



Global Hajj Management and Islamic Finance

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Hajj

Largest human and a yearly Islamic gathering in Mekka.

One of the five pillars of Islamic practices.

Massive influx of pilgrims from all around the world.

Estimated value of \$8.5 billion to Saudi economy. Part of the Saudi initiative of religious tourism.

Massive infrastructural, security, and economic challenge for Saudi Arabia as the host country.

Pilgrims save and pay for their own expenses at their home country.

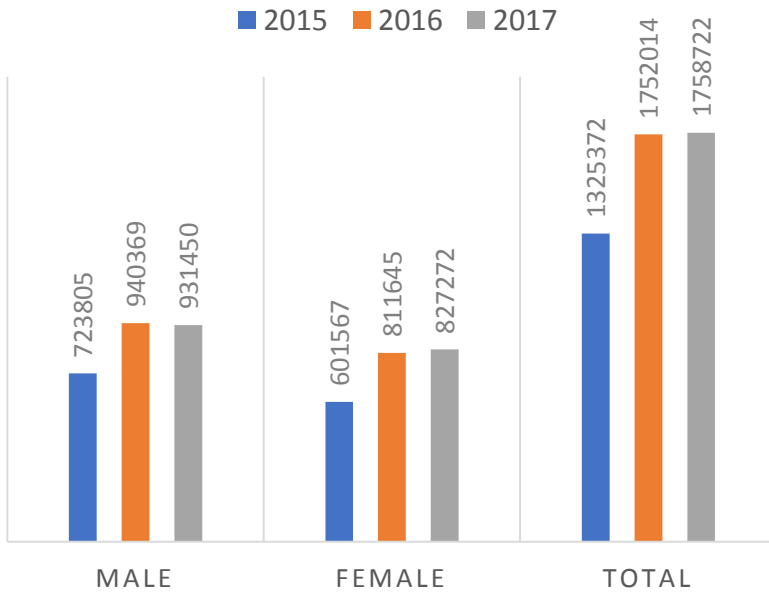
Hajj agents help in documentation and processing

