

FINANCIAL PROBLEMS OF BOTTOM 40 PERCENT BUMIPUTERA IN MALAYSIA: A POSSIBLE SOLUTION THROUGH WAQF-BASED CROWDFUNDING

Abidullah ABID¹ and Dr. Muhammad Hakimi Mohd SHAFIAI²

Abstract

Low savings by the bottom 40 percent Bumiputera triggered low wealth accumulation and greater wealth inequality. The issue behind the low savings is the increase in food prices, taxes, and interest rates for the borrowers. In response to these problems, the Malaysian government provides cash transfer BRIM as one of redistributive measures. However, it is still not enough as many of the bottom 40 percent are neglected to avail the facility. In such circumstances, the role of community-based cash and credit transfer schemes such as cash waqf can be more fruitful. However due to inefficiency of the awqaf institutions regarding financial management, the system cannot contribute effectively. Therefore, the main aim of the paper is to provide an efficient mechanism which can ensure effectiveness in terms of transparency, collection and distribution of cash endowments and its benefits. Hence, by means of library research, we have proposed a conceptual framework. It is suggested that collection and distribution of cash waqf through crowdfunding platform would solve both transparency, collection and distribution issues. This study would provide a ground for those researchers and practitioners who are working on finding the right approach to implement waqf in more efficient way.

Keywords: Wealth Inequality, Cash transfers, Waqf, Crowdfunding, Poverty

MALEZYA BUMİPUTERA'DAKİ YÜZDE 40'LİK ALT GELİR GRUBUNUN MALİ PROBLEMLERİ: VAKIF TEMELLİ FON TOPLAMA VASITASIYLA BİR ÇÖZÜM

Özet

Bumiputera'daki alt gelir grubunun yüzde 40'lık kısmının tasarruflarının azlığı daha az servet temerküzünü ve daha fazla servet eşitsizliğini tetiklemiştir. Tasarrufların azlığının ardındaki sebep ödünç alan kesimlerin maruz kaldığı yüksek gıda fiyatları, yüksek vergiler ve yüksek faiz oranlarıdır. Bu problemlere karşı Malezya hükümeti yeniden dağılım ölçütlerinden biri olarak BRIM nakit transferini uygulamaya koymaktadır. Fakat, bu yeterli değildir çünkü yüzde 40'lık alt gelir grubundaki pek çok kişi programdan yararlanamamaktadır. Bu durumlarda, para vakıfları gibi toplum tabanlı para

¹ Corresponding author: PhD Candidate, Institute Islam Hadhari, Universiti Kebangsaan Malaysia 43600, UKM, Bangi, Selangor, Malaysia. Email: abidullah@siswa.ukm.edu.my

² School of Economics, Faculty of Economics and Management, Universiti Kebangsaan Malaysia, 43600, UKM, Bangi, Selangor, Malaysia. Email: hakimi@ukm.edu.my

ve kredi transfer planları daha yararlı olabilir. Fakat, vakıf kurumlarının finansal yönetimdeki etkinsizlikleri sebebiyle sistem etkili bir şekilde katkı yapamamaktadır. Bu yüzden, bu makalenin esas amacı saydamlığı, parasal kaynakların toplanması ve dağıtılmasındaki etkinliği temin edecek etkili bir mekanizmayı ortaya koymaktır. Dolayısıyla, hacimli bir kütüphane araştırması neticesinde kavramsal ve çerçeve öneriyoruz. Kitlelerden fon toplama platformu vasıtasıyla para vakfı toplama ve dağıtımı, hem saydamlık hemde toplama ve dağıtım problemlerini çözeceği öne sürülmektedir. Bu çalışma, vakfı daha etkili kılmak için doğru bir yaklaşım arayan araştırmacı ve uygulayıcılara uygun bir temel sağlamaktadır.

Anahtar Kelimeler: Servet eşitsizliği, nakit transferi, vakıf, kitlelerden fon toplama, fakirlik

1. Introduction

The wealth inequality issue is widely discussed around the globe however the steps taken to minimise it are not efficient enough. In Malaysia, wealth inequality is high same as other countries. For instance, a study found that the gross wealth per capita of bottom 20 percent is 0.2 percent of the total household wealth, this figure for bottom 40 percent is 7 percent while the top 10 percent hold 40 percent of the wealth distribution (Khalid, 2014; Salih, 2014). However, due to multiracial society the comparison is always made amongst the races. In this aspect, Bumiputeras are the one who hold less real assets as compare to non-Bumiputeras. The bottom 40 percent are the one who are suffering due to insufficient savings that can create further investment opportunities. Amongst redistributive measures taken by the government includes BR1M, which focuses on not only the extreme poor but also those who earns below RM4000 per month. However, there are more in the bottom 40 percent who are neglected by the scheme. Moreover, the amount disbursed to the beneficiaries is low and costs much to the government. In order to assist the bottom 40 percent Bumiputera, instead of channelling the funds from the tax money, a community-based credit transfer mechanism must be preferred. In Islamic society, *zakat* and *waqf* are the redistributive measures which are introduced centuries ago. The *zakat* system in Malaysia is performing well however the *waqf* system is still inefficient in terms of performance. Much of the *waqf* land is still idle which may produce sufficient revenue. On the other hand standalone *waqf* institutions which collect cash endowments but there is no record of its use. In community-based cash transfer scheme, these autonomous *waqf* institutions can play a significant role as they are free of any government interference. However, there is a need for a proper mechanism using which donors get informed about the performance of the *awqaf* institutions by means of publically available financial information of those *awqaf* institutions. This performance-centric approach can lead to better loan disbursement and recovery. Hence, in this paper, using library research method we have proposed a cash *waqf*-based crowdfunding mechanism. This mechanism will provide a door to *awqaf* institution to call for the potential projects for the benefits of the bottom 40 percent Bumiputera. Secondly, it will also enable the donors to get first-hand information about the performance of the *awqaf* institution.

