

# Third Sector Socio-Economic Models: How *Waqf* Fits In?

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**Abstract:** *In this paper, various theoretical frameworks of third sector (voluntary sector) economy are investigated with the aim of proposing a sustainable and inclusive socio-economic development model. An economic model that incorporates the third sector, together with the public and private sectors, is argued to be not only economically viable, but ethically superior, in achieving socio-economic development. Waqf is considered to be one of the most important institutions of third sector that exists in the Islamic heritage. Waqf, like many other third sector organisations (TSOs), needs to be recognised formally in efforts to build contemporary economic development frameworks. To achieve this, the paper calls also for multi-dimensional improvements in the management of TSOs, including waqf.*

**Keywords:** Nonprofit, sustainability, third sector, voluntarism, *waqf*

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## 1. Introduction

In this paper, various theoretical frameworks of third sector (voluntary sector) economy are investigated with the aim of proposing a sustainable and inclusive socio-economic development model. It is argued that the third sector is a crucial sector, instrumental in the process of developing better cooperation and participation in an economy. In the discussion, it is highlighted that the position of *waqf* or *awqaf* (plural in Arabic), a crucial third sector institution that has long existed in the Islamic heritage, is a dynamic third sector organisation (TSO). The proposed idea is noble in the sense that it moves away from the neo-classical conflict model of a two sector (public-private) model. Since the third sector has never been recognised formally in the theoretical and policy making realms of mainstream economics, the novelty of this study is that it spearheads an

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exploratory investigation into the theoretical and policy dimensions of incorporating the sector into the two sector economic model. The model is also unique because it incorporates an Islamic dimension into the economy by the roles of the *waqf* institution.

The mainstream neoclassical ‘conflict’ (private-public) models are not sustainable in the long run. Values and ethics have never been the principal elements of modern day economics although they might have made a brief historical hallmark when they were part of the moral philosophy discussions in the 16th and 17th centuries. Over the centuries, the importance of values and ethics has been played down, thus giving way to the domination of a ‘value-free’ technical, positive economics. Despite such discrepancies in the modern economic discipline, it has been studied and manifested in policy prescriptions that guide development in all countries, including the Muslim countries. Concerned with the discrepancies, this study brings back the value and ethical inputs into economics by integrating the third sector, especially through *waqf*, into the standard ‘private-public’ economic model.

To achieve the objectives, a survey of the literature on third sector macro models was conducted. The identified models are then compared and evaluated, taking into account the socio-economic environment of their development. The models’ characteristics, strengths and weaknesses are identified. The exercise is conducted in order to understand the best-suited model to describe and position the contemporary *waqf* institution in the context of Malaysia.

This paper continues with a discussion of the importance of the third sector being recognised in the mainstream economic model. The definition of the third sector is discussed in Section 3. In Section 4, various macro models of the third sector are reviewed, where features of third sector organisations (TSOs) in the identified models are compared. The understandings derived from the preceding sections are then applied to the context of the Malaysian economy and are presented in Section 5. The position of *waqf* in Malaysia as an example of a third sector organisation is also discussed in the section. In the last section, some concluding remarks and policy recommendations are provided.

## **2. Why the Third Sector and *Waqf*?**

A two-sector economic model consists of the private and public sectors. This model has long been established as the mainstream framework in the modern economy. The two-sector model, however, has a lot of discrepancies and thus, is unable to sustain the overall developmental agenda of nations. Poverty, inequality, economic crises, environmental and value degradations are among the common issues resulting from the two-sector model. In

response to the issues, a number of organisations in the form of cooperatives, social enterprises, foundations, and other non-profit institutions, just to name a few, have emerged (Molla & Alam, 2011) with welfare as their main agenda and altruism as their main driving value. These institutions, according to Najam (2000), emerge because of states' failure in providing sustainable development to the economy, where the third sector usually functions as a complementary institution and at times as an alternative system for promoting development.

It is interesting to note here that, in the case of *waqf*, its existence does not come in response to socio-economic issues, rather *waqf* has been there at the very beginning of Islam since the time of Prophet Muhammad (peace be upon him) until the last Ottoman Empire (Cizakca, 1998). *Waqf* is not an alternative or a complementary institution in the economic system of Islam. *Waqf* has been central in promoting positive values and at the same time addressing welfare issues facing the Muslim *ummah* (Martin, Chau, & Patel, 2007). Considering the central roles of *waqf* in the long history of Islam, we can argue that the third sector has been an integral part of the foundation of the Islamic economic system.