Increasing host and home country cooperation

Financially challenging for both host and the home country

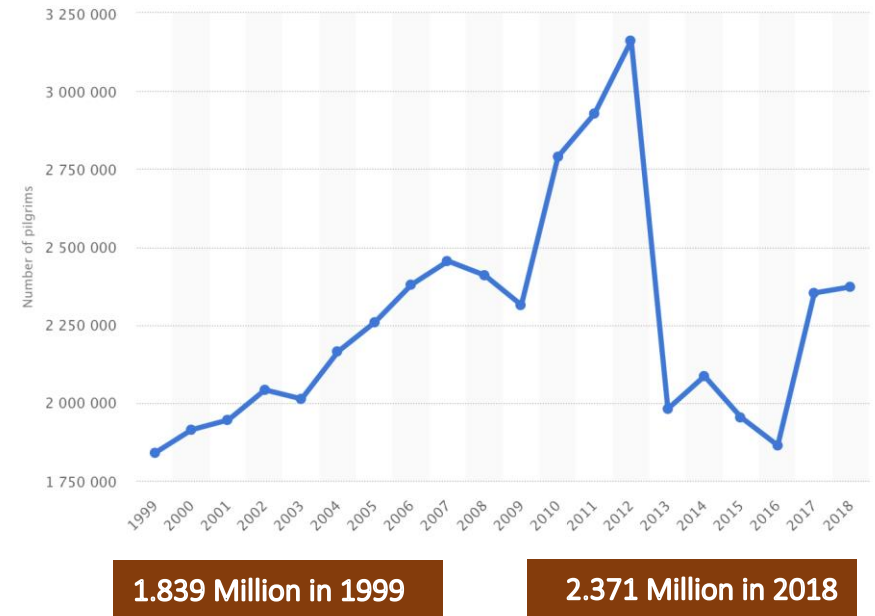
Foreign Pilgrims

Source: Ministry of Hajj and Umrah, KSA



Total Pilgrims

Source: Statista



Total entry and exit during Hajj

Source: Ministry of Hajj and Umrah, KSA

2017		2016		2015		Border Crossing
Entry	Exit	Entry	Exit	Entry	Exit	
4,198,163	4,996,549	4,083,322	4,682,126	3,876,638	4,383,831	King Abdulaziz International Airport
1,983,168	1,155,301	1,683,878	1,062,735	1,359,138	843,693	Prince Mohammed Airport
185,388	166,583	297,665	292,838	310,658	334,701	Halat Ammar Border Crossing
90,984	88,182	96,414	92,964	105,920	102,963	Al Bat'ha Border Crossing
69,675	71,359	40,179	39,808	30,846	30,853	Jeddah Islamic Seaport
66,478	65,789	79,104	78,156	85,138	84,401	Al Raqi Border Crossing
58,758	55,863	64,008	67,258	209,935	206,476	Yanbu Airport
41,643	69,088	47,649	65,356	31,770	42,624	King Khaled International Airport
37,542	53,495	61,840	63,399	70,082	43,561	Al-Haditha Border Crossing
12,336	12,348	13,248	13,294	12,041	12,019	King Fahad Bridge
12,094	12,126	22,567	22,494	14,367	13,953	Yanbu Commercial Port
4,958	5,024	0	319	0	324	Al-Wadiah Border Crossing
4,370	6,004	498	2,497	169	1,077	King Fahad Airport
48	134	64	168	44	233	Taif Airport
6	0	0	0	40	0	King Abdulaziz Airport-Expatriates
2	28	7	16	0	42	Abha Airport
1	277	0	486	0	448	AlKhafji Border Crossing
0	6	0	54	0	43	Duba Border Crossing
0	0	41,631	40,321	39,325	38,338	Salwa Border Crossing
0	326	0	355	0	380	Durra Border Crossing
0	7	0	5	0	10	Jazan Airport
0	1	0	17	0	11	Al Hofuf Airport
0	24	0	46	0	26	Al Qassim Airport
0	0	0	5	0	0	Al Jouf Airport
0	6	0	13	0	20	Hail Airport Passports
0	2,798	0	2,360	0	2,116	Passports Department
0	15	0	54	2	34	Tabuk Airport
6,765,614	6,761,333	6,532,074	6,527,144	6,146,113	6,142,177	Total

Close to 7 million
entry/exit in 2017

King Abdulaziz
Int'l Airport

Gap in entry and
exit

A massive infrastructural
challenge

Core rituals of Hajj

Source: Yamin, M. and Albugami (2014), "An architecture for improving Hajj management, IFIP AICT 426, pp. 187-196.

Enter Hajj area

Day 1 -

- Perform Tawaf, and rituals in Grand Mosque
- Perform Sa'i rituals in the Grand Mosque
- Go to Mina and spend the night there