2. Literature Review

2.1. Wealth Inequality in Malaysia

As several studies showed that wealth inequality is far more than income inequality (Bagchi & Svejnar, 2015; Birdsall, 2012; Khalid, 2014; Portney, 1979; Wolff, 1996), hence it is not enough to analyse the economic situation of any nation by only focusing on the income disparity. Income only gives the highlight while wealth goes more comprehensive in defining the disparities as compare to income. Wealth can be measured by focusing on the real assets and financial assets of the people. The study on wealth inequality in Malaysia is relatively rare as data regarding the wealth is not available online due to its confidentiality. Thorough research is conducted in the year 2014 (Khalid, 2014; Khazanah Research Institute, 2014) that gives us a clear idea regarding the wealth distribution among the ethnic groups in Malaysia. Hence, in this section, most of the data is taken from Khalid, 2014.

Distribution of wealth is highly skewed and the mean is sensitive to the extreme values hence this study would focus on the median. From Table 3, the median figures show that average Malaysian holds about RM 311 in financial assets and RM 156,686 in property assets or real estate assets which make 8% and 92% of the total wealth. This trend is same with other developed nations such as in 2007 American whites had 95% of the real estate investments and blacks with 96%.

Table 3: Wealth Composition

Types of Assets	Mean	Median	% of Wealth	% of zero ownership
Financial Assets	RM 18,055	RM 311	8%	53%
Property Assets	RM 208,504	RM 156,686	92%	25%
Wealth	RM 226,599	RM 156,997	100%	12%

Source: Khalid, M.A., 2014. *The Colour of Inequality*, Petaling Jaya: MPH Group Publishing Sdn Bhd.

Surprisingly, 53% of the Malaysians don't have any financial assets, 25% don't possess any property assets whereas, 12% of them lack in overall wealth. It means that roughly one out of two Malaysians does not have liquid assets to support themselves in the case of financial shocks. More specifically, 55% of Bumiputera, 45% of Chinese and 44% of Indians does not possess any financial assets (Shukry, 2014). There is a need of an extra income that turns into saving rather than expenditure. Such extra income would lead to investment in financial assets. Other than government cash transfer scheme, a community-based cash transfer in form of waqf via crowdfunding platform can provide easy access to extra financial assistance for these people.

On the other hand the breakdown of wealth by ethnicity describes the same story as we had in income distribution. Chinese is the leading ethnic group followed by Indians whereas Bumiputeras are the poor among them. Based on median wealth composition Chinese have 2,135 times more financial assets than Bumiputera followed by Indian by 1,296. The Gini index for financial asset among all the three ethnic classes are high and recorded as above 0.8 with Bumiputera on most top scale of 0.88 (Khalid, 2014)

As far as property assets are concerned, 74.3 percent of Bumiputera don't possess real estate assets followed by Chinese with 16.8 percent and Indians with 9 percent. However, the within-group analysis showed that Indians are the one with least ownership in real assets where one-third of Indians don't have any real estate assets the figure stands as one-fourth for Bumiputera. The real estate assets are more skewed than income where 40 percent of Malaysians had a share of 7.5 percent while the top 20 percent hold more than half of the real assets at 50.9 percent. The Gini Index for real assets in 2009 was 0.56 which is much lower than the financial assets Gini Index of 0.88.

2.2. The Problem of the bottom 40 percent Bumiputera

As of Household Income Survey Report 2014, those households whose median income is below RM 2,629 are considered in the income category of Bottom 40 percent (Department of Statistics, 2014b). The report showed that among the Bumiputera majority falls in the bottom 40 percent category. These households are not able to save enough money to invest further or at least buy the day to day useful accessories needed to be in every home. A report showed that these households spent most of their income on food, housing and utilities (Department of Statistics, 2014a). Due to increase in the prices of houses and food, the spending of each household increases. On the other hand, the increase in the bank's interest rate affects the amount paid as an instalment of the house purchased by bank loan (Khazanah Research Institute, 2014). Similarly, those who are wealthy enough buys electronics for home use by cash, the less well-off use credit card and the poor buy on weekly instalment plans offered by the seller. The report showed that the APR (Annual Percentage Rate) of these sellers is quite higher as compared to the APR offered by the Credit Card (ibid). Hence, without any knowledge of these households spend a significant part of their income in this way. Taxation is another avenue that produces an adverse effect on the less wealthy as compare to the rich (Khazanah Research Institute, 2014; Chen, 2012).

2.3. Redistribution in Malaysia

As a redistribution strategy, different cash transfer schemes are introduced in Malaysia. For instance, *Skim Bantuan Kebajikan* under Social Welfare Department (JKM) offers cash assistance to the elderly, single mothers, children and disaster victims. The payments varies between RM150-500. Another scheme under Ministry of Education provides cash assistance to primary and secondary school students. The programme is called *Kumpulan Wang Amanah Pelajar* (KWAPM) and provides cash assistance ranges from RM200-RM900 per year. However, the most prominent scheme is BR1M, which focuses on providing financial support to the bottom 40 percent of the income group. However in 2014, the government took an ambitious step to cover household who earns less than RM 4,000. This scheme also provides support those individuals who are single, over 21 years of age and earning less than RM 2,000. The amount disbursed to these focus

groups is not more than RM 650 (see Table 2). As of 2014, 4.6 million households and 2.3 million single individuals received the payments (Khazanah Research Institute, 2014). Though the report also pointed out that the scheme was not able to target all the eligible households as there are 4.2 million households whose income is less than RM 4,000.