Including *waqf*, activities of the above mentioned organisations are referred to as the third sector economy. Their activities are mostly aimed at promoting social justice and the well-being of mankind (Molla & Alam, 2011). Since the third sector economy encompasses diverse organisations and institutions with myriad roles, encapsulating its framework is a challenge.

In spite of many important roles TSOs have played in ensuring balanced growth, social justice and welfare in the society, they have not received attention and recognition accordingly in the mainstream economy. Rather, the third sector is considered peripheral to the mainstream economic model and national economic management (Molla & Alam, 2011). The marginalised position of the third sector could be attributed to the overemphasis of efficiency, believed to be only possible via market mechanisms (Wigglesworth and Kendall, 2000). Nga and King (2006) put the blame on the TSOs themselves for the neglect, where some TSOs are pessimistic in engaging the government and industries. They also argued that the complexities and difficulties in measuring third sector impacts and outcomes are another reason for the lack of proper recognition given to the sector. In the case of *waqf*, its central roles in the history of Islam diminished after the collapse of the Ottoman Empire (Cizakca, 1998; Abdallah, 2010). Modern Muslim countries are run based on the two-sector economic model and TSOs (including *waqf*), as argued earlier, is just peripheral to the system. Studies focusing on the third sector are limited when compared with the other two sectors (public and private). This study, therefore, probes into the literature, with the aim of arriving at a shared understanding of the status of

the third sector in the current two sector models. The purpose of the exercise is to investigate the feasibility of integrating the third sector into the mainstream economic model. In doing that, *waqf* is taken as the focus institution in order to conceptualise its presence in the modern economy. This approach also enables a reconstruction of the Islamic economic system in the modern time. In the next section, the definition of the third sector is examined so that a common definition can be established.

### 3. Defining the Third Sector

In general, there is no single agreeable definition of what the third sector is. Activities of third sector organisations (TSOs) usually are associated with the civil society and voluntarism (Olaf, 2010). The third sector, unlike the public and private sectors, cannot be subjected to detailed planning or be regulated without it losing some of its qualities, such as voluntary participation, value-based motivation and independence from more institutionalised power structures. As such, generalisation about its definition is difficult.

In different parts of the world, the term third sector is used to refer to a variety of organizational types including, charities, non-government organisations, self-help groups, social enterprises, networks and clubs, volunteer groups, cooperatives, and social movements (Brandsen, Van de Donk, & Putters, 2005; Olaf, 2010). Due to this mixture of organizational types with correspondingly different characteristics, there are complexities in defining what constitutes the third sector within the surrounding domains of market and state. The above scope of definition is standard but undermines many voluntary activities undertaken informally, for example when the voluntary activities are conducted by individuals not associated with any TSOs such as in the case of an individual who gives free tuition to orphans.

In light of the standard definition, a registered *waqf* institution therefore is a form of third sector organisation. However, in the case of *waqf* activities performed by an individual without formal notification to the *waqf* institution, those activities would be outside of the standard definition—many family *waqf* is outside of this definition since it is conducted within the confine of family members and are often not registered. The consequence of the standard definition is that many reports on TSOs understate the actual third sector contributions. Despite the complexities of arriving at a common definition, it is an undeniable fact that TSOs (including *waqf* institution) are part of the integrated economic system, a sector with its own distinct form and practical functions.

## 4. Macro Models of Third Sector Economy

In this section, features of the third sector based on two dominant existing models, namely, the American and European models are discussed. The purpose of the discussion is to compare the importance, positions, functions and roles of the third sector in a national development framework (i.e. how the third sector plays its part in the economy with respect to each model). The understanding derived is crucial in conceptualising the importance, positions, functions and roles of *waqf*, particularly in the Malaysian context.

