

# **Access to Finance and Improved Welfare: A Case Study of House of Zakat & Waqf in Achieving Sustainable Development in Selected Districts in Uganda**

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## **Abstract**

This research interrogates the relationship between access to finance and improved welfare in line with United Nations Sustainable Development Goals in Uganda, using the House of Zakat and Waqf Uganda as a case study. This research employs correctional research design to establish the relationship between the two variables. Employing a purposive sampling technique, a sample size of 384 participants was used as the study population, interview guides, administered questionnaires were used as whereas documentary review as data collection tools. Results show that there is a relationship between accessed finance and improved welfare. However, this relationship is achieved when there is the proper administration of Zakat funds finances both at the institutional and individual levels. Both the government and other Zakat organizations in Uganda are suggested to improve and put in place systems, both institutional and individual to ensure effective use of distributed funds.

**Keywords:** Zakat, Sustainable Development, House of Zakat and Waqf, Uganda

## **Introduction**

Achieving Sustainable Development Goals (SDGs) has been one of the cardinal aims for different nations, Non-Governmental Organizations (NGOs) and Faith-Based Organizations (FBOs) across the globe (Sachs et al., 2015). How the macro-level targets are broken down into real-world programmes and practice, how they are delivered, how they are financed, and how individuals and economies are affected remains a challenge for discussion and debate when implementing the SDGs (Newman, 2020). Meanwhile, bridging the link between Global SDGs Agenda with the local level implementation targets (Islam, 2016). It needs to be translated into action at the grassroots level. This requires proper institutional arrangement at the vertical and horizontal levels with the capacity to take the agenda forward. The easiest way to achieve

some of the SDGs is accessing finance by households at the grassroots so that they can start small scale business to increase their household incomes (Klapper, Mayada, & Hess, 2016). As a result, policymakers, researchers and financial institutions have conducted various studies to ascertain the extent to which access to finance can improve levels of peoples' welfare to attain SDGs (Klapper, Mayada, & Hess, 2016). Access to savings rather than finance leads to positive economic outcomes for women, including increasing productivity and profits and greater investment in their businesses (UNCDF, 2018).

