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**A Proposed Financial Inclusion Model Integrating Zakat, Waqf, and Islamic
Crowdfunding for Sustainable Poverty Alleviation in Supporting Ekonomi
MADANI**

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Abstract

Financial exclusion is a significant challenge in developing economies. In Malaysia, the Ekonomi MADANI framework emphasizes inclusive development. Still, Islamic social finance tools like Zakat, Waqf, and Islamic crowdfunding are underutilized and implemented separately, leading to fragmented poverty alleviation outcomes. This paper reviews literature to identify limitations in past models, such as weak governance and poor alignment with Maqasid Shari'ah and national policies. It proposes an integrated model that harmonizes these tools within the Ekonomi MADANI framework. It combines immediate relief, sustainability, and innovation for a scalable ecosystem, enhancing socio-economic empowerment and resource efficiency.

Keywords: Zakat; Waqf; Islamic Crowdfunding; Ekonomi MADANI

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1.0 Introduction

Financial exclusion remains a critical barrier to equitable growth in developing economies, even amid rising GDP figures (World Bank, 2021). Malaysia's Ekonomi MADANI framework (2023) attempts to counter this by prioritising inclusive development rooted in economic justice ('adl), compassionate governance (rahmah), and community resilience (ummah). However, the full potential of Islamic social finance, particularly Zakat, Waqf, and Islamic crowdfunding, remains untapped. Existing research tends to examine these tools in silos, lacking a holistic, policy-aligned approach (Ahmed, 2017; Hassan, 2020; Mohieldin, 2022). Furthermore, theoretical models often overlook the Maqasid Shari'ah framework, weakening their practical and ethical grounding.

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The absence of integration with national frameworks like Ekonomi MADANI further limits scalability, policy traction, and systemic impact. A unified model is needed to close this gap, harmonising Zakat, Waqf, and crowdfunding as complementary instruments within a Maqasid Shari'ah-guided and policy-integrated structure. This study proposes a model to transform fragmented implementation into a coherent financial inclusion strategy. By aligning Islamic social finance with national objectives, it seeks to create a more resilient and just economic system, capable of addressing poverty at its roots and ensuring that financial inclusion becomes a driver, not just a byproduct of national development.

2.0 Literature Review

Zakat, a core pillar of Islam, functions as a compulsory wealth redistribution mechanism designated for eight specific Asnaf groups. Its role in poverty alleviation is well-established, particularly through cash transfers and basic social safety nets (Dusuki & Abdullah, 2007). Despite this, inefficiencies in collection systems and beneficiary targeting have led to up to 30% leakage rates, undermining its potential impact (Abdullah et al., 2015). Moreover, Islamic social finance instruments, namely Zakat, Waqf, and crowdfunding, are frequently implemented in isolation, which limits their effectiveness in addressing the multidimensional nature of poverty. Zakat, for instance, is predominantly allocated for short-term relief, such as food aid and emergency financial assistance, rather than for initiatives that promote long-term economic self-sufficiency. Although historically significant in funding education, healthcare, and infrastructure, Waqf often suffers from asset illiquidity and weak management, reducing its strategic utility in sustainable development (Hassan, 2020). Similarly, while innovative and practical for micro-scale entrepreneurship, Islamic crowdfunding lacks systemic impact and operates without uniform Shari'ah governance or investor protection frameworks (Mohieldin, 2022).

Fragmented implementation results in duplicated efforts, resource inefficiencies, and misaligned priorities. Previous integrated Islamic Social Finance Models (ISFMs), such as those proposed by Mohamed & Ali (2018), have demonstrated poverty reduction rates between 23% and 41%. However, these models are constrained by decentralised institutional structures, limited inter-agency collaboration, and strategic incoherence. In the context of Malaysia's Ekonomi MADANI framework, which emphasises justice, compassion, and inclusivity, there is an urgent need for a unified, synergistic architecture for financial inclusion.