### 4.1 The American Model

Salamon and Anheier (1992, 1997) undertook the John Hopkins Comparative Non-profit Sector Project (JHCNSP) and arrived at a structural-operational definition of the third sector. In achieving this they investigated the history of the non-profit sector in a broad cross-section of states. Five key characteristics of the third sector have been outlined as follow (Anheier & Salamon, 1998):

- a. Organised/institutionalised to some extent. The organisation has some institutional reality to it, such as through a legal character of incorporation, some degree of internal organizational structure, relative persistence of goals, activities and some meaningful organizational boundaries i.e. recognised difference between members and non-members.
- b. Private/institutionally separated from government. Non-profit organisations are not part of the apparatus of government. They are “non-governmental” in the sense of being structurally separated from the instrumentality of government, and they do not exercise governmental authority.
- c. Self-governing i.e. equipped to control their own activities. Some organisations that are private and non-governmental may nevertheless be so tightly controlled, either by government agencies or private businesses. In such situations, they function as part of these other institutions even though they are structurally separated. To meet this criterion, organisations must be able to control their own activities to a significant extent, have their own internal governance procedures, and enjoy a meaningful degree of autonomy.
- d. Non-profit distributing i.e. not returning profits generated to their owners or directors. Non-profit organisations may accumulate profits in a given year, but the profits must be ploughed back into the basic mission of the agency, not distributed to the organisations’

- owners, members, founders or governing board. Only if the profits are re-invested or applied to the stated purpose of the organisation, would the organisation qualify as a non-profit institution.
- e. Voluntary i.e. involving some meaningful degree of voluntary participation. To be included within the non-profit sector, organisations must embody the concept of voluntarism to a meaningful extent. This involves two different but related considerations. First, the organisation must engage volunteers in its operations and management, either on its board or through the use of voluntary staff and voluntary contributions. Second, “voluntary” also carries the meaning of “non-compulsory.” Organisations in which membership is required or otherwise stipulated by law would be excluded from the non-profit sector (Anheier & Salamon, 1998).

The sector is thus defined as a collection of entities that make a reasonable showing on each of the above five characteristics. The structural-operational definition encompasses organisations which may fulfill a variety of functions; they do not focus attention exclusively on institutions providing public goods, or efficiently and effectively supplying private goods, or on organisations which offer positive externalities for society. It is therefore able to accommodate the majority of interests in the sector (Morris, 2000).

Given the five characteristics, one missing point for *waqf* is the requirement for the *waqf* property to be perpetual in nature. With this additional point and the above five characteristics in consideration, management of *waqf* institutions would have more freedom and flexibility to progress. In the case of Malaysia, however, points (b) and (c) above are not applicable since *waqf* management is under the authority of states religious department (a government agency). The American model, therefore, is not congruent to describe the management of *waqf* institutions in Malaysia.

The above definition of the third sector is conventionally referred to as the American model of the third sector. It is called the American model because the idea was originated at the US based John Hopkins University, Maryland, and the fact that it was spearheaded by American researchers at the University’s Institute for Policy studies. This model has received wide attention and has become one of the dominant international models used to understand issues related to the third sector.

The John Hopkins Project (JHCNSP) in principal has created a methodology for the international comparison of the third sector based on three major assessment criteria, namely, employment/volunteering, expenditures and financing. These criteria, however, are not universal according to Borzaga (1998) because they are bounded by the criterion of non-distribution that underlies the American model. In addition, the model considers each sector to function separately, with its own identity and

objectives. Rather than being universal, Roginsky and Shortall (2009) argue that the American model reflects individualism, the core cultural components of American identity.

Two factors have been argued as the leading cause of the American model's emergence, which arise from the demand based theories for the voluntary sector. The demand based theories attempt to explain the genesis of the voluntary organisations as a response to either (i) market failure, characterized as the inability of a market system to provide goods and services in an optimal manner; or because of (ii) government failures, defined as the inability of public agencies to achieve their intended objectives (Dollery & Wallis, 2002). In the case of *waqf*, both factors could also be related to the revival of its roles in Muslim countries today. In spite of being part of an integrated Islamic economic system, as argued earlier, *waqf* is gaining popularity today mainly to complement discrepancies in the two sector economic model.

According to the market failure theory, the voluntary organisations are subject to non-redistributive constraint. One implication of such constraint is that these organisations surrender the right to accumulate monetary residuals that can then be distributed to their members for personal consumption. Dollery and Wallis (2002) and Estelle (1990) considered the non-redistributive constraint as having positive embedded effects on the functions and operations of TSOs. First, if managers of TSOs cannot benefit financially by receiving profits, they would be less likely to cheat consumers and therefore non-profit organisations are likely to be more trustworthy. Second, potential donors (of money and voluntary labor) are more willing to donate to non-profit organisations because they focus their donations to serving the intended purposes. As a result, TSOs continue to develop and be sustained, and trustworthiness prevails despite the view that many customers or donors do not have adequate information about the products or services of TSOs.