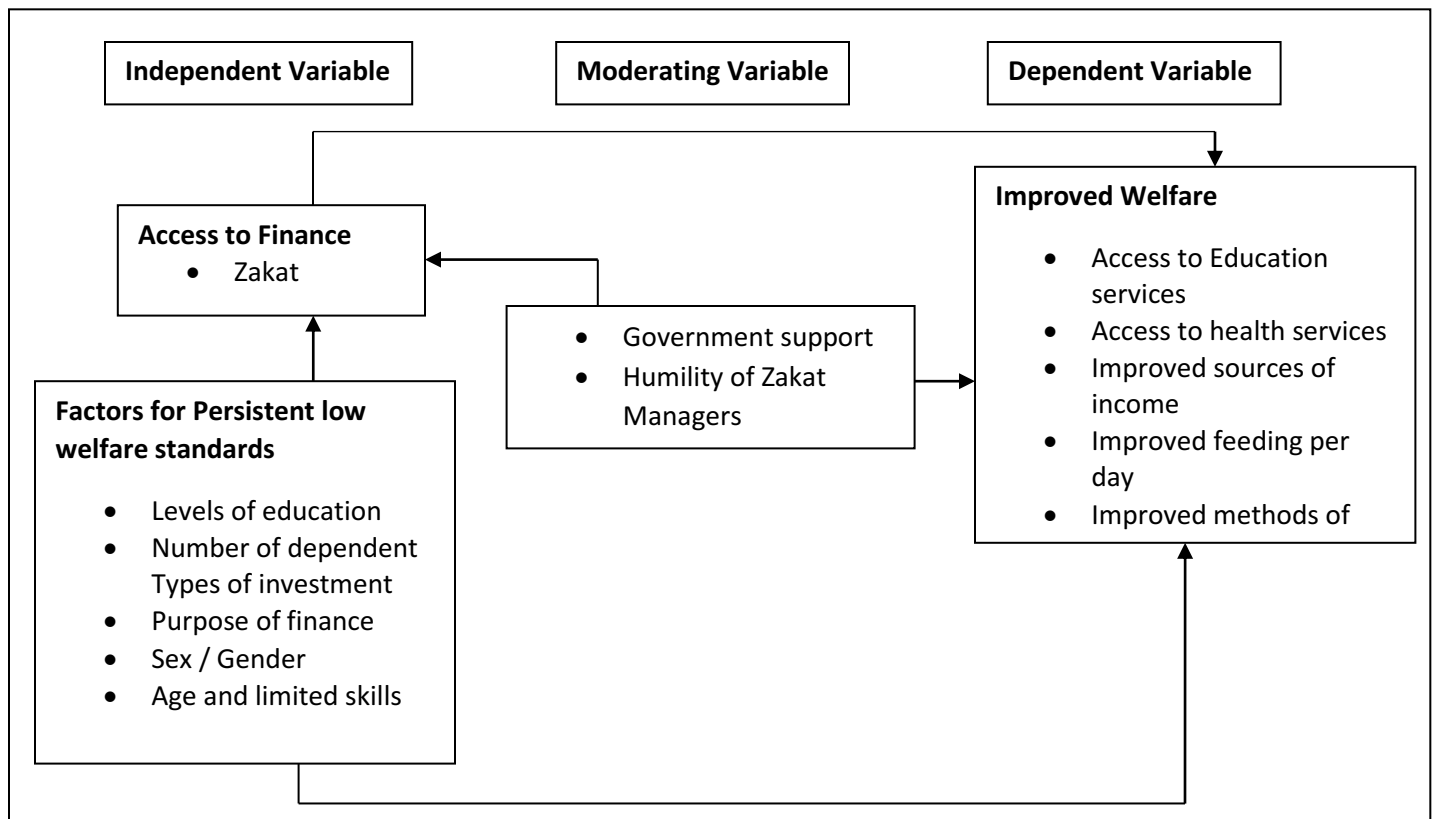
In a study carried from Sub-Saharan Africa by World Bank (2018), it was found that, when finance is given to the poor people who are starting the project, there is a likelihood for the project to fail since the money invested is not sufficient to run the project and as well support the poor's necessities. The study also established that such finance needs to be given to individual households that have already started a single business. The World Bank also exposes the view that about 50% of the population in Sub-Saharan Africa is still living on less than \$ 1.25 a day and financial interventions need to be brought near to them to uplift their levels. However, such groups of people need effective monitoring and supervision if such a project is to succeed.

Despite various policies that have been put in place by different governments, peoples' welfare status remains a global phenomenon ranging from developed to developing countries especially nations dominated by the Muslim communities (Mkuu & Yusoff, 2017). If *Zakat* is well used in relation to charity and as one of the five pillars of Islamic faith, a bigger percentage of Muslims will raise their welfare status. The global financial crisis has given the ability to various governments to find and budget for additional resources to support public needs for health and education but such actions had less success to welfare improvement among the poor people (Brumby & Verhoeven, 2010). Governments should empower institutions' effort to enable the poor to access financial services (Benatar, Gill, & Bakker, 2011).

This study examines the extent to which accessed finance through the House of *Zakat* has improved the welfare levels of the people as well as achieving the Sustainable Development Goals in Uganda. Uganda has been chosen because, despite a Muslim minority country, it's a member of the Organization of Islamic Cooperation (OIC) and its Muslim community is vibrant. Secondly, HOZWU is used because it is the first and only institution dedicated to *Zakat* management in Uganda. Thirdly, the SDGs are used due to their mutual intention with *Zakat* of improving people's welfare.

## The Conceptual Framework

Figure 1 shows the conceptual framework which presents the relationship between variables of this study, especially *Zakat* and the improved welfare of the people.



**Figure 1: Conceptual Framework of Accessed Finance and Improved Welfare Levels**

The conceptual framework in Figure 1 shows that accessed finance (independent variable) from the House of *Zakat* and *Waqf* improves welfare (dependent variable). It shows that accessed finance is used to enable students and pupils' access or payment of education services. Other services that are accessed include health and improve levels of income, improved feeding per day. Households that engage in agriculture are also enabled through improved methods of agriculture like accessing improved seeds and fertilizers which are essential for high productivity.