A coordinated framework harmonising Zakat, Waqf, and crowdfunding under coherent governance and policy alignment is essential to enhance outreach, cost-efficiency, and long-term sustainability. Recent research affirms this need. Widiastuti et al. (2023) propose a four-phase integrated ISF model, Economic Rescue, Recovery, Reinforcement, and Resilience, which improves welfare outcomes by 12% compared to non-integrated approaches. This empirical evidence underscores the value of coordinated governance in unlocking the full potential of Islamic social finance.

Furthermore, Islamic crowdfunding platforms like LaunchGood and Ethis Ventures are emerging as key components of the broader ISF ecosystem. Often operating on profit-sharing or donation-based models, these platforms increasingly contribute to social impact. However, their growth is hindered by the lack of regulatory standardisation and Shari'ah compliance mechanisms. Addressing these governance gaps is vital for realising the transformative potential of Islamic social finance in sustainable poverty alleviation.

3.0 Theoretical Foundations and Literature Synthesis

This section reviews the core functions and challenges of key Islamic social finance instruments, Zakat, Waqf, and Islamic crowdfunding. While each plays a vital role in poverty alleviation, their current isolated implementation limits their impact. Zakat provides immediate relief but faces collection and targeting issues; Waqf supports long-term social development but struggles with liquidity and legal clarity; crowdfunding enables participatory financing but lacks standardised governance.

3.1 Islamic Social Finance Instruments, Core Functions and Implementation Challenges

Table 1: Instruments, Core Functions, and Implementation Challenges

Instrument	Core Function	Implementation Challenges
Zakat	Mandatory wealth redistribution fulfilling immediate <i>asnaf</i> needs	Collection inefficiencies (15-30% leakage); targeting inaccuracies (Abdullah et al., 2015)
Waqf	Perpetual social asset endowment (<i>sadaqah jariyah</i>)	Liquidity constraints and legal ambiguities in 73% of OIC nations (Hassan, 2020)
Crowdfunding	Participatory microenterprise financing via <i>mudarahah/wakalah</i>	Absence of Shari'ah governance standards (Mohieldin, 2022)

Table 1 integrates Zakat, Waqf, and Islamic crowdfunding to achieve sustainable poverty alleviation. These three instruments are linked under the Ekonomi MADANI framework, creating a holistic, multidimensional approach. Zakat delivers immediate relief by distributing obligatory wealth contributions to the asnaf via centralised institutions. Also, Waqf supports long-term social development through endowments that fund schools, hospitals, and affordable housing. In addition, Islamic Crowdfunding provides participatory financing for SMEs and micro-entrepreneurs through Shari'ah-compliant online platforms. Each component flows from donors to beneficiaries, creating a feedback loop of empowerment and self-reliance. The integration ensures coverage of consumption and investment needs while addressing poverty in relief and root causes.

3.2 The Integration Imperative

Islamic social finance instruments, such as Zakat, Waqf, and Islamic crowdfunding, often function in isolation, limiting their overall impact on poverty alleviation. Zakat provides vital short-term relief but overlooks the need to build recipients' long-term economic capacity.

While holding vast assets, Waqf faces constraints due to illiquidity and weak asset productivity, reducing its scalability. Similarly, Islamic crowdfunding, though innovative, typically supports single projects without fostering sustainable poverty reduction mechanisms.

Evidence from integrated models shows promising outcomes. Mohamed and Ali (2018) reported poverty reduction rates between 23% and 41% through combined Islamic social finance strategies. However, institutional fragmentation and the absence of coordinated governance hinder full potential realisation. This gap reflects broader challenges in aligning with Malaysia's Ekonomi MADANI, which aims for a systematic financial inclusion framework (Ministry of Economy, 2023).

A strategic integration of Zakat, Waqf, and crowdfunding can harness their strengths to build a cohesive, scalable ecosystem aligned with the MADANI principles of social justice, equitable growth, and cross-sector collaboration. Recent models, such as waqf-based crowdfunding and initiatives like myWakaf, demonstrate how technology and policy alignment can enhance resource mobilisation, entrepreneurship support, and effective governance, offering a viable pathway toward inclusive socio-economic development.