The government failure theory, on the other hand, ascribes the existence of the TSOs to the presence of demand for public goods that are left unsatisfied by the state (Salamon & Anheier, 1997). Dollery and Wallis (2002) pointed out that the first serious attempt to develop a theory based on this hypothesis began with Weisbrod (1977), who constructed a model called 'the provision (financing) of public-type, collective-consumption goods by nongovernmental enterprises'. The model focuses on problems and issues arising from government failure to deliver the expectations of taxpayers. According to the model, diversity of a society (religious or ethnic) creates diverse conceptions of good life and desirable bundles of collective goods that must be supplied. In such a society, the third sector is likely to thrive. The reason is that with a democratic political system, government, which is the principal vehicle for supplying collective goods, would respond only to demands for collective goods from the majority, leaving unsatisfied the

demands pressed by subgroups of the population. The result is a significant residue of unsatisfied demands for collective goods that only TSOs are ready to meet (Salamon & Anheier, 1997).

In view of the above arguments, the American model considers the third sector as a separate and independent sector that exists in an economy to respond to the incipient government failure and the subsequent inability of the markets to make good the shortcomings of the state in provision of public goods. One important note to emphasise is that the John Hopkins structural-operational definition is based on these theoretical constructs for the third sector. The model is thus designed in a way that regards the third sector as one of three independent sectors constituting the national development framework, as illustrated in figure 1.

In Figure 1, the American framework of a national development model, based on three sectors of the economy, namely; the state, market and third sector, is shown. The third sector essentially serves to close the gaps between the state and market through the provision of goods and services demanded by the public, but which none of the first two sectors is able/willing to provide. A clear demarcation of position, functions and roles of the three sectors, as illustrated in Figure 1, is one important difference between the American and European models. These models are described in the next section.

#### ***4.2 The European Model***

In the European model, the third sector is considered as part of a mixed economy of welfare. Unlike the American model that views the state, market and third sector separately, the European model embeds the third sector in a tri-polar relationship between market, state and private households (Evers & Laville, 2004). This tri-polar relationship constitutes the so-called welfare triangle (refer to Figure 2).

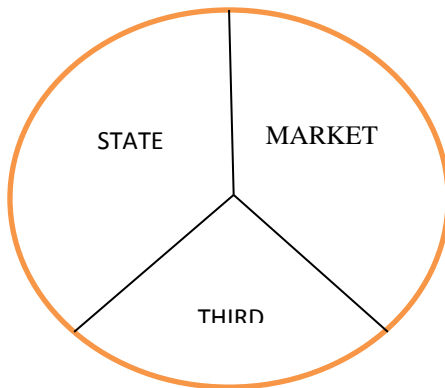
The welfare triangle illustrates both socio-economic and socio-political relationships that underlie the importance, functions and roles (environment) of the third sector. Arrows in Figure 2 show the degree of tension in the relationships. The welfare triangle captures the socio-economic relationship in term of various sources of contribution to social welfare that come from the state, market and households. The socio-political relationship, on the other hand, is influenced by state policies and legislation, values and practices of markets, culture of civil society and interests of the stakeholders individuals/households, as indicated by the arrows (to mark the degree of tension fields in the tri-polar relationships) in Figure 2. The TSOs, therefore, need to balance a plural bundle of norms and values of the sectors at the corners of the triangle (Evers & Laville, 2004). In order for TSOs to maintain their independence (position within the triangle), they need to have certain



control over their environment, which involves meeting the objectives and interests of the stakeholders, keeping up with market pressures and operating within the policies and regulations of the state.

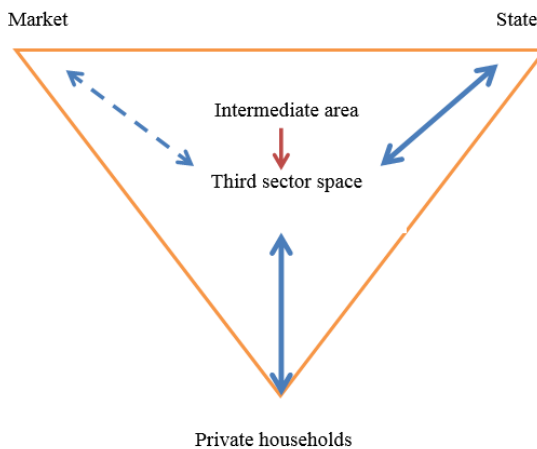
Based on the welfare triangle model, Defourny and Pestoff (2008) developed a more comprehensive representation of the relationships between the state, market and third sector. The work of Defourny and Pestoff (2008) constitutes the European model that emphasises the fundamentally open, mixed, pluralistic and intermediary nature of the third sector.