Day 2 -

- Reach Arafat and pray
- Reach Muzdalifah and spend the night

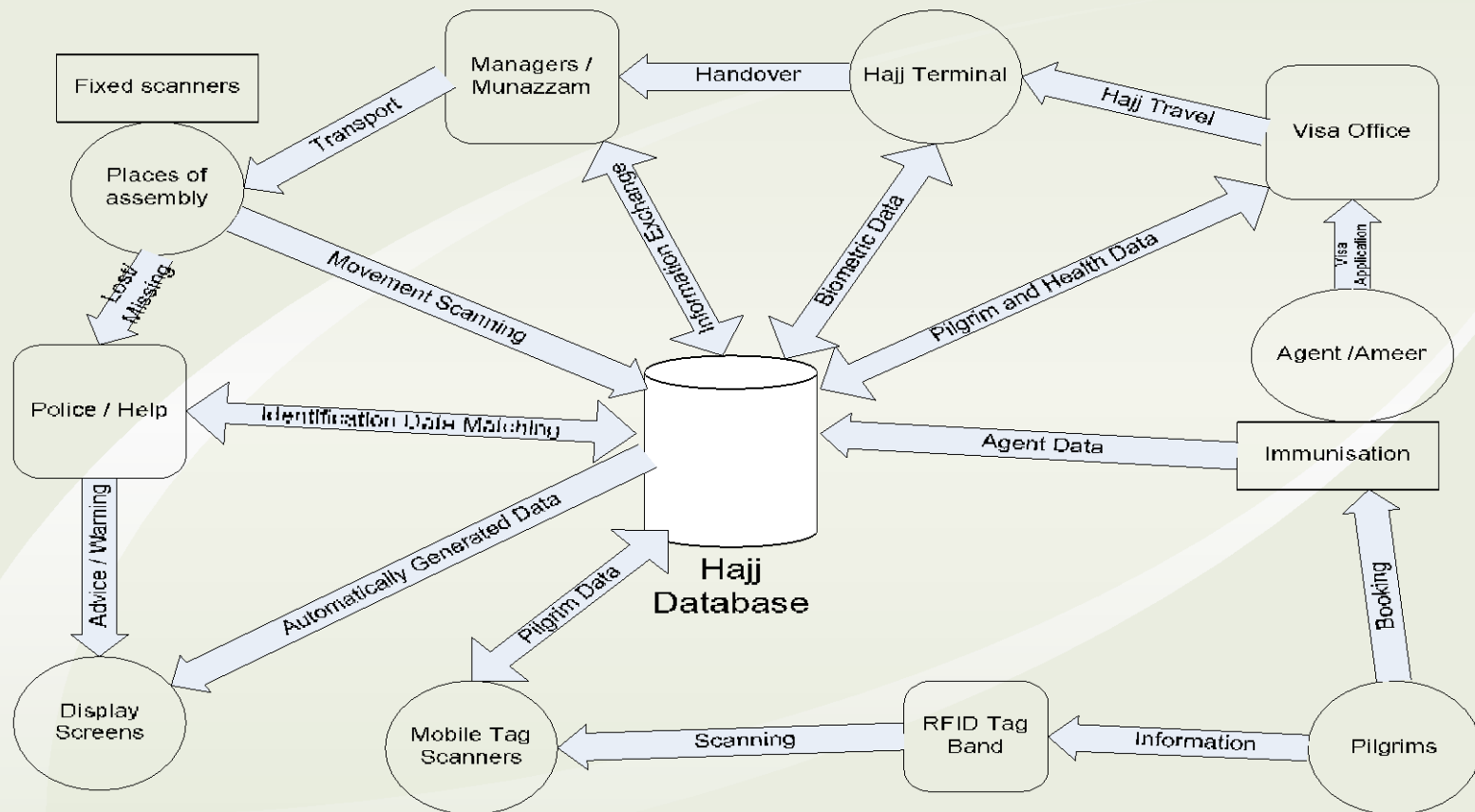
Day 3 -

- Reach Mina and perform rituals (i.e. cutting hair, stoning)
- Reach Mekkah and performance Tawaf in the Grand Mosque
- Go to Mina and spend the night there.
- Perform the stoning rituals three times

Potential Hajj Management Challenges

An Infrastructural Nightmare

Source: Mohammad Yamin, University of Canberra, Australia



Summary of the challenges



Infrastructure



Information and communication



Financial



Health, safety, and security



Hajj workforce



Travel, transfer & utilities

Possible solutions

- Controlling, tracking and identification of the Hajj pilgrims.
- Diversify the entry and exit points to utilize least used airports and checkpoints.
- Build a cross-country database for home and host country usage.
- Use of technology (i.e. phone applications, GPS tracker) to make information access or tracking easy.
- Continuous improvement of Hajj facilities require availability of funds for infrastructure at the host (KSA) and home countries. Home countries can develop Hajj funds to mitigate expenses.
- Build an internationally shared-fund by the host country (KSA), which will be connected to country-level Hajj funds in order to manage expenses and infrastructural investment.

