menjadi kewajiban kita bersama sebagai Muslim untuk terus meningkatkan kesejahteraan Ummah. Dengan semakin banyaknya sumbangan pemikiran, akan menjadi kemudahan bagi Badan dan atau Lembaga Pengelola Zakat dan Wakaf untuk membuat program – program yang mampu mensejahterakan Ummah.

Semoga Prosiding ini menjadi inspirasi bagi kita semua, untuk selalu tidak pernah berhenti dalam belajar, mampu meningkatkan kompetensi, skill dan profesionalitas, serta tentunya buku ini menjadi sumbangsih bagi perkembangan Islamic Philanthropy di Asia Tenggara.

Wassalamu'alaikum Warrohmatulloh Wabarokatuh

Salam Takzim,
Yogyakarta, April 2018

Kushardanta Susilabudi
Direktur IMZ

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Productive Waqf: Economic Growth and Economic Security

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Abstract

Poverty is still a problem that cannot be solved completely in various countries in this part of the world (not least in Islamic countries), although almost all countries have tried to handle it. Poverty has multidimensional and complex characteristics; without serious and comprehensive handling, it will threaten the social and economic security of the poor. Pursuing economic growth that can expand employment is one way to tackle poverty and improve people's economic security, and economic growth will be created if there is a sustainable investment. Productive *waqf* in various sectors is one of the important instruments for the realization of sustainable and lasting investment, because it has the nature of repetition and it must be conserved. It can be said that *waqf* is a lasting investment because it cannot be eliminated just like that. To realize economic growth and investment immortality to eradicate poverty through productive *waqf*, the role of social entrepreneur is needed. Productive *waqf* movements need to be echoed. To increase the efficiency and effectiveness of the investment of productive *waqf* (especially for cash *waqf*), the use of Islamic mutual funds or Islamic real estate investment trust can be an option.

Keywords: Productive *waqf*, economic growth, economic security, poverty.

Introduction

The World Bank (2016) estimates that, 767 million people live below the international poverty line. It has been acknowledged by many that poverty is still a problem that has not been resolved completely in various countries in many parts of the world (not least in Islamic countries), although almost all countries have tried to overcome it in some way - different ways. The situation indicates that the economic security of the poor is still very weak and will be very sensitive to environmental changes. Therefore they need to find a way out so they can get away from the poverty cycle. Poverty alleviation requires a multi-dimensional approach³ (Hoque et al., 2015), but the main weapon to overcome poverty and hunger is to work as a primary source of wealth (Al-

³The multi-dimensional approach in question is through the development of human resources, creativity, and resources from the poor, building up their resources, capabilities, and survival skills ensuring their sustainability against poverty.

Qardhawi, 2006). Islam encourages Muslims to work and to earn livelihoods, and work to acquire property and maintain a good life is accepted as a worthy effort as well as worship (Guner, 2005). On the other hand Islam teaches to help each other (QS: 5, 2, 8, 74 and 9; 71), and strongly encourages believers to hasten to alms or infaq (QS: 2, 254), and is very stressed to help the poor (QS: 90; 16, 107; 3). Therefore, one thing to do is how to help the poor to get a job so that they can adequately meet their living needs. It means that to help the poor need employment, and this requires investment. With these investments will generate economic growth and economic security of the community.

Investment requires adequate capital or funding sources. The source of cheap investment funding is taken from the voluntary sector, which is sourced from *waqf*, given that *waqf* able to contribute in social finance (Shaikh, et al., 2017), and *waqf* able to fulfil the function of creating voluntary donations which accumulation can be given to finance all types social services to the community, and *waqf* also have a better income distribution function in the community (Çizakça, 1998). The issue is how the *waqf* able to truly be productive and able to promote economic growth, generate sufficient returns, and bring great benefits to society, which is mainly the economic security of the poor.

This paper aims to discuss how productive *waqf* effectively and efficiently able to promote economic growth and improve the economic security of the poor. This paper consists of seven parts. The first part is the introduction, the second part discusses the productive *waqf* and endowment funds model in experience, the third part discusses the investment in the voluntary sector and its role on economic growth, the fourth section discusses the empowerment of the poor: the productive approach, the fifth part discusses the impact on economic and social security, the sixth part is the role of Islamic mutual funds and Islamic real estate investment trust, and the last part of this paper is conclusions.