**Figure 1: The American model**



Source: Evers & Laville (2014).

**Figure 2: The welfare triangle**



Source: Evers & Laville (2014).

Figure 3 as illustrated in Defourny and Pestoff (2008) originally was employed to conceptualise the European national development framework, involving the state, market (firms and households) and the third sector. One advantage of the model is that the formal and informal involvement of all the three sectors in the economy are also captured in the model. As illustrated in Figure 3, the dotted lines separate the behavioural tensions that exist at the borders separating the central triangle (area 10—representing pure third sector organisations/activities) from the market, state and informal sectors. Those behavioural tensions create a hybrid existence of TSOs (areas 2, 6 and 4) that arises due to quasi-influences of other sectors i.e. government, firms and individuals. Further discussion of each quadrant in Figure 3 is provided in Section 5 with specific examples based on a Malaysian case.

The hybrid coexistence of TSOs means that the non-profit objective of the third sector is shared by either the state, firms or individuals, in which the established TSOs (either in area 2, 4 or 6) comprises of a welfare mix. The hybrid coexistence of TSOs also means that the third sector is an intermediary sector. As such, TSOs involve themselves in the formal economic, social and political aspects of the national development framework (areas 2 and 4). Beyond that, TSOs also involve themselves in the informal or community activities (area 6). Due to the hybrid coexistence of TSOs, researchers often find it is challenging to categorise the organisations in the third sector precisely and to assess their impacts objectively.

A distinctive characteristic of the European model is the attention given to the historical-dynamic perspective, focusing on non-profit association typologies that highlight different modes of action and the changes in them over time. With these perspectives in mind, recent studies of the European non-profit sector, such as those by Evers and Laville (2004), Monzon and Chaves (2008) and Kendall (2009) have arrived at a shared understanding of the scope of TSOs as part of European legacy with the philosophy to meet the mutual interests or common goals of the society and not for maximising returns on investment.

- a. Again, five distinct characteristics have been derived to mark the characteristics of the third sector in Europe (Defourny & Pestoff, 2008). These characteristics are rooted in the history and traditions of the different countries dating back to the 19th century, and they include the following:
- b. The tradition of philanthropy (charities, the community sector, etc.) that is particularly influential in the United Kingdom and Ireland.
- c. The tradition of civic commitment to the entire community, aiming to foster equality and democracy – this prevails in Scandinavian countries.

- d. The principle of subsidiarity, which has been central, especially with respect to church related activities in countries such as Germany, Belgium, Ireland and the Netherlands.
- e. The cooperative movement, which was closely linked to the development of the voluntary sector in various countries, either through a common civic background fostering participation and democracy (e.g. in Denmark and Sweden.) or through common religious inspiration (as in Italy, Belgium and France).
- f. The role of the family in countries such as Spain, Portugal, Greece and Italy has had a major influence on the pace of the development of the third sector, especially with regard to the provision of personal services (childcare, elderly care, etc.).

In essence, the European model is more inclusive when compared with the American model. It recognises not just the core identity of TSOs (area 10 in Figure 3), but also the hybrid roles of the sector (areas 2, 4 and 6 in Figure 3). In addition, the European model also entertains traditions, historical legacy and the economic environment of the European society.

Given the characteristics of TSOs as discussed in Sections 4.1 and 4.2, it can be traced that the tradition of *waqf* in Islamic history had similar characteristics of both models combined, plus the perpetuity requirement for the *waqf* property. The European model (as illustrated in Figure 3) is considered to be a more superior model to conceptualise the existence of *waqf* institutions in the modern time due to its strengths, as mentioned above. In the next section, based on Figure 3, *waqf* is fitted into the model within the context of Malaysia.