Islamic finance and Hajj management

- Being one of the five pillars of Islam, funds saved for Hajj expenses should be Shariah compliant.
- Due to growing number of pilgrims, host country (KSA) had to apply quota depending on the proportion of Muslim population visiting Mekkah from a country.
- Hence, for most countries with high Muslim population (i.e. Indonesia, Bangladesh, Pakistan, etc.), pilgrims will be on waiting list for a time period.
- During this time, several pilgrim savings and investment schemes come into effect.
- Collectively these are part of the Hajj savings, which are integrated into a Hajj fund.

Attributes of Hajj Funds



Stages in the development of Hajj management fund

Innovator / First mover	Early Adaptor	Majority
<ul style="list-style-type: none">➤ In 1963, Malaysia launched Tabung Haji➤ The first hajj management entity of its kind	<ul style="list-style-type: none">➤ Over the years, Indonesia introduced a number of laws/regulations related to Hajj management➤ Law no. 17/1999, 13/2008, and 34/2014	<ul style="list-style-type: none">➤ In 2013, Maldives Hajj Corporation was formed to carry out all the Hajj related affairs for Maldivian Muslims

International Hajj Fund Experiences

Lembaga Tabung Haji (Malaysia)

Established in
1963

9 million
depositors

125 branches

1 office in KSA

Separate Act
to facilitate
Hajj

Objectives and functions:

Source: www.tabunghaji.gov.my

Lembaga Tabung Haji (**TH**) is an **Islamic institution** that continuously strives to provide various facilities which are comprehensive and systematic for the **welfare of Malaysian Hajj Pilgrims**. Besides **halal savings** and efficient hajj operations management, **TH** also manages **investment transaction** to add value to our depositors.

International Hajj Fund Experiences

Lembaga Tabung Haji (Malaysia)

	2018 RM Million	2017 RM Million	2016 RM Million	2015 RM Million	2014 RM Million
Revenue	4,205	4,585	3,481	4,467	3,289
Operational Profit	3,229	3,600	2,718	3,788	2,783
Zakat	86	68	60	59	53
Net Profit	1,636	3,412	2,486	3,536	2,979
Depositors' Hibah	913	3,324	2,871	3,220	3,237
Depositors' Savings	75,413	73,522	67,704	62,548	54,358
Number of Depositors (Million People)	9.3	9.3	9.1	8.8	8.6

Source: www.tabunghaji.gov.my

International Hajj Fund Experiences

Lembaga Tabung Haji (Malaysia)

Hajj Cost and Subsidy by Tabung Haji Malaysia

Years	Actual Hajj Dues (RM)	Hajj Fees Charged (RM)	Subsidy Provided (RM)	No. of Pilgrims
2010	14130	9980	4150	26,000
2011	14340	9980	4360	27,900
2012	14880	9980	4900	27,900
2013	15555	9980	5575	27,900
2014	16155	9980	6175	27,900

- With the increase of annual Hajj cost and no. of pilgrims from Malaysia, TH has increased its subsidy to help Malaysians mitigate the cost of Hajj.
- The benefit of such a Hajj fund can also be seen from the amount of bonus given by TH and fixed cost charged for Hajj over the years.
- In 2019, the cost of Hajj was RM 22900. TH charged the same RM 9980, offering the rest as the subsidy – RM 12920.

Source: Baig, U. (2016), Hajj Management in Pakistan in Light of Experience of Tabung Haji of Malaysia, International Journal of Islamic Economics and Finance Studies, 2(2), 13-39.