## Literature Review

### The Concept of Sustainable Development

According to the World Commission on Environment and Development (1987), sustainable development is defined as the development that meets the needs of the present generation without compromising the ability of the future generations to meet their own needs. The WCED definition links three dimensions, namely, social, economic and environment (Ivantri, 2019).

The study further stresses that the idea was born from the realization that economic growth alone is not enough because of the economic, social and environmental aspects of each action are interrelated. Sustainable development is a development model aiming at a balance between economic growths, quality of life and environmental preservation medium and long term without increasing the consumption of natural resources beyond the capacity of the Earth (Duran & Artene, 2015). Both definitions stress the need for effective and efficient allocation of resources for prosperity to materialize (Hanin & Dania, 2014).

## **Access to Finance**

Some literature on access to finance tends to mix the terms of access and use of financial services (Ivantri, 2019). The topic of access to finance and financial inclusion has been of growing interest throughout the world, particularly in emerging and developing economies. Policymakers are increasingly concerned that the benefits produced by financial intermediation and markets are not being spread widely enough throughout the population and across economic sectors, with potential negative impacts on growth, income distribution and poverty levels, among others (World Bank Group, 2013). Lack of finance is often the critical mechanism for generating persistent income inequality, as well as slower growth (Beck, Kunt, & Honohan, 2008).

There is much more evidence today that finance contributes to growth. The empirical evidence is robust and available at the country, sector, and individual firm and household levels using various statistical techniques (Claessens, 2006). To achieve any form of development, there must be “policies to foster financial deepening while at the same time prevent overshooting” (Beck T., 2013). Macroeconomic stability, strong informational and contractual frameworks and a regulatory framework must be enforced for if access to finance is to lead to improved welfare, which is the role of Government (Beck T. , 2013). A role for the government in the financial markets consists of the regulation (passive rules) and intervention (active discretion) (Sleem, 2010).

Financial controls are important for charities of all sizes. Even small charities with relatively simple structures and low-risk activities need to protect their assets and get the most out of their resources (Charity Commission for England and Wales, 2012). Thus, the role of Government is ensuring the safety of charity funds against embezzlement and risks cannot be overlooked when examining if access to finance is responsible for improved welfare. According to Mr. Sendagire Ashraf, the accountant of House of Zakat and Waqf, the organization is required by the Government of Uganda to audit and file financial and governance information returns to the registrar of Uganda. “This is how Government controls the management of charitable funds, Zakat inclusive”.

## The Concept of Zakat

The importance of *Zakat* is a realization that within someone’s wealth, there is a share of the unfortunate groups which must be given voluntarily (Qur’an 51:19). By giving *Zakat*, a Muslim or a person feels he/she has fulfilled the most respectable duty to Allah. The Arabic word *Zakat* is an infinite verb “*zakaa*” which means to grow purity and increase. When the word is said concerning the person, the word *Zakat* means to improve and become better. These are the main teachings of Islam under which *Zakat* has been built (Anwar, 2017). In the same confines, the SDGs have been built so that people living under poverty can access resources and live a better and improved life.

*Zakat* is a unique, spiritually charged filtering device primarily designed to cleanse one’s possession or wealth necessary to protect the owners (Laila). While protecting the rights of “haves” and “have nots” its main objective as an act of worship are: (1) the promotion of stable economic growth through investments, employment and balance consumption, and (2) the achievement of greater income equality through an equitable distribution of wealth, thereby eliminating poverty and extreme disparities of wealth between the rich and the poor.

## House of Zakat and Waqf Uganda

House of Zakat and Waqf Uganda (HOZWU) is a Muslim Charity Organization legally registered as a company limited by guarantee in 2010. It was set up to streamline the collection and distribution of *Zakat* and the preservation of *Waqf* in Uganda. The organization’s primary commitment is to facilitate the performance of the third pillar of Islam in the Country. Its core values are transparency, accountability, professionalism and community interest before personal interest. HOZWU was established in 2011, before, that, *Zakat* management in Uganda could hardly be described as institutional. The organization has been a source of financing since 2014 as shown in Table 1.