Table 2: BR1M payments and total costs

	2012	2013	2014
Payments to the households earning < 3k per month	RM 500	RM 500	RM 650
Payments to the households earning <3k-< 4k per month	-	-	RM 450
Payments to 21 years old singles earning < 2k per month	-	RM 250	RM 300
Total Number of Recipients	3.4 million	7 million	6.9 million
Total Govt. expenditure	RM 1.8 billion	RM 3 billion	RM 4.6 billion

Source: Khazanah Research Institute, 2014. *The State of Households*, Kuala Lumpur: Khazanah Research Institute

Hence, the government would need to dedicate more amount to cover those who are left previously. However, this would indeed create a burden on the economy due to the allocation of the significant chunk of GDP to redistribution instead of invest in other fruitful economic avenues.

As mentioned earlier most of the household in the bottom 40 percent are Bumiputera; it is more evident that neglected ones under BR1M would be mostly Bumiputera. In order to boost the income of bottom 40 percent of the Bumiputeras, the government may introduce Bumiputera centric redistribution policies that can help in enhancing their income. However, in a multiracial society, it is not possible to focus on one group, and it must not be the way to focus on just one group while keeping the view of distributive justice in mind. Hence, to increase the income of Bumiputera, there must be an alternative way which is free from government influence or at least the government intervention is minimal.

Secondly, income tax is used a method of redistributing income which contributes to the GDP of the country. The function of the tax is not only to alleviate poverty but also to be dedicated for the development projects. Hence, if the tax money is only channelled for the poverty or welfare, it may affect the growth of the country. Though such objective can be achieved through high rate of taxation. For instance, the income taxation rate in Scandinavian countries varies between 30 to 60 percent (Fouché, 2008) but the taxation money is spent on public welfare hence, people are happy to pay income tax even with

such high rates. However, in the developing countries due to low per capita income, imposing high income tax (without strong redistributive policy) may distort the economy where incentive to work, savings and investment will decrease (Gale & Samwick, 2014). However, the empirical evidence also showed that imposing tax cuts would lead to increase in the federal budget deficit (ibid).

Hence in order to supplement the taxation system community-based redistribution can be an alternative regardless of government assistance. In community base redistribution, the rich in the community channel a portion of their wealth for the greater benefit of the deprived community members. This concept is entirely based on charity unlike the conventional redistribution channel of income tax.

3. Community-based Cash Transfers from Islamic perspective

Community-based cash transfer in Islam can be in three forms, i.e. *Sadaqah*, *waqf*, and *zakat*. In this study, we have discussed the role of *waqf* and *zakat* in providing assistance to the bottom 40 percent.

3.1. Zakat

In Malaysia, the example of community-based cash transfer is *zakat* which is another way of redistribution of wealth is the form of wealth taxation imposed by the religion of Islam. In this way, a specific amount of Cash transfers are made to the poor and needy by those whose net wealth base or *nisab* is equal to a specific amount of gold and silver. From the Hadith and the practices followed by his Companions, the scholars came to conclude the *nisab* for *zakat* should be 85 grams of gold or 585 gram of silver. Those who possess the stated amount of Gold or Silver or equivalent wealth should pay *zakat* with the overall proportion of 2.5 percent (Şentürk, 2007).

Hence, the beneficiaries of *zakat* include, the **poor** who are deprived of basic necessities such as food clothing, shelter, the **destitute** who do earn but that their earning is not enough to fulfil their basic needs, the **zakat collectors** who devoted themselves to collect and distribute *zakat* and have no other way of earnings, the **Muallfaa Al-Qulub** (those whose hearts are to be reconciled with Islam), **freeing the slave, the debtors** who are under substantial debt, **Fi Sabilliah** (giving in the way of Allah) and **wayfarers** who become needy during travel in order to serve Allah's Way, even though they are rich back home (Şentürk, 2007).

There are total 14 states in Malaysia, and each state has its *zakat* department that comes under the jurisdiction of State's Islamic Religious Council (SIRC). Hence, each state has a separate *zakat* collection and distribution system except the federal territory which comes under the federal government. SIRC comes under Sultan or Raja of each state without interference from the federal government.

In Selangor, *zakat* collection and distribution comes under Lembaga Zakat Selangor (LZS) or Zakat Institution Selangor and is directly supervised by Shariah Islamic Religious Council Selangor. The payment of *zakat* can be made online via LZS portal which has made it easy for the *zakat* payers to pay with a single. On the other hand distribution of *zakat* is made using *had kifaya* method.

There is an explicit rate set by LZS for each category of households such as for a head household, couple, and schooling children, children under and above 18 years. A specific amount for each category is calculated and if the amount exceeds the household income, he would be assisted by the LZS. For example, a person with an income of RM 1000 living with his family including his wife and three children in a rented house. Among the children two are in the age category of 7-17 years, and one is four years old. According to the rates of *Had Kifaya* fixed by LZS, the total *had kifaya* for this household must be RM 1800 showing the household is short by RM 800. Hence, the LZS would give this amount to this household to cover their day to day expenses³.

Thought the shortcoming of *zakat* cannot be neglected as it is not perpetual in nature. Hence, whatever *zakat* is collected in a year is consumed in the following years. In other words, long-term economic benefits cannot be attained from *zakat*.