International Hajj Fund Experiences

Pakistan

Ministry of Religious Affairs and Interfaith Harmony manages Hajj functions

Quota of 179,210 for Pakistanis in 2019

Government (60%)
Private (40%) Hajj Schemes

Hajj dues are managed through Islamic bank accounts

A lottery process takes place to select final pilgrims

Privileges given to pilgrims with special needs

Major objectives:

Serve and facilitate the **intending pilgrims** with commitment and dedication so as to **enable** them to undertake their religious obligation with ease and peace of mind

International Hajj Fund Experiences

Pakistan

Hajj Dues in 2019 – Government Hajj Scheme

Hajj Package	North Region (Other Stations)	South Region (Karachi, Quetta & Sukkur)
Hajj Package without Qurbani:	Rs. 436,975	Rs.426,975
Hajj Package including Qurbani:(optional)	Rs. 456,426	Rs.446,426

Note:-1 SR = Rs. 39

- Hajj Compensation Funds – Since Hajj Policy 2010 – to rescue any victim
- Takaful insurance policy available to compensate deceased pilgrims.
- Several other welfare services are available
- However, apart from savings schemes by several banks, there are no formal Hajj investment funds at the central level.
- Increasing possibility of private sector mismanagement, which needs a strong collaborative effort between the Government and the private Hajj service providers.

International Hajj Fund Experiences Indonesia

- An initial deposit of USD2200 by eligible Indonesian Muslims.
- They are put on the waiting list for 12 years.
- Mobile application can be used to trace the updates on the waiting list.
- Until 2014, the accumulated Hajj funds has been invested in regular bank deposits and Sukuk.
- Badan Pengelola Keuangan Haji (BPKH) was introduced as the formal Hajj management agency in the year 2014. The fund started operationally finally from 2018.

International Hajj Fund Experiences

Indonesia

Returns of the deposits will be used in following ways

Subsidise cost
of Hajj

Cover
operational
expenses


Value added
to prospective
Hajj accounts

- Before 2013, Hajj funds were collected from a combination of conventional and Islamic bank accounts. Now it is mandatory to have funds only accumulated in Shariah compliant banking instruments.
- By 2020, Hajj funds in Indonesia will reach USD8.96 billion.
- Both the implementation body and the supervisory body are collectively liable for loss due to negligence.




Hajj fund management in Maldives

- ▶ Prior to the formation of Maldives Hajj Corporation Ltd (MHCL) hajj fund management was not regulated in Maldives
 - The executive body in charge of religious affairs used to give authority to certain private hajj tour operators
 - Private hajj tour operators have either provided poor services to the pilgrims or *fraudulently collected funds* from pilgrims
 - Numerous incidents have happened in the past, namely, **Maleesha Hajj Group scandal** (Minivan News, 2012) and **Al-Fath'h Hajj and Umra Group** (Vnews, 2014)
- ▶ As a consequence of these incidents, the then Deputy Minister of Ministry of Islamic Affairs and the first chairperson of MHCL made a public statement saying that the government should stop giving permission to the private hajj groups to take people to hajj (Vnews, 2014)




Hajj fund management in Maldives (cont.)

- ▶ 50% of the hajj quota received to the country is managed by MHCL and the rest of 50% of hajj quota is given to private hajj providers to manage
 - The risk of doing this was evident due to Al-Fath'h Hajj and Umra Group scandal
 - To protect public interest and prevent misappropriation of funds, MHCL was formed (Vnews, 2014)
- ▶ Maldives Hajj Corporation Ltd. (MHCL) is a state-owned enterprise formed under a presidential decree in November 07, 2013 (Sun, 2013)
 - The **mission** of MHCL is to safeguard the finances of Maldivians who plan on performing Hajj and Umrah
 - The **vision** is to provide affordable means of performing Hajj and Umrah for Maldivians and to improve hajj administration



Hajj fund management in Maldives (cont.)


- ▶ There are **two types** of packages available for potential pilgrims who intend to become a member of MHCL
 - lump sum package
 - saving package
- ▶ Lump sum package
 - To be eligible for lump sum package, the prospective must register and at least 75% of the hajj price (approx. MVR 69,965) must be paid
 - The candidate will then be given hajj quota by reserving a slot for a specific year which will be notified
 - MHCL takes people to hajj according to order of their registration



Hajj fund management in Maldives (cont.)