**Table 1: Amount of Money from House of Zakat, 2014 – 2018 (In UGX)**

District	2014	2015	2016	2017	2018
Ntungamo	15000,000	25,000,000	30,000,000	15,000,000	15,000,000
Iganga	15000,000	25,000,000	30,000,000	15,000,000	10,000,000
Wakiso	15000,000	25,000,000	30,000,000	15,000,000	20,000,000
Total	45,000,000	75,000,000	90,000,000	45,000,000	45,000,000

**Source: House of Zakat, 2018**

## Methodology

### Data

The study used primary and secondary methods of data collection. Primary methods of data collection were also used to extract primary information from participants. The fact that secondary information becomes outdated with time, the researcher used primary information to relate accessed finance and improved welfare. This information was obtained using tools or instruments (Administered Questionnaires (AQs) and Interview Guide). Secondary methods included the News Papers, Journals, textbooks and brochures from the HOZWU.

### Study Population, Size and Determination

The study was informed by the Muslim community such as Muslim leaders at regional levels and heads of households who accessed finance/zakat. The sample size of 384 was determined using the Cochran formula (Ajay & Micah, 2014) as presented hereunder.

$$n = \frac{z^2 pq}{e^2}$$

Whereby;

$$Z = \text{Standard vale of confidance at 95\%} = 1.96$$

$$e = \text{Sampling error at 5\%} = 0.05$$

$$P = \text{Maximum variability of the population at 50\%} = 0.5$$

$$Q = 1 - p = 0.5$$

Therefore, the sample size (n) was determined as

$$n = \frac{1.96^2 \times 0.5 (0.5)}{0.05^2}$$

$$n = \frac{0.9604}{0.0025}$$

$$n = 384.16$$

$$= \cong 384 \text{ Participants}$$

### Sampling Technique and Procedure

Sampling procedures are the modalities a researcher employ during the study in order to select participants. For the purposes of this study, the researcher employed random and purposive sampling techniques.

**Table 2: The Sample Size and Sampling Techniques**

District	Categories	Sample size	Tools to use	Sampling techniques
Ntungamo	Key informants	10	Interview guide	Purposive
	Participants	118	Adm. Questionnaires	Random

Wakiso	Key informants	10	Interview guide	Purposive
	Participants	118	Adm. Questionnaires	Random
Iganga	Key informants	10	Interview guide	Purposive
	Participants	118	Adm. Questionnaires	Random
Total		384		

**Table 3: Response Rate from The Data Collection Instruments**

Categories	Frequency	Percent
Number of tools planned	384	100
Number of questionnaires planned	354	92
Number of questionnaires returned	320	83
Number of interview guide / key informants	30	8

Table 3 shows that a sample of 384 was determined, inclusive of general participants and key informants to this study. However, it was 8% (which constituted the key informants) and 83% of the general participants who informed this study within the findings presented in chapter four of this dissertation.

## Data Analysis

Quantitative data were collected and entered into the Scientific Package for Social Scientists (SPSS) for analysis. Qualitative information was used throughout the research and analysis was done thematically as per the objective of the study. Most of the information which was analyzed under this perspective came from the documentary review and the key informants.

## Findings and Discussions

The findings have been analyzed using the information presented in tables and some of the chi-square that have been estimated. Like other scholars whose literature has been reviewed, this study shows that the use of Zakat is instrumental to the poor and needy Muslim communities in Uganda although there is still poor attitude and use of accessed funds.

## Accessing Finance and Improved Welfare

The second objective of this study was set to determine the relationship between accessed finance from the House of *Zakat* and *Waqf* to improved levels of welfare among the Muslim communities in Uganda using three districts of this study.

## Households Response before Accessing Finance

Participants were tasked to identify some of the wealth and household properties owned before accessing finance and the findings are presented in Table 4.