3.2. Waqf (Endowments)

Waqf is another source of community-based transfer where the benefits derived from the assets are utilised for the good of the society. The literal meaning of *waqf* is to hold, to prevent or to restrain or in other terms it means to protect any asset from falling into the hand of the third person. To elaborate *waqf* is an inalienable trust in which the founder of the *waqf* (*waqif*) makes the guidelines or principals for the property's revenue and allocates the profit or usufruct or yields of the property to particular person or institutions. Such property is then given in the possession of fiduciary (*wali or mutawalli*) who manages the trust for the benefit of a third party. The condition for the asset to be *waqf* must be an immovable asset, but later such requirement was relaxed to legitimize immovable assets which were then known as Cash *Waqf* (Kuran, 2001).

Waqf can be for the benefit of the general public (*waqf khayri*), for the benefits of the family or relatives (*waqf ahli*) or hybrid *waqf* which is the combination of both family and public *waqf*. In the latter case, the endower can endow a portion of his assets for the benefit of general public and a portion for family or relatives. However, today a new concept of *waqf* is in practice which is called as corporate *waqf* where some amount of shares are endowed for the benefit of general public. For instance, Johor Corporation with the assistance of Waqf Annur Corporation (WANCorp) introduces the scheme where the benefits from the *waqf* is distributed between the endower (Johor Corporation) and WANCorp (trustee). The trustee then use the funds to provide free dialysis treatment to the poor patients.

3.2.1. Cash Waqf

A cash *waqf* is an endowment in which cash is *waqf* for the welfare of wellbeing. It can also be defined as a Cash Waqf is a trust fund established to support services to humanity in the name of Allah (Chowdhury et al., 2011). In this case, cash is endowed as an asset which is then invested in a way to achieve the perpetuity conditions.

Cash *Waqf* completed a variety of jobs in the times of Ottoman caliphate and contributed efficiently to the economy of that time. The government of that time was quite

³ The procedure of calculating had kifaya is given on the official portal of LZS which can be accessed at www.zakatselangor.com.my

efficient in transferring the savings of those who were well off to those who were in need i.e. small entrepreneurs or the general public and also financing the religious, social and educational services (Cizack, 1996). According to Chowdhury et.al 2011, *waqf* land in Malaysia cannot be used as collateral to get a loan from a Bank. Hence in such case as most of the development works cannot be carried out, the lands remain un-utilized. They preferred cash *waqf* as this money can be used for the development of current *waqf* lands

In cash *waqf*, all the transactions are in cash which is invested in a way to generate profits that could be used for the charity or social services (Ibrahim, 2011).

It has been argued that the profit which is generated from the investment of cash *waqf* are interest-based hence it produce interest alike payment (Mandaville et al., 2014; Cizacka, 2004). It is suggested that the investment of cash should be on the principles of *mudharaba* and *musharaka* in order to avoid the element of interest from the transactions (Cizacka, 1992).

As discussed earlier that the economic benefits of *waqf* were used as social safety nets in the Ottoman Caliphate, hence it can be used as cash transfers to the bottom 40 percent which would not only help them financially but also minimise the load of cash transfers on the GDP. However, *awqaf* institutions must be free from government intervention to avoid confiscation of the assets as happened in the past. The government interventions in the matters of *awqaf* institution must only be considered in the case of any misconduct.

3.2.2. The Economic Role of Waqf

The economic dimension of *waqf* must not be neglected as it has contributed to lowering the government expenditures in the past. It is known that tax is one of the major revenue generators for the government and plays a vital role as a donor to government spending. *Waqf* at the time of Ottoman caliphate played an active role in decreasing the government expenditure on essential services such as health, education, and municipal, etc. with no cost whatsoever to the government. Such a massive reduction in government spending would help in decreasing government budget deficit and hence assist in lowering the need for government borrowing which would ultimately lead to the lowering of interest rate (Çizakça, 1998).

In the conventional economy, the problem of undersupply of public goods is so often observed. Public goods are those which are consumed by an individual without reducing or eliminating its availability for the other individual (Bates, 1997). The examples of public goods can be national radio and television services, defence services, public parks, etc. The problem that is pointed out by the economist is the undersupply of such goods – the rational behaviour of human wouldn't allow him to contribute in order to get benefited. For instance, an individual would get the same public goods even he doesn't pay taxes by free riding on the tax payments of a fellow countryman. *Waqf* can be a source of public goods to the society with any extra cost charged to the government.

Another contribution of *waqf* system was towards minimizing unemployment. In Turkey, *waqf* system has contributed significantly in providing employment other than those employed directly by the state. Recent studies on the potential of *waqf* have revealed that the system can significantly contribute to poverty alleviation by providing them

opportunities to generate their income from favourable economic activities (Ali 2014; Haneef et al., 2013; Hassan, 2010; Shirazi, 2014; Zarka, 2007).

Today, *waqf* can play a significant role in minimising intra-group inequalities amongst the rich and the have-nots. The *waqf* benefits that are derived can be used as a loan to establish small businesses for the poor. This credit would act as capital for the poor to build his business (Hassan, 2010). Once the poor have means to generate their income in perpetuity and get employments, the gap between the rich a poor would be minimised.

3.2.3. Waqf in Malaysia and the Issues in Operations

In Malaysia, the *awqaf* institutions are not synchronised as *zakat* institutions. *Awqaf* comes under the jurisdiction of State Islamic Religious Council (similar to *zakat*), however not managed properly. For instance, it has been reported that the *waqf* land is estimated to be over 32,000 acres (Md Saad et al., 2013) whereas, the unused land is estimated to be around 24,555 acres (Isa et al., 2011).