Productive *Waqf* and Endowment Funds Model In Experience

A *Waqf* is the allocation of a private property or an economic entity for a particular social need in society, ie allocated for benefits and humanitarian services (Bulut, 2016). It is important to note that *waqf* is a voluntary charity that has a permanent nature and has the capacity to generate income (Ali, 2009). Moreover *waqf* is defined as holding property and preserving it so that its fruit, income or harvest is used exclusively for the purposes of the truth (in the way of Allah) while prohibiting use beyond its specific purpose (Kahf, 2014). From that understanding it can be

summarized, that the allocation of a treasure for the purpose of *waqf* must be retained so that it can provide continuous or repeated benefits, and the utilization of the results must be in accordance with the *waqf* objectives intended by the contributor (*waqif*). Referring to the above understanding, the productive *waqf* referred to in this paper is to assert that the donated property can be sustained and produce a return that can be utilized as much as possible for the interests of the parties who really need (*mauqufalaih*). As an example of productive *waqf*, it is *waqf* which has been implemented in the time of the prophet, and this is the first *waqf* in Islam, iewakaf land in Khaibar performed by the Prophet's companion Umar (Sabiq, 1987):

“Ibn Umar reported: Umar obtained a land at Khaibar. He came to Allah’s Messenger (pbuh) asking for advice. He said: “Allah’s Messenger (pbuh), I obtained a land in Khaibar. I never obtained a property more valuable for me than this, so what do you advise me? Thereupon he said: “If you want, you can bequeath it, and give it as charity; provided that it should not be sold, bought, given as gift or inherited.” He said, “then Umar gave it as charity for the poor, relatives, slaves, wayfarers, and guests. There is no harm for the person responsible for it to feed himself or a friend from it but for free.” (Al-Bukhari and Muslim).

From the example above it becomes clear that the *waqf* property needs to be preserved and must generate revenue, and the revenue is distributed to those who in need as mentioned, as one example isto help the poor. This shows that *waqf* must be productive, should not be left unemployed and does not produce a benefit. Learning from the time (from the Ottoman Empire for example), with the productive *waqf*, the Muslim community has made tremendous progress. In Ottoman Empire, the *waqf* system together with the imaret and another religious institutions have important role in social and economic development of the Muslim Ottoman Cities, in which *waqfs* have been the most important driving force in the development of the cities - such as Istanbul, Bursa, Edirne, Amasya, and Manisa (Saduman and Aysun, 2009). Complete the information above, that the Ottoman Empire developed cash *waqf*. *Waqf* funds collected are utilized by entrepreneurs to grow their business, so that their business becomes more advanced and obtain profits. Profits derived from the use of cash *waqf* are then distributed in accordance with pre-defined *waqf* objectives, such as for; (i) expenses of mosques, madrasas etc. (ii) giving salaries the staff of mosques, madrasas etc. (iii) giving salaries the staff of *waqf*(iv) helping poor (Bulut, 2016). This information indicates that the results of the *waqf* are for those who are economically weak, and with that distribution their economic life (ie, *mauqufalaih*) is better or in other words their economic security increases. Based on the concepts and experiences of the past, it can be seen the superiority

of *waqf*, that *waqf* can be a way to progress the greatest possible extent, and can even prevent the occurrence of damage (Rasjid, 2006).

Along with the development of cash *waqf* in the modern era today has also developed a model of endowment funds that have similarities with cash *waqf* model. This model is widely developed by various foundations in various places, especially in developed countries. The purpose of providing endowment funds is to provide a steady stream of funds from the expected real income (Merton, 1993). Endowment funds are created when the donor determines that the gift should be invested and only the income earned from the gift can be used for a particular purpose. The amount of the gift is referred to as the principal or corpus and is deposited in funds administered by the Finance Department. Endowment income should be spent according to the limit set by the donor when the endowment is established. In this regard, the financial manager must have a copy of a perpetual funding agreement or other documentation establishing the restrictions set by the donor and responsible for ensuring the funds are issued in accordance with the donor specifications. For example, many universities in some countries have developed this endowment fund as a sustainable funding resource for university operations such as for professorship, teaching, and lectures, scholarships, fellowships, and gifts, book, and other special purposes (The Yale Endowment, 2016).⁴

Based on the above discussion it can be concluded that the essence of *waqf* and endowment fund is to manage the assets or funds that have been collected from donors to be productive, ie by making investments that generate high returns and from these results as far as possible can be utilized for long-term purposes. We can learn from Yale University in the management of endowment (best in America) that is on the preparation of investment managers (professional managers) so that in managing endowment funds can generate high return and continue to increase over the years (Yale Endowment, 2017). Thus the professionalism of investment management will be the key to achieving growth and development.