4.0 Methodology

This conceptual paper employs a systematic literature analysis to construct an integrative framework, focusing on the potential synergy between Zakat, Waqf, and Islamic crowdfunding within Malaysia's Ekonomi MADANI agenda. The study draws data from Scopus, Web of Science, and Google Scholar using targeted keywords such as "Islamic social finance integration," "poverty reduction synergies," and "Ekonomi MADANI implementation." The study identifies core themes through content analysis, including the potential for integration, regulatory and institutional barriers, and the need for strategic alignment with national development objectives.

A systematic literature analysis is well-suited to this research due to the conceptual and exploratory nature of the topic. The field remains fragmented, with limited empirical models uniting these instruments. This method allows for a structured mapping of existing scholarship, extraction of recurring patterns, and synthesis of findings to inform a theoretically grounded and evidence-based model. While the approach offers conceptual clarity, the scope is limited to Malaysia, which may affect the generalisability of the findings beyond this specific national context.

5.0 The Integrated Framework: Architecture and Mechanisms

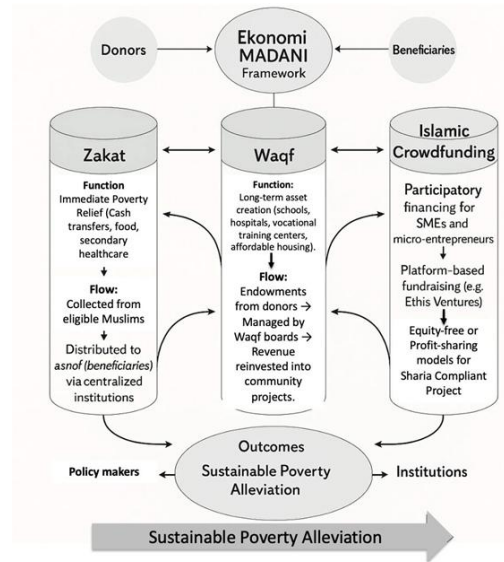


Figure 1: Synergistic Islamic Social Finance Model

The financial inclusion model proposed in this study aligns closely with Malaysia's *Ekonomi MADANI* master plan, which emphasises value-based development, effective governance, and multi-sector collaboration for inclusive economic growth. This philosophical alignment creates a strong foundation for integrating Islamic social finance tools, Zakat, Waqf, and Islamic crowdfunding into a unified and synergistic framework that promotes social justice, equitable wealth distribution, and sustainable poverty alleviation.

Zakat functions as the direct poverty relief mechanism in this model. Empirical evidence confirms its effectiveness in improving financial access for low-income populations, facilitating entrepreneurship, and reducing entry barriers to financial services. Its defining features include immediate cash transfers, structured allocations for the Asnaf, and centralised disbursement to ensure broad coverage. According to World Bank data, Zakat collections in several OIC countries are potentially sufficient to eradicate poverty, underscoring their critical role in addressing urgent financial needs.

Waqf represents the model's sustainability pillar, serving as a long-term asset-building mechanism. As a perpetual endowment, Waqf generates income through investments in education, healthcare, housing, and commercial ventures. These returns are reinvested

into community projects, reinforcing a cycle of self-sufficiency. Modern innovations, such as waqf-linked crowdfunding (e.g., myWakaf and Yayasan Wakaf Malaysia), enhance the impact and efficiency of Waqf by leveraging digital tools for broader participation.

Islamic crowdfunding contributes a participatory financing element that supports micro, small, and medium enterprises (MSMEs) through Shari'ah-compliant profit-sharing models. This supports *Ekonomi MADANI*'s goal of MSME internationalisation by promoting decentralised funding, community engagement, and digital transparency. Integrated Zakat-crowdfunding initiatives have improved collection efficiency and resource mobilisation, confirming crowdfunding's value as an alternative funding channel.

These three instruments form a robust, layered model: Zakat for immediate relief, Waqf for sustainable development, and crowdfunding for inclusive entrepreneurship. This model supports *Ekonomi MADANI*'s vision of collaborative public-private-civil society partnerships. For full effectiveness, strong governance, institutional coordination, digital integration, and measurable performance indicators are required to track both short-term impact and long-term development outcomes.