The problem of unused land was explored by Mohammad, 2008 and pointed that Malaysian law follows three principles in *waqf* land that includes irrevocability, perpetuity, and inalienability. Due to these factors, *waqf* land is not a valid collateral for the Malaysian banks. As a result, no loan can be taken to develop *waqf* land. He suggested that cash *waqf* is an optimal option in a view to take advantage of *waqf*. Cash *waqf* money can be used for several development purposes as compare to the *waqf* assets.

However, some discrepancies exists in the current *waqf* system which almost invalidate its overall efficiency. Recent studies have pointed out severe issues in accounting and administration practices and level of disclosure among State Islamic Religious Councils (SIRCs) in Malaysia (Masruki & Shafii, 2013; Hisham, Y., 2006; Zain, 2005; Abdul-Rahman & Goddard, 1998). On the other hand, there was no comprehensive information about *waqf* assets. Moreover, the studies found that there were disorganized management and lack of proper accounting system for *waqf* assets with no written procedure for recording *waqf* transaction.

On the other hand, different *awqaf* institutions are licenced by SIRC. However, they operate as standalone entities. These institutions usually deal with cash *waqf* and normally their representatives can be found in front of banks, restaurant asking contribution from the general public. The overall performance of such institutions cannot be evaluated because of unavailability of their financial data. Hence, there is a need of a mechanism to synchronise *awqaf* institutions under one umbrella to be responsible to the public (endowers).

4. The Potential of Waqf-based Crowdfunding as an Effective Redistribution Channel

The term “crowdfunding” is extracted from “crowdsourcing”, which is described as the process of outsourcing different tasks to a vast and often anonymous number of individuals, mostly through the medium of the internet and drawing on their resources, assets, and knowledge or expertise (Hemer, 2011).

But the objective in crowdfunding is to raise money rather than taking benefits of others expertise.

"Crowdfunding involves an open call, primarily through the Internet, for the provision of financial resources either in the form of donations (without rewards) or in exchange for some kind of compensation and/or voting rights in order to support initiatives for specific purposes" (Kleemann et al., 2008).

It is well known that the medium that would be used for crowdfunding is internet. Hence the services are provided through a web-based interface. These websites are called as "CF Platforms" where the website owners act as a facilitator between both project initiators and the crowdfunders (fund provider). Most of the platforms do not do more than providing a platform to present a project and the financial software through which financial pledges are collected and administered. There are only a few of those "CF platforms" that provide more than that such as give advice, organize public relations, make arrangements with micro-payment providers, etc.

Crowdfunding is used for fulfilling different objectives such as not-for-profit objectives where the project is initiated to provide some social benefits to the mankind e.g. health care, schooling, improving the standard of life, etc. Secondly, the project is also started for the purpose of profit making e.g. fundraising for the purpose of setting up a company, or funding a project within a company, etc. (Hemer, 2011).

The motivation behind creating a crowdfunding project is to raise funds, receive validation, networking, and spreading awareness through social media. Whereas funders are motivated to participate in such activity in order to seek rewards, support a cause and strengthen the connections with the people in the network (Gerber et al., 2009). For instance, Kickstarter, a prominent CF platform receives supports for its projects in the first and last week in which friends and family tend to be the early supporters and the majority of the stranger funders contributes when the project is near to its conclusion.

Unlike other platforms where the funders expect some financial returns, other crowdfunding platforms involve no monetary compensations for the funders. For example JustGiving and Spot.us rely on totally altruistic perspective in which the funders voluntarily donate their money without any expectations of getting tangible rewards (Burtch, Ghose, & Wattal, 2013).

One of the organizations to use the crowd to raise funds was Kiva.org. Kiva conflated the concepts of microfinance and crowdsourcing to create an online community where Kiva community members could lend small amounts of money to entrepreneurs in developing countries. Kiva made its first loans in April 2005 and had loaned over \$160 million to over 400,000 entrepreneurs in 208 countries. According to Kiva, the average loan size is approximate \$380. Kiva is a non-profit entity and lenders through Kiva receive no guarantee of repayment and no financial return on their loans (Pope, 2011).

This platform provide us one of the way for redistribution from the haves to have not. For instance, in Islam charity is given a special preference and people tends to do charity in form of *zakat* which is an obligatory form of charity and *Sadaqah* and *waqf* as forms of voluntary charities. In Malaysia, a large sum of charity is collected in the name of *waqf* however, there are no records of its spending for the benefit of the poor. Hence,

if this money is collected through a crowdfunding platform, it would be easy for the charity giver to track the *awqaf* institution and its performance. On the other hand if tax incentive is provided on this type of charity, the flow of income from the part of the wealthy class to bottom income class will be observed. However, this mechanism needs to be marketed well in order to attract the rich class. Trust is the main element which needs to be built. It is observed that sometimes the crowd funders do not have any direct relationship with the project initiator however, they fund their project due to sharing some common grounds such as belonging from the same community, whether based on the geography, ethnicity or shared interest.

In this regard, we have proposed a waqf-based crowdfunding framework which would combine all the stakeholders under one umbrella. In the sub section below we have identified and explained the role of each stakeholder in our proposed framework.