**Table 4: Response of Households' Wealth before Accessing Finance**

		<i>Before accessing finance</i>							
		<i>00</i>		<i>1-3</i>		<i>4-6</i>		<i>7 and above</i>	
		Fr	%	Fr	%	No	%	Fr	%
<b>Cows</b>	Ntungamo	211	66	100	31	9	3		
	Wakiso	310	96	10	4				
	Iganga	318	99	2	1				
<b>Goats</b>	Ntungamo	160	50	100	31	60	19		
	Wakiso	100	31	70	23	50	16		
	Iganga	78	25	199	62	43	13		
<b>Sheep</b>	Ntungamo	309	96	11	4				
	Wakiso	320	100						
	Iganga	189	59	131	41				
<b>Chicken</b>	Ntungamo	304	95	16	5				
	Wakiso	100	31	50	16	50	16	120	37
	Iganga					100	31	220	69

Results in Table 4 show high percentages from Ntungamo District (66%), Wakiso District (96%) and Iganga (99%) of the participants who did not have cows before accessing finance from the House of Zakat and Waqf. This applies to participants' responses to the number of goats (Ntungamo, 50%; Wakiso, 31%; and Iganga, 25%), sheep (Ntungamo, 96%; Wakiso, 100%; and Iganga, 59%) and partly chicken participants in Wakiso and Ntungamo districts. Only participants from Iganga had some chicken, but it was also on small scale. The results show that the people who accessed finance had less wealth in terms of animals that are normally kept as sources of income and food.

**Table 5: Households' wealth after accessing finance**

		<i>Before accessing finance</i>							
		<i>00</i>		<i>1-3</i>		<i>4-6</i>		<i>7 and above</i>	
		Fr	%	Fr	%	No	%	Fr	%
<b>Cows</b>	Ntungamo	56	19	197	61	19	5	48	15
	Wakiso	218	68	90	28	12	4		
	Iganga	100	31	208	65	12	4		
<b>Goats</b>	Ntungamo	79	25	200	62	12	4	29	9
	Wakiso	66	21	200	62	50	15	4	2
	Iganga	20	6	100	31	43	14	157	49
<b>Sheep</b>	Ntungamo	200	62	11	3			109	35
	Wakiso	320	100						
	Iganga	100	31	131	41			89	28
<b>Chicken</b>	Ntungamo	316	98	4	2				
	Wakiso	100	31	50	16	50	16	120	37
	Iganga					100	31	220	69



From Table 5, it is indicated that the number of participants whose cows increased after accessing finance from the House of Zakat and Waqf is much higher. It shows 15% of the participants were able to own more than seven (7) cows, 5% if the participants owned 4 – 6 cows, and 61% owned 1 – 3 cows. The percentage of Muslims without cows in Ntungamo also reduced from 66% (ref. Table 4.4) to 19% (ref. Table 4.5). Such a decrease in the number of people without cows shows that accessed finance from the House of Zakat and Waqf improve the peoples' welfare and can easily transform individuals' lives to achieve SDGs.

Based on Table 5 therefore, it is indicated that participants from Iganga District benefited from looking after goats than the two districts where this study was conducted. The key informants from Iganga noted that some of the people in Iganga do not have large areas of land to look after cows. The majority grow maize, whilst others practice small and medium scale businesses. However, due to increased household demands and government taxes to such businesses; individuals do not earn much as anticipated from the business.

### Factors for the persistent low levels of welfare among Muslim despite the House of *Zakat*

The last objective of this study was set to establish the factors for the persistent low levels of welfare among Muslim communities in Uganda despite accessed finance through the House of *Zakat*. The researcher used the Likert scale to find out some of these factors as presented in Table 6.

**Table 6: Factors for The Persistent Low Levels**

<i>Statement</i>	<i>Strongly agree</i>	<i>Agree</i>	<i>Not sure</i>	<i>Disagree</i>	<i>Strongly disagree</i>
Low levels of education among Muslims	2 (.6%)	39 (12.2%)	48 (15.0%)	177 (55.3%)	54 (16.9%)
Investing in poor avenues	176 (55.0%)	124 (38.8%)	10 (3.1%)	10 (3.1%)	
Accessing finance without clear purpose	154 (48.1%)	133 (41.6%)	15 (4.7%)	18 (5.6%)	
Gender	144 (45.0%)	131 (40.9%)	19 (5.9%)	24 (7.6%)	2 (.6%)
Age	115 (35.9%)	133 (41.6%)	27 (8.4%)	31 (9.7%)	14 (4.4%)
Limited skills	149 (46.6%)	123 (38.4%)	24 (7.5%)	20 (6.3%)	4 (1.3%)
Land tenure system	126 (39.4%)	98 (30.5%)	40 (12.5%)	44 (13.8%)	12 (3.8%)
Disunity and un-cooperative spirit among Muslims in Uganda	128 (40.0%)	98 (30.6%)	34 (10.6%)	49 (15.3%)	11 (3.4%)