## 5. An Adaptation of Defourny and Pestoff's Model to the Malaysian Context with Waqf Considerations

Figure 3, from Defourny and Pestoff (2008), is further discussed in this section with specific applications to the Malaysian context. The reason for employing the model is due to the inclusiveness of the model, parallel with Malaysia's New Economic Model that considers inclusivity, growth and sustainability as the core components for Malaysia's future development. Furthermore, as discussed in Section 4.2, the model not only incorporates the core non-profit segment (area 10 in Figure 3) of TSOs but also integrates the hybrid roles played by other economic agents (state, firms and individuals as indicated by areas 2, 4 and 6) in voluntary activities. Interestingly, the existence of *waqf* in Malaysia is more common in these areas, which reflects lack of freedom and limited autonomy of *waqf* management. In addition, the model also implicitly adopts traditions, historical legacies and economic

conditions as part of its structural framework, all of which can be contextualised to the heterogeneous Malaysian society as well as *waqf* tradition and practices in Malaysia.

State's roles in the economy are represented by area 1. The area represents the formal, non-profit roles of state. Provisions of public goods such as public hospitals, public schools, public roads and public facilities are some examples of goods and services that can be related to area 1. Since independence in 1957, there has been a large presence of government in the Malaysian economy. The public sector in Malaysia has played active roles in social re-engineering and economic development of the country. For the past 17 years, the Malaysian government has tabled deficit budgets. In 2013, government expenditure stood at 14.4% of total domestic demand, or RM105.5 billion, as measured by real government final consumption expenditure (Department of Statistics Malaysia [DOSM], 2014). The large presence of government not only exists in terms of the traditional government functions (area 1), but also in activities related to the third sector (area 2).

Area 2 in Figure 3 represents state's involvement in third sector activities. The activities basically remain formal and non-profit in nature. Since *waqf* in Malaysia must be registered with the state's Islamic religious department where it operates, the department becomes the sole trustee for *waqf* property according to law. As such, most of the formal *awqaf* in Malaysia are represented by area 2. Formal *waqf* therefore is not free from government supervision and intervention, as argued earlier in Section 4.1.

- a. Apart from *waqf*, area 2 also includes many public endowments (or *Yayasan*) such as, *Yayasan Perak*, *Yayasan Terengganu*, *Yayasan Pahang*, *Yayasan Basmi Kemiskinan*, *Yayasan Kelantan Darul Naim*, *Yayasan Negeri Sembilan* and *Amanah Ikhtiar Malaysia (AIM)*. Most of the state-based endowments are active in providing educational assistance to the needy. Most TSOs in area 2 face several common issues which are summarised as follows:
- b. Over-reliance on government's grants/contracts. One sensitive aspect of government-third sector relationship is funding and/or contracting. In the case of Malaysia, some TSOs receive huge funding/contracting from the government. Apprehension exists in such relationship regarding the independence and self-governance of the third sector. Questions are being raised as to the extent TSOs are pursuing their established goals, or rather, the extent to which they have compromised some of them in meeting the goals dictated by the government.

- c. Competition to win contracts from the government encourages TSOs to take on characteristics of commercial enterprises. Values underlying such competitive behavior tend to be opposite to the values that underpin voluntarism. Cooperation among TSOs may be hampered since now TSOs look at each other as competitors.
- d. Incoherent meaning over government-third sector partnership. Partnership is another way that government and TSOs establish a relationship (O'Brien, Sanders, & Tennant, 2009). Each party nevertheless, tends to have different ideas on the established partnership. For TSOs, a partnership may mean the hope for stronger supports and back-ups by the government in establishing and addressing key issues. On the other hand, for the government, the partnership means service delivery, assessment of outcomes, accountability, responsibility and wider democratic participation. Such incoherent meaning to the established partnership is sensitive to stakeholders' interests. There is a tendency by the government, for example, to demand more than what the TSOs can deliver.