4.1. Explanation of the Key Players in the Proposed Framework

In our model we would focus on the small scaled *awqaf* institutions which are registered with State Islamic Religious Council, however, operate independently. The purpose of taking these institutions into account is to minimise any intervention from the top authority in the operations which may distort the performance of *awqaf* institutions. Moreover, it would also be easy for the crowdfunding authorities to keep a close watch on the activities of each *awqaf* institution in disbursement and recovery of loans. In our model, the institutions are the project initiators on the crowdfunding platform. On the other hand, crowdfunding platform is a medium for them to initiate their projects. Whereas, the funders of the project or the crowd would be Banks, Corporations, SMEs, and Individuals. The roles of each entity in the model are discussed briefly below.

a. Awqaf Institutions: As discussed earlier, these institutions are the independent operators who are actively participating in helping the poor and indigenous groups. The problem with these institutions lies in managing the accounting information. Hence, the crowdfunding platform can enforce strict regulation on these institutions to make available all the information by using which their performance can be measured. The projects that would be introduced by these institution can be assisting the poor and needy to flourish themselves in the business market which can provide them extra income. This additional income may provide them investment opportunities in the future.

b. Crowdfunding Platform: This is the leading player in managing the whole operations to be carried out in collecting and distributing the cash waqf to the *awqaf* institutions. Once the project is initiated by an *awqaf* institution (e.g. small shopping lot for the poor entrepreneurs), a call would be made on the Crowdfunding Platform. The intrusted crowd or funder would channel the funds in the form of cash waqf, which would be then provided to the respective *awqaf* institution. The *awqaf* institution would invest that amount in the project (the investment must be made in the perpetual assets). For instance, a shopping lot on the *waqf* land is developed for the poor entrepreneurs, the rents from those shops would be the waqf benefits that would be used for providing loans. The crowdfunding platform would maintain all the records of the *awqaf* institution. For instance, the total amount borrowed by the institution, profit rate charged, portfolio yield, and return on assets etc. This information would be available publically which would provide transparency in the operation of the institution. Secondly, it would be a guide for

the potential funders whether to endow their cash or not. This information would insist the *awqaf* institution to perform better in loan recovery and sustainability of its institution.

c. Funders: Fund would be endowed by Banks, Corporations, SMEs, and Individuals, etc. However, the issue of the motivation of these people in endowing their money must be answered. It is not easy to attract the funders to hand over their cash without any benefits to them, especially in the case of financial institutions and Corporations. Hence, the funders must be provided with tax benefits from the government as what we can see in the case of *zakat*. The benefit of the endowment is that it lies its base on perpetuity which means that this sort of investment must be available for an infinite time. However, the amount collected through tax is not perpetual in nature and spent on annual basis. Hence, if tax benefit is provided, the amount received as an endowment or cash waqf can be used for poverty alleviation and uplifting the economic standard of the bottom 40 percent without any further burden on the government.

4.3. Operationalization of the Framework

The framework that is explained here is only in early stage of development. We are currently working on elaborating the model regarding financial assessment of the *awqaf* institutions. Also, we are in the stage of developing a case study in which we would dig out more about the presence of standalone *awqaf* institutions and their activities.

Before explaining the model, any *awqaf* institution that wants to be registered with crowdfunding platform, a through financial information would be collected by the crowdfunding platform and once fulfil the defined criteria; it would be listed.

In the first step (see figure 1), the *awqaf* institutions (e.g. AI1, AI2, AI3) would initiate a project. For instance, developing a shopping lot for the income generation which would be then utilised as a loan to the bottom 40 percent. The *awqaf* institution would explain the project on the crowdfunding platform in the project initiation stage. The cost of the project, the *waqf* land where the project would be carried on, and the beneficiaries must be mentioned by the project initiator.

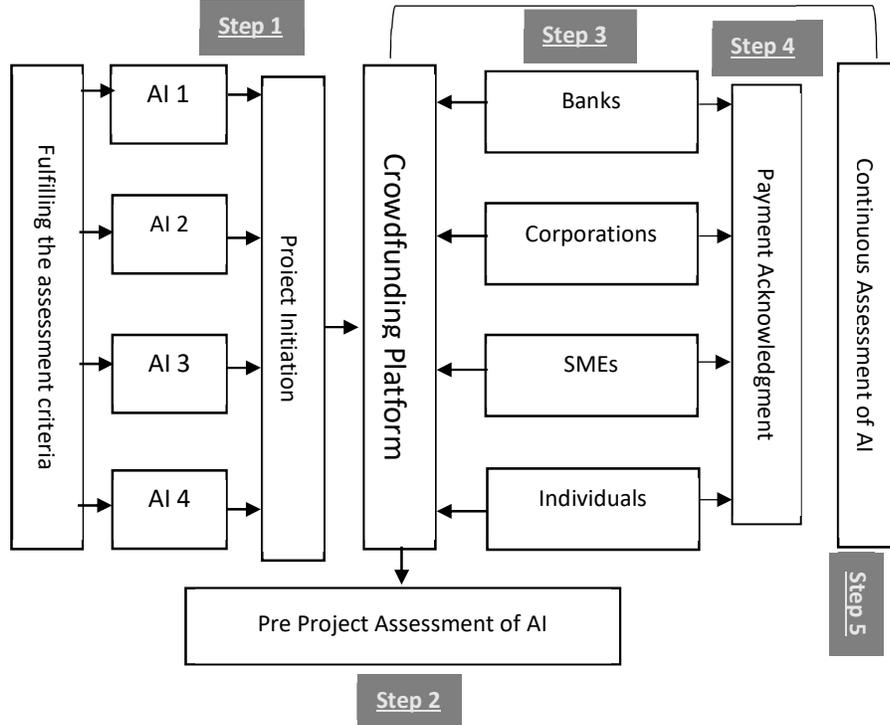
In the second step, the crowdfunding platform would assess the project and the strength of the *awqaf* institution in carrying on the project. If the previous performance of the *awqaf* institution is high enough to carry out the current project, it would be approved by the crowdfunding platform and would be displayed online. The crowdfunding platform must reveal the financial performance of the project initiator regarding recovery, delinquency rate, portfolio yield, projects success rate, etc. This information would be available when a potential funder clicks on the project details.