Poor methods of Agriculture	162 (50.6%)	75 (23.4%)	33 (10.3%)	35 (10.9%)	15 (4.7%)
Women do not own land where to invest the money	194 (60.6%)	96 (30.0%)	3 (.9%)	19 (5.9%)	8 (2.5%)
Low sensitization	42 (13.0%)	52 (16.3%)	64 (20.0%)	125 (39.1%)	37 (11.6%)

Table 6 shows various factors for persistent low levels of welfare among Muslims in Uganda despite the presence of Zakat and Waqf in Uganda. The researcher started with low levels of education among Muslim communities. However, results show that 55.3% of the participants disagreed and 16.9% strongly disagreed with the statement whilst 15.0% were not sure; 12.2% agreed and .6% strongly agreed. These findings show that there are varied responses towards persistent levels of welfare as a result of low levels of education. Participants who agreed with the statement were in line with the research carried out by the World Bank (1990) and the UN (1995) in which it was found that the low level of welfare has various factors among different communities and low levels of education was mention as a significant factor. However, both the results from the United Nations and the World Bank are in congruence that not all people with low levels of education have low levels of welfare.

**Table 7: A Linear Regression of Factors for Persistent Of Low Levels Of Welfare**

<i>Model</i>	<i>Unstandardized Coefficients</i>		<i>Standardized Coefficients</i>	<i>t</i>	<i>Sig.</i>
	<i>B</i>	<i>Std. Error</i>	<i>Beta</i>		
1 (Constant)	1.797	.321		5.598	.000
Low levels of education	-.041	.049	-.050	-.833	.406
Investing in poor avenues	-.150	.067	-.143	-2.229	.027
Accessing finance without clear purpose	-.152	.063	-.164	-2.388	.018
Gender	-.010	.058	-.012	-.168	.867
Age of a person	.066	.045	.098	1.471	.142
Limited skills	.146	.047	.181	3.128	.002
Land tenure system	-.092	.054	-.146	-1.691	.092
High number of children	.282	.049	.436	5.748	.000
Disunity and un-cooperative spirit	-.124	.040	-.198	-3.109	.002
Poor methods of Agriculture	.127	.041	.206	3.072	.002

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## Discussion of the Findings

The regression analysis presented in Table 7 shows both standardized and unstandardized coefficients, t-test and significance. Using the significance column, it is indicated that factors like education (with a value of .406); gender (with a value of .867); the age of a person accessing finance (with a value of .142); land tenure system (with a value of .092) are not significant factors for the persistent low levels of welfare despite accessing finance from the House of Zakat. For the case of these factors, the null hypothesis attached to them is maintained. On the other hand, factors like investing in poor avenues (with a sign of .027); accessing finance without a clear purpose (with a sign of .018); limited skills (with a sign of .002); the high number of children (with a sign of .000); disunity and uncooperative spirit (with a sign of .002); and poor methods of agriculture (with a sign of .002) highly influence low levels of welfare among the Muslim communities in Uganda. In such circumstances, the null hypothesis is rejected in favor of the alternative.

## Conclusion and Recommendations

In conclusion, the researcher found that there is a relationship between accessed finance from the House of *Zakat* and *Waqf* in Uganda and improved levels of welfare among the Muslim communities. However, this relationship is achieved when two factors are taken into consideration; proper administration of finance by *Zakat* and *Waqf* administrators at an institutional level; and administration at a personal level. At an institutional level, the administration of finance includes the outlined guidelines for the administrators, transparency and exhibiting the true nature of the Islamic region as laid down by Prophet Muhammad. At the personal level, it includes setting a purpose for the accessed finance and following it to the end. Besides, the relationship is more observed when the finance accessed is rated well in line with Investment Avenue and when individuals should start repaying.

Among the recommendations of the study include improving the welfare of individuals is universal to the living of persons. Programmes for improving the standards of the people seek to provide water, food, health services, accommodation and daily or monthly – sources of income. It is upon this perspective that the study finds a need for both institutional and personal administration of the people using finance from the House of Zakat.

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