Investment in Voluntary Sector And Its Role On Economic Growth

It must be understand that the creation of *waqf* is based on philanthropic behaviour, it is the voluntary nature. Nevertheless the establishment of *waqf* is very close to the establishment of a

⁴ Universities involved in developing endowment are among the top universities in America (such as Yale, Havard, Standford, Princeton, Pennylvania, Michigan and Columbia), and in the UK (eg Oxford, Cambridge, Edinburgh) and many others (see <http://www.hughcalc.org/endow2015.cgi>, and https://ipfs.io/ipfs/.../wiki/List_of_UK_universities_by_endowment.htm).

corporation business whose lifetime is infinite. This is an action involving investment for the future and the accumulation of productive wealth that benefits future generations; providing income and services for future generations (Kahf, 1998). The managers of *waqf* (*Nadhir*) carry two missions in the management of *waqf* property. First; which is related to the future of the donors (*waqif*) who want the wealth represented to bring benefits so that they enjoy the reward in the hereafter. Secondly, it is related to the future of *mauqufalaih* (beneficiary of the distribution of *waqf*) to be able to enjoy the result of the development of *waqf* property so as to improve their life and economic security. Based on the mission, the *nadhir* (as the holder of the trust of *waqf* property) must really develop the *waqf* property (investing) in the best way so that the *waqf* property is not reduced in value and can bring the maximum benefit for the community. With the huge potential of *waqf* (from various countries), the success of investments that generate many benefits will have an impact on economic growth.⁵ The successful investment of *waqf* property will increase employment opportunities (open employment) for the wider community which will also have an impact on the increase in the income of the community along with the benefits received by *mauqufalaih*. All of which will potentially reduce poverty significantly. Therefore, based on historical studies related to *waqf* in the Islamic world, Khan (2015) stated that if rich people are willing to build *waqf* for the poor, then it is a great service and they deserves an award.⁶ The success of investing in the voluntary sector will shift the voluntary sector (classified into the third sector) to the mainstream economy. There is evidence of the success of *waqf*, that today's *waqf* masterpieces found in all parts of Turkey are evidence of the importance of the role of *waqf* facilities in the development and construction of public facilities and housing in the Islamic world (Saduman and Aysun, 2009). Disclosed by Hassanain (2016) based on the results of his study shows that *waqf* management has proven to be one effective way to improve socio-economic development as a whole. Based on priors discussion, it can be underlined that voluntary sectors such as *waqf* will be able to encourage economic growth, and it will happen if the wealth of *waqf* is managed through the right investment. Therefore, reliable and experienced investment managers are needed; this is a challenge for the Islamic world today.

⁵ There is a general consensus among economists and policy makers that investment is crucial to economic progress. The results of a review of the impact of investment on economic growth (in developed and developing countries) indicate that investment is important to economic growth; in developed countries public investment has a more dominant role in economic growth, while in developing countries both public and private investment are important to economic growth (Makuyana and Niccholas, 2016).

⁶The results of the historical study show *waqf* can help people in the context of countries with extreme poverty, facing hunger, death and disease (Khan, 2015).

Empowerment Of The Poor: Productive Approach

The idea of reviving the *waqf* institutions to help alleviate the poverty faced in Muslim countries needs to be supported, many arguments about it. Need to be understood that the *waqf* sector can be one of the best instruments for the redistribution of wealth from the rich to the poor and the need for good management to reduce the socio-economic disparities (Zuki, 2012). Based on a study of 289 literatures in the last ten years (2006 - 2016) shows that *waqf* institutions have an important role in the mechanism of poverty alleviation, distribution of wealth and in promoting social welfare among the Muslim community, therefore *waqf* needs to be taken back to become the backbone for the Muslim economy (Atan and Johari, 2017).

The previous discussion shows that *waqf* is an important instrument for empowering the poor. For this purpose, many ways have been developed in many places. However, the effective way is to use productive approach; by making the poor work. This is based on the argument presented by Al-Qardhawi (2006) that overcoming poverty is to provide jobs. This is done to prevent the poor from unproductive dependence. For example, in Negeri *waqf* is used to empower the poor through profitable business activities by developing Islamic financing models such as *mudharabah*, *musharakah*, *murabaha* and other financing (Amuda, 2013). Similarly in Ghana, *waqf* has been used for the development of micro-entrepreneurs for the poor, as well as for other empowerment programs (Bello, 2009).