In the third step, the donors such as banks, corporations, SMEs and Individuals would endow funds to the specific project using particular means of fund transfer. In the fourth step, the funder would get a letter of acknowledgment from the crowdfunding platform which would be used for availing any tax benefits from the government.

The continuous assessment would be taken into account during the project and after the project. The funder would be kept updated about the progress of the project. The amount raised would be maintained with the crowdfunding platform and would be transferred time to time to the project initiator based on his performance from the project.

Once the project is completed and the benefits (profits) are started deriving, it would contribute to the performance score of the *awqaf* institution. This kind of scoring and performance assessment would motivate each of the *awqaf* institutions to work efficiently.

Figure 1: Proposed Framework for Waqf-Based Crowdfunding



Source: Authors Proposed Framework

4.4. Channelling to Bottom 40 percent

The income generated from the projects can be given out as a financing with minimal profit rate based on the Islamic principles like *murabaha*, *mudaraba*, or *qard ul hassan*. For instance, if anyone from the bottom 40 percent wants to start a business, *mudaraba* contract would be used between both the parties. In the case of buying assets, *murabaha* can be the choice and similarly loan in the form of cash can be supplemented with *qard ul hassan* contract. These contracts are usually applied by the Islamic Microfinance Institutions. However, the costs to borrowers are quite high due to high operational costs. In our case, the costs can be minimised by converging different small scale *awqaf* institutions under the umbrella of crowdfunding. The suggested mechanism can reduce the cost of employment as most of the jobs would be handled through a

crowdfunding platform. Once the operational costs are minimised, the loans can be disbursed with low-profit rates and service charges.

Here the question arise that why not the bottom 40 percent are provided with the cash transfers. It is because we want to minimise the effect welfare dependence in the minds of these people. This sort of dependence creates a malign effect where the incentive to work amongst the beneficiaries decreases. A study showed that increase in the welfare allowance by one percent increase the recipients by 3 percent (Nisaknen, 1996). It means that people, instead of earning by themselves become dependent on the government. In order to avoid this effect, we have proposed that the financing must be provided for income generating economic activity. The income generated from the economic activities by the bottom 40 percent would be then used for overcoming the differences between their savings and expenditures.

5. Conclusion

The problems of bottom 40 percent are widely discussing amongst the Malaysians. However, a recent study showed that wealth inequality is affecting all the races in Malaysia. Though Bumiputeras are the one who holds less real assets in comparison with other races. By focusing on the problems of the bottom 40 percent Bumiputera, it is observed that they are those who makes a significant portion of the Bottom 40 percent. The main issue is making enough savings to invest further which can give them financial support in case of rainy days.

The government programmes of cash transfer are not sufficient. However, *zakat* and *waqf* are utilised for providing assistance to the bottom 40 percent Bumiputera. On the other hand, the efficiency of *waqf* is not up to the limit in terms of performance. Much of the *waqf* land is idle which could be used for different revenue generation activities. On the other hand, those standalone institutions which are only registered with State Islamic Religious Council, collect cash endowments however the records cannot be traced where it has been spent.

Hence, in this study, we have provided a solution through cash waqf-based crowdfunding which will take endowments from the endowers such as banks, corporations, SMEs, and Individuals, and then provide it to the *awqaf* intuitions. In the meanwhile the financial performance of these institutions would be fully observed and would be made available to the endowers and the general public through a crowdfunding platform.

In short, the suggested model opt to not only being as collection and distribution platform but also as the performance evaluator of the project initiators. It will motivate those *awqaf* institutions to avail the cash endowments by an easy mean as well as to perform efficiently to attract more endowers.

References

- Abdul-Rahman, A. R., & Goddard, A. (1998). An Interpretive Inquiry of Accounting Practices in Religious Organisations. *Financial Accountability and Management*, 14(3), 183–201. <http://doi.org/10.1111/1468-0408.00060>
- Abid, A., & Shafiai, M. H. M. (2015). Zakat and Waqf as Sources of Minimizing Wealth Inequality among the Muslims of Malaysia: A Preliminary Study. In *International Sustainable Technology, Energy and Civilization Conference*. Kuala Lumpur.
- Ali, K. M. (2014). *Integrating Zakah , Awqaf and Islamic Microfinance for Poverty Alleviation : Three Models Of Islamic Micro Finance*. IRTI Working Paper Series for Islamic Research and Training Institute.
- Bagchi, S., & Svejnar, J. (2015). Does wealth inequality matter for growth? The effect of billionaire wealth, income distribution, and poverty. *Journal of Comparative Economics*, 43(3), 505–530. <http://doi.org/10.1016/j.jce.2015.04.002>
- Bates, R. H. (1997). An Assessment of the New Institutionalism. In J. Hunter (Ed.), *The new institutional economics and Third World development*. London ;New York : Routledge,.
- Birdsall, N. (2012). Why Inequality Matters: Some Economic Issues. *Ethics & International Affairs*, 15(2), 3–28. <http://doi.org/10.1111/j.1747-7093.2001.tb00356.x>
- Burch, G., Ghose, A., & Wattal, S. (2013). An Empirical Examination of the Antecedents and Consequences of Contribution Patterns in Crowd-Funded Markets. *Information Systems Research*, 24(3), 499–513.
- Chen, Y. K. (2012). The progressivity of the Malaysian personal income tax system. *Kajian Malaysia*, 30(2), 27–43.
- Chowdhury, M. S. R., Ghazali, M. F. Bin, & Ibrahim, M. F. (2011). Economics of Cash WAQF management in Malaysia: A proposed Cash WAQF model for practitioners and future researchers. *African Journal of Business Management*, 5(30), 12155–12163. <http://doi.org/10.5897/AJBM11.1810>
- Cizakca, M. (1992). The Relevance of Ottoman Cash Waqf (Waqf al-Nuqud) for Modern Islamic Economics. In M. A. Mannan (Ed.), *Financing Development in Islam*. Kuala Lumpur: Islamic Research and Training Institute.
- Cizakca, M. (2004). *Ottoman Cash Waqfs Revisited : The Case of Bursa 1555- 1823*. Manchester.
- Çizakça, M. (1998). Awqaf in History and Its Implications for Modern Islamic Economies. *Islamic Economic Studies*, 6(1), 43–70.
- Department of Statistics. (2014a). *Household Expenditure Survey 2014*. Kuala Lumpur: Department of Statistics.