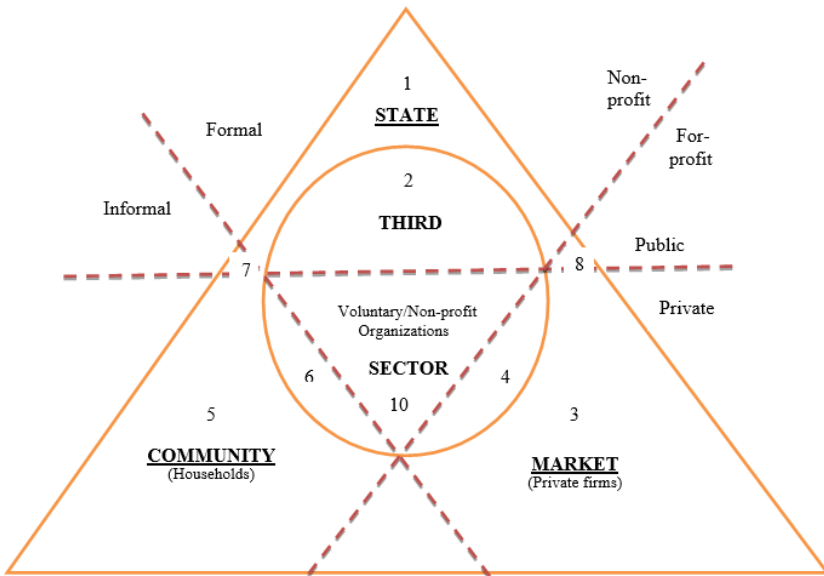
The issues identified above have sparked criticisms against the government-third sector relationship. One pertinent case is in the management of state/federal-based *waqf* institutions in Malaysia (e.g. *Yayasan Wakaf Malaysia* and *Perbadanan Wakaf Selangor*). Ideally, every *waqf* project (e.g. orphanages) undertaken by the state/federal-based *waqf* institutions needs to be operated as an independent TSO (where the orphanage is given flexibility and autonomous power to manage its resources). Complications in the government-third sector relationship may arise when the *waqf* project (the orphanage), which stands as a TSO, are restrained by bureaucracy that comes from the patronage body. Those issues arise when close cooperation with the state could undermine *waqf* independence and objectives. In the Islamic tradition, *waqf* has always been seen as a remedy to the crisis of the welfare state, and even as an alternative to the state provision of certain services. To ensure a workable partnership with the government while still retaining its autonomy and core principles, well-defined objectives, proper legal frameworks, transparency and systematic bureaucracy-TSOs cooperation models are crucial in the management of *waqf*.

Area 3, in Figure 3 represents the profit-motive production activities by firms in the economy. In 2013, the real value of gross fixed capital formation in Malaysia grew by 8.5% from the previous year, amounting to RM217.9 billion (DOSM, 2014). Also known as the private sector, mainstream economic models consider firms to have a profit-maximisation objective. In

pursuance of the objective, firms or corporations are often accused of neglecting welfare issues. Values dominant in area 3, such as self-interest, individualistic and competitive, are in contrast to the values that bring forth voluntarism activities (represented by areas 2, 4, 6 and 10), such as altruistic, participative and cooperative. Hence, addressing welfare issues in a capitalist economic system stands as an awkward proposal due to the inherent values underlying the system.

Despite the conflict of values as noted earlier, in reality, firms or corporations do participate in tackling some welfare issues as responsible corporate citizens. In Figure 3, area 4 indicates such activities undertaken by private firms. These activities promote the values underlying voluntarism but firms still undertake them with profit motive in mind. Corporate social responsibilities (CSR) such as fund-raising events or sponsorships by corporations fall into this area. Firms build their goodwill and public relation by undertaking CSR and at the same time may benefit from tax relief. Proper incentives by the government to induce more engagement of firms in activities related to area 4 are therefore necessary in order to encourage more responsible corporate citizens.

**Figure 3:** The modified welfare triangle – An application to Malaysian context



Source: Defourny and Pestoff (2008).

Area 5, as shown in Figure 3, represents consumption expenditures by individuals and households in the economy. Private final consumption expenditure in 2013 was valued at RM409.3 billion or 56.7% of Malaysia's GDP (DOSM, 2014). In retrospect, the real GDP of Malaysia in 2013 was at RM787.6 billion. Compared to government expenditures, consumption expenditures contributed more than half of the domestic demand.

Informal participation of individuals in voluntary activities are represented by area 6. Charitable giving is the common way individuals participate in voluntary acts such as by giving donations (*sadaqah*), and *qard al-hassan*. Individuals also involve themselves in non-monetary voluntary acts such as devoting certain hours doing voluntary work at an orphanage, social community watch, providing aid to the homeless or via *manihah* and *waqf*. If the monetary/non-monetary acts of voluntarism are undertaken formally, these activities are captured by area 10 while informal voluntarism by an individual falls in area 6 - family *waqf* or *waqf* that is not registered with the Islamic religious department (e.g. individuals who *waqf* books to a library) falls in this area. Measuring activities that fall in area 6 poses a considerable challenge because they are considered as non-market activities and are therefore not included in national income accounting calculations. Even in the case of monetary donation, it is not included in the measure of Gross Domestic Product (GDP) since it is a form of transfer payment.