A productive approach through microfinance (ie for the poor) will have three very good impacts on the economy.⁷ The first impact is reducing unemployment; poor people who were initially unemployed could get jobs or add jobs to those who only had erratic jobs. The second impact is to develop the economy in the real sector of micro business that will impact on economic growth for the micro business sector. The third impact is to increase the income of the poor, which also means improving the economic and social security of the poor. The results of research on the role of Islamic microfinance for poverty eradication show that Islamic microfinance plays a significant role in increasing income, business development and even in the education of the poor (Rohman, 2013). These results indicate that the productive approach of poor people empowerment based on Islamic microfinance with the funding source of the investment profit from the *waqf* property is very possible to be practiced, and the idea of reviving *waqf* to help reduce poverty in Muslim countries needs to be supported.

⁷ The source of financing for micro-enterprises is derived from the investment profits of *waqf* property, not from the collected *waqf* property. This is done to preserve the *waqf* property.

The Impact *Waqf* on Economic and Social Security

Waqf has two main characteristics that are important to get attention; i) perpetuity, and (ii) permanence of stipulation of the *waqif* (Kahf, 2014). First, perpetuity means that once a property, is dedicated as *waqfit* remains *waqf* for ever. It implies that the value of *waqf* properties should not decrease. Second, the meaning permanence of stipulations of the *waqif* is that revenues of *waqf* should exclusively be used for the objectives stipulated by its *waqif*. It covers all the *waqif* stipulations whether they relate to purpose, distribution of revenues, management, supervisory authority, etc. The *waqf* management also constitutes important factor that also needs to get the attention. It is relating to how the *waqf* property was able to generate sustainable revenue (or repetitiveness) so as to provide the widest possible benefit to the empowerment poor people, ie they are able to improve their own quality of life, both in terms of increasing income, health, education, business development and others. This is the part of the challenge of *waqf* manager (*nadhir*). The *waqf* manager has to able to ensure the sustainability of poverty eradication programs, and it requires expertise, entrepreneurial capacity and social entrepreneurial insight. The following figure is how productive *waqf* promotes economic growth, economic and social security of the community (especially the poor):

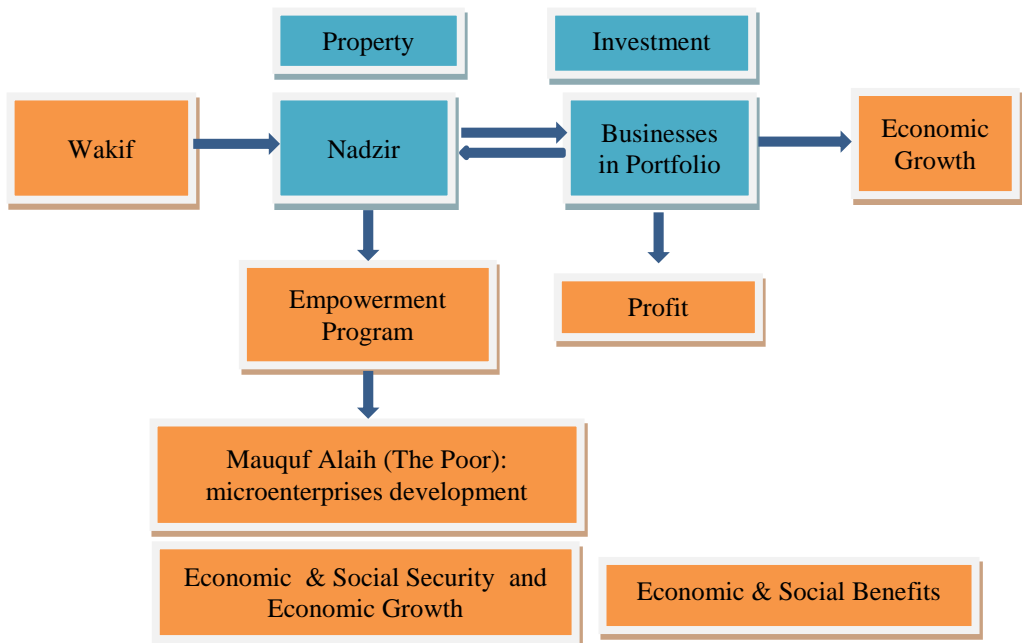


Figure 1: The impact of *waqf* on economic and social security, and economic growth.

Based on the above figure it can be understood that *waqf* property will be able to function in economic growth, enhancing the economic and social security of the community, if the *waqf* property is managed by a qualified *nadhira*. In this case, the understanding of investment and responsibility on *waqf* property is crucial to success, whether it is business development that encourages economic growth, or empowerment of the poor.