- Department of Statistics. (2014b). *Household Income Survey 2014* (Vol. 2014). Kuala Lumpur: Department of Statistics.
- Fouché, G. (2008, November 16). Where tax goes up to 60 per cent, and everybody's happy paying it. Retrieved June 2, 2016, from <http://www.theguardian.com/money/2008/nov/16/sweden-tax-burden-welfare>
- Gale, W. G., & Samwick, A. A. (2014). Effects of Income Tax Changes on Economic Growth. *Economic Studies*, 1–16.
- Gerber, E. M., Hui, J. S., & Kuo, P. (2009). Crowdfunding : Why People Are Motivated to Post and Fund Projects on Crowdfunding Platforms. In *ACM Conference on Computer Supported Cooperative Work*.
- Haneef, M. a, Pramanik, A. H., Mohammed, M. O., Dahiru, A., & Amin, F. B. (2013). Integration of Waqf and Islamic Microfinance for Poverty Reduction : A Survey in Kuala Selangor , Malaysia. *Journal of Islamic Finance*, 2(2), 1–16.
- Hassan, M. K. (2010). An Integrated Poverty Alleviation Model Combining Zakat , Awqaf and Micro-Finance. *The Tawhidi Epistemology: Zakat and Waqf Economy*, (September), 261–281.
- Hemer, J. (2011). *A Snapshot on Crowdfunding* (Working papers firms and region No. No. R2/2011). Karlsruhe. Retrieved from <http://hdl.handle.net/10419/52302>
- Ihsan, H., & Hameed Hj. Mohamed Ibrahim, S. (2011). WAQF accounting and management in Indonesian WAQF institutions. *Humanomics*, 27(4), 252–269. <http://doi.org/10.1108/08288661111181305>
- Isa, Z. M., Ali, N., & Harun, R. (2011). A Comparative Study of Waqf Management in Malaysia, 10, 561–565.
- Khalid, M. A. (2014). *The Colour of Inequality*. Petaling Jaya: MPH Group Publishing Sdn Bhd.
- Khazanah Research Institute. (2014). *The State of Households*. Kuala Lumpur: Khazanah Research Institute. License: Creative Common Attribution CC BY 3.0.
- Kleemann, F., Voß, G. G., & Rieder, K. (2008). Un(der)paid Innovators: The Commercial Utiliza-tion of Consumer Work through Crowdsourcing. *Science, Technology & Innovation Studies*, 4(1), PP. 5-26.
- Kuran, T. (2001). The Provision of Public Goods under Islamic Law : Origins , Impact , and Limitations of the Waqf System. *Journal of the Law and Society Association*, 35(4), 841–898.
- Mandaville, J. E., International, S., East, M., & Aug, N. (2014). Usurious Piety : The Cash Waqf Controversy in the Ottoman Empire. *International Journal of Middle East Studies*, 10(3), 289–308.
- Masruki, R., & Shafii, Z. (2013). The Development of Waqf Accounting in Enhancing

Accountability. *Middle-East Journal of Scientific Research*, 13, 1–6.
<http://doi.org/10.5829/idosi.mejsr.2013.13.1873>

- Md Saad, N., Kassim, S., & Hamid, Z. (2013). Involvement of Corporate Entities in Waqf Management: Experiences of Malaysia and Singapore. *Asian Economic Financial Review*, 3(6), 736–748.
- Mohammad, M. T. S. (2008). Sustaining the means of sustainability: the need for accepting wakaf (Waqf) assets in Malaysian property market. In *The 14th Annual Conference of the Pacific Rim Real Estate Society*. Kuala Lumpur.
- Nisaknen, W. A. (1996). Welfare and the Culture of Poverty. *Cato Journal*, 16(1).
- Pope, N. D. (2011). Crowdfunding Microstartups: It's Time for the Securities and Exchange Commission to Approve a Small Offering Exemption. *University of Pennsylvania Journal of Business Law*, 13(4), 101–129.
- Portney, K. E. (1979). *The Politics of Economic Inequality: Income and Wealth Distributions, Political Processes, and Public Expenditures in Cities States, and Nations*. The Florida State University.
- Salih, K. (2014). *Malaysian Human Development Report 2013: Redesigning an Inclusive Future*. Kuala Lumpur.
- Shirazi, N. S. (2014). Integrating Zakāt and Waqf into the Poverty Reduction Strategy of the IDB Member Countries. *Islamic Economic Studies*, 22(1), 79–108.
- Wolff, E. N. (1996). International Comparisons of Wealth Inequality. *Review of Income and Wealth*, 42(4), 433–451. <http://doi.org/10.1111/j.1475-4991.1996.tb00193.x>
- Zarka, M. A. (2007). Leveraging Philanthropy: Monetary Waqf for Micro Finance. In *Towards an Islamic Micro-Finance* (pp. 1–6). Boston: Islamic Finance Project.