Area 7 captures any activity undertaken by the public sector that is regarded as informal. Communal works by any government agency or ministry, such as cleaning a communal area and slaughtering animals during *Aidil Adha* are two examples representing activities under area 7.

Area 8 captures the involvement of government agencies in the economy but with a profit motive in mind. In Malaysia, government-linked companies (GLCs) such as *Khazanah Nasional Berhad*, *Permodalan Nasional Berhad (PNB)*, *Petroleum Nasional (Petronas)*, *Tenaga Nasional Berhad (TNB)*, *Telekom Malaysia (Telekom)* and *Keretapi Tanah Melayu Berhad (KTMB)* are examples of GLCs that have played significant roles in shaping the Malaysian economy, in particular since the launch of the Privatization Policy in 1983. Apart from the profit objective, state activities, as represented by area 8, also have other objectives such as to facilitate the country's economic growth, reduce the financial and administration burden of the government, reduce the government's presence in the economy, lower the level and scope of public spending and allow market forces to govern economic activities and improve efficiency and productivity. In fact, affirmative policy that promotes active participation by Bumiputera in the corporate sector (to correct the imbalances in the corporate sector participation to 30% of equity to Bumiputera) has been actively pursued by

the government via GLCs. Area 8, in the case of Malaysia, is a sizable portion of the economy.

Area 9 involves informal activities by the private sector in the economy. Small unlicensed businesses that operate at the street, home or night market (*pasar malam*) are some examples of activities that fall under this area. It is estimated that about 195,200 individuals in Malaysia are involved in activities represented by area 9 (DOSM, 2012)

Area 10 represents pure TSOs. It neither involves the public sector nor the private sector. The voluntary organisations engage in activities involving welfare, health, education, community development, human rights, conservation and many others. These activities, organised by the various voluntary organisations serve the religious, racial, political and national interests of many Malaysians. One impactful TSO to represent area 10 is MERCY Malaysia. It is one example of a voluntary organisation that provides disaster relief services.

From the discussion above, the application of Defourny and Pestoff's (2008) model to the Malaysian context has been found to capture an extensive area of TSOs' activities in the country. Based on the model, there is an ideal case for *waqf* to be placed in area 10, so that it may enjoy more freedom in its management and development, without the present rigidity of the bureaucratic system of the government. It should be noted that by law, all *awqaf* in Malaysia must be put under the trusteeship of the state Islamic religious department. Formal *awqaf* in Malaysia therefore fall in area 2. To give more autonomy in the management of *waqf*, more flexibility is needed in the law that requires all *awqaf* to be put under the sole trusteeship of state Islamic religious departments. The flexibility would allow for dynamic *waqf* development as pure TSOs in the future.

## 6. Conclusion

Third sector organisations (TSOs) provide a diverse range of services to vulnerable and socially excluded groups. The sector sometimes even outdoes the government in providing services needed by the society. The services provided are more targeted since they are established by concerned citizens, close to the grass root issues and thus, have a better understanding of assistance most wanted by the society. Via TSOs, issues to the concern of the vulnerable and socially excluded groups can be advocated and advanced. In this way, these groups are protected from having to pursue their agenda through government politics or market, which in most cases are the exclusive domain of the rich and influential people in the society. *Waqf*, as one of the tools of distribution in Islam, had a long history in Islamic tradition to serve all these purposes.



In recent years, the relationship between government and the third sector has been growing stronger as government starts to realise the ability of the sector to provide many social services. This paper therefore calls for institutional and legal reforms in an effort to integrate the sector into the national development framework so that the sector can function effectively.

Various frameworks discussed and evaluated in this paper signify the important roles that TSOs can play in the economy. *Waqf* in particular, is a crucial third sector organisation that should be given recognition and priority in developing Muslims' economy. Nevertheless, TSOs face many challenges (including waqf), particularly in terms of their management and operations. Lack of professionalism and systematic recognition of TSOs in the economy have further downplayed the crucial roles of the sector.

The third sector needs to be formally recognised, in particular, in the national development agenda and in the economic modeling framework. In order for the sector to be recognised as part of the mainstream economy, more systematic management and operations of the sector are required. Lessons can be learnt from the experience of third sectors in developed countries where the sector has played instrumental roles in generating work opportunities, welfare provisions and socio-economic development. Lessons also can be learnt from Islamic heritage where the institution such as *waqf* and *baitulmal*, have played central roles in cultivating voluntarism and giving cultures and *shari'ah*-based management.

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