The Role of Islamic Mutual Funds and Islamic Reit

As discussed in the previous section, the *waqf* institution has an important role in the mechanisms of poverty alleviation, the distribution of wealth and in promoting social welfare among the Muslim community. However, the results of the study indicate there was inefficiency in the management of *waqf*, and it was impacted on the potentials that exist in the *waqf* cannot be realized maximally (Hassanain, 2016). To be able to optimize the role of *waqf* in order to contribute in economic growth and empowerment of the poor, then the improvement of *waqf* management efficiency need to be made.

The most important improvement in management efficiency is related to two things; First investment *waqf* property should be able to generate high return and at the same time can protect from the possibility of failure. It should be remembered that the *waqf* property should not decrease in value and the *waqf* property must present benefits. The second is related to the distribution of investment profits. The return on investment in the form of profit should be distributed as desired by the *waqif*. For the first thing required a qualified investment manager, which is able to manage the investment so as to provide optimal results. In the second case, there is a need for empowerment managers who can develop and implement community empowerment programs in accordance with *waqif* expectations. In relation to these two matters, the management should be separated.

With regard to investments, according to Kahf (1998) property *waqf* can be invested one of them through unit in mutual and investment funds. Investment through this instrument (of course based on shariah) seems interesting to be studied. What is a mutual fund, and what is its benefit? Mutual funds are a container to collect funds from the public to be placed in a portfolio. Sharia-based mutual funds have a special appeal to Muslims, as they operate in accordance with Islamic principles. Sharia mutual funds complement the diversity of investment options with existing conventional funds, especially for investors who want halal investment products. Investment through mutual funds is quite easy in implementation, because the participants do not have to think about the form of investment and the probability of profit obtained, because it is the duty and

responsibility of investment managers and custodian banks. In this case, the investment manager invests funds in the portfolio that has been compiled. Mutual funds have some interesting benefits for investment alternatives namely; managed by professional management, investment diversified, transparent, liquid, and low cost (Agussalim, et al., 2017). The results of studies in Indonesia and Malaysia show that, the performance of Islamic mutual funds is better than conventional (Agussalim, et al., 2017; Abdullah et al., 2007). Elfakhani (2005) further indicates that Islamic mutual funds can be a good hedging investment for every equity investor, it is best used to hedge against market decline and recession.

Another investment option that is currently developing (and has similarities with mutual funds) as an efficient investment tool is the Islamic real estate and investment trust (Islamic REITs). It is a collective investment scheme in real estate, in which the lease operates permissible activities in line with the Shariah principles". This will involve the acquisition and lease of real estate in which the activities and operations are in accordance with Shariah (MIFC, 2013). Prospects and opportunities for Islamic REITs have tremendous potential to be developed as a thriving global wealth management product since it is structured on tangible real assets which provide stability as the investments are channelled to the real economy. Real asset and tangible assets investments are also the preferred asset class among Muslim investors and institutions given its natural fit with the Islamic finance principles which advocate link between the real economy and the financial. Investing in real estate and investment trusts will have several benefits, and the benefits as follows; higher dividend (at least 90% of their income), portfolio diversification, income is secured by long leases (leads to a secure and stable income stream over a longer period), Liquidity (REIT shares are traded on the major stock exchanges); REITs are managed by highly skilled and experienced real estate professional managers, and transparency (REIT operations more transparent to investors) (Barnes, 2015).

Based on the benefits or advantages of Islamic mutual funds and Islamic REITs as mentioned above, to increase management efficiency and minimize the risk of investment in property *waqf*, the utilization of mutual funds or Islamic REITs to carry out the investment can be an option. This method may be cheaper and safer than having to hire an investment manager.

Conclusions

Poverty is still a solvent that cannot be solved completely. Islam has an instrument to solve the problem, one of which is the *waqf* institution that has been practiced since the time of the Prophet. Historical *waqf* institutions can be used to help the poor by mobilizing additional resources to address socio-economic problems. Based on the experience of the past (Ottoman Empire) which is able to make the institution *waqf* to build civilization, and for the present condition development of *waqf* seems still relevant to be done, especially productive *waqf*. With the development of productive *waqf* through efficient investment activity, it will be able to create economic growth, and able to create economic and social security. To increase the investment efficiency of *waqf* property can be reached by investing through Islamic mutual funds or Islamic REITs. With this pattern is expected to produce greater benefits, primarily to create economic growth and eradicate poverty.

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ISLAMIC ECONOMICS AND PHILANTHROPY

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