▶ Saving package

- The minimum amount to be paid to be registered is MVR 500 and the pilgrim has the flexibility to pay the balance until the full amount of hajj price is reached
- The hajj quota will only be allocated once the balance reaches 75% of the hajj price
- The advantage of registering for this package is that the money received under this category will be invested in a Shariah compliant investment and the received profit will be distributed among the account holders
- Profit from the investment will be distributed in 95:5 ratio between MHCL and the saving package holders
- MHCL also introduced an employee hajj scheme to encourage participation in hajj saving scheme by automatically deducting from salary every month



Hajj fund management in Maldives (cont.)

- ▶ In 2017 MHCL has introduced an online portal called “Faheli” to interact with its members
 - The online portal facilitate payment of hajj and umrah price by pilgrims without requiring them to physically come to the corporation
 - It also allows the prospective hajjis to make the payment via financial institutions by merely using their mobile phones (e.g., Miadhu, 2017)

Islamic contracts used in Hajj funds

- Waqala contracts for safekeeping of the funds (BPKH, Indonesia)
- Wadiah yad dhamanah for interest free deposits (Tabung Haji)
- Restricted investment account aims to fund Muslim entrepreneurs and small businesses (Tabung Haji)
- Tabung Haji invests in working capital financing using six instruments:
 - Musharakah
 - Mudarabah
 - Ijarah
 - Murabahah
 - Qardul Hasan
 - Bai Bithaman Ajil
- Jordan Hajj Fund uses Sukuk instruments to raise funds for infrastructure investment.

Major challenges facing Hajj Funds

- Political ambitions confused with available funds.
- Mismanagement and corruption.
- Only open to local population; foreign pilgrims cannot participate.
- Cost of subsidy is increasing globally.
- Choice of shariah compliant investment for Hajj fund is limited.
- Asymmetric information between pilgrim depositors and fund managers on the actual use of funds in the future.



Concluding remarks

- ▶ Hajj, being one of the five pillars of Islam, is one of the most significant events in the life of a Muslim
- ▶ Muslims who are financially affluent to perform Hajj are bound to do so
- ▶ Every year millions of Muslims from around the world are brought together to Makkah and Medina to perform the Hajj
- ▶ Being the largest human gathering and holy event on the surface of earth, Hajj deals with enormous amount of risk associated with crowd management
- ▶ Every year a significant number of people lose their lives due to mismanagement of this largest crowded event; the culture of blame game needs to be changed
- ▶ Local management and government be made responsible for overcrowding; better and improved infrastructure will help in mitigating risk associated with overcrowding



Concluding remarks



- ▶ Modern tools and technology will also help to reach a solution
- ▶ Through persistent cross-cultural consultation, and discussions at national and international levels, desirable changes can be made
- ▶ Fund management is another vital part of Hajj management which deals with the challenge to manage the huge amount of fund provided by prospective hajj pilgrims and to invest the fund in an efficient yet Shari'ah compliant manner
- ▶ Importance of establishing Hajj management institutions at country level is second to none
- ▶ Muslim majority countries namely Malaysia, Indonesia, and Maldives have already set up their own hajj management entities that are solely responsible for carrying out all the hajj related affairs (financial and non-financial) in a Shari'ah compliant way



Concluding remarks



- ▶ With the establishment of Tabung Haji, Malaysia has been the pioneer in introducing the concept of a dedicated separate hajj management institution
- ▶ BPKH in Indonesia is the early adaptor of the concept that has been successfully operating and carrying out every kind of Hajj related activities for the Indonesians Muslims
- ▶ MHCL in Maldives is also doing a great job in safeguarding the finances of Maldivians who plan on performing Hajj and in improving the overall hajj administration by providing affordable means to the hajjis
- ▶ It's high time for other Muslim nations to learn from these countries and follow their models in order to ensure better administration of the event and to provide better management and financial services to their Muslim community