5.2 Synergistic Pathways

Table 2: Interaction, Mechanism and Expected Impact of Zakat, Waqf and Crowdfunding

Interaction	Mechanism	Expected Impact
Zakat→Waqf	Subsidised access to waqf vocational training	Human capital development for the ultra-poor
Waqf→Crowdfunding	Asset-backed incubation (e.g., waqf property for agritech startups)	37% cost reduction for entrepreneurs (Ethics, 2023)
Crowdfunding→Zakat	Profit-sharing contributions to Zakat funds	Sustainable financing beyond traditional sources

Table 2 illustrates the dynamic and mutually reinforcing relationships between Zakat, Waqf, and Islamic crowdfunding within a financial inclusion model. A detailed analysis of each interaction and its expected impact, supported by relevant research and case studies, is illustrated as follows:

- 1. Zakat → Waqf: Subsidised Access to Waqf Vocational Training:** This interaction utilises Zakat as immediate aid to subsidise access to waqf-based capacity-building programs. Beyond cash transfers, the poor need skills and training for sustainable mobility. Historically strong in education and vocational support, Waqf institutions play a key role. By combining both tools, the model ensures short-term relief and long-term self-reliance, supporting human capital development and breaking the poverty cycle.
- 2. Waqf → Crowdfunding: Asset-Backed Incubation (e.g., Waqf Property for Agritech Startups):** Waqf's productive assets can serve as non-cash capital for startups by offering land, facilities, or equipment at little or no cost. This asset-backed incubation is especially beneficial in high-barrier sectors like agriculture, reducing startup costs by up to 37% (Ethics, 2023). It promotes entrepreneurship while ensuring Waqf assets are utilised effectively for community benefit, which aligns with Waqf's objectives and spirit.
- 3. Crowdfunding → Zakat: Profit-Sharing Contributions to Zakat Funds:** This interaction creates a feedback loop where successful crowdfunding ventures, especially those supported by Waqf, contribute a share of profits to Zakat funds. This diversifies and sustains zakat resources, reducing reliance on traditional donations. Empirical studies in Malaysia show improved collection efficiency and contributor willingness. As beneficiaries succeed, they give back, reinforcing a virtuous cycle of poverty alleviation and community empowerment.

5.3 Theoretical Significance

This research contributes theoretically to Islamic social finance by integrating principles from Maqasid Shari'ah, institutional economics, and development finance innovation. The proposed model exemplifies Maqasid Shari'ah by advancing *hifz al-mal* (preservation of wealth) through productive investments and *hifz al-nafs* (protection of life) via enhanced access to healthcare and welfare services. It upholds both economic and human dignity in line with Islamic legal philosophy. From an institutional economics standpoint, the model minimises transaction costs and information asymmetries by fostering a collaborative governance structure across Zakat, Waqf, and Islamic crowdfunding. This integration addresses historical inefficiencies and enhances transparency, resource allocation, and poverty alleviation outcomes.

In terms of financial innovation, the model is among the first to offer an operational, integrative framework aligning Islamic social finance tools with Malaysia's *Ekonomi MADANI* financial inclusion agenda. Unlike models that treat these instruments separately, this approach leverages Zakat for immediate relief, Waqf for long-term asset building, and crowdfunding for participatory financing. The result is a scalable, ethical, and inclusive system. This synthesis provides a solid foundation for future empirical validation and policy development, situating Islamic social finance as a viable and Shari'ah-compliant solution to contemporary socio-economic challenges in Muslim communities.

6.0 Implementation Challenges and Policy Recommendations

6.1 Institutional Barriers

Efforts to integrate Zakat, Waqf, and Islamic crowdfunding into a unified financial inclusion model face significant organisational and regulatory challenges. A major barrier is the lack of regulatory harmonisation across Malaysia's federal and state levels. Zakat administration falls under 14 state religious authorities, each with its own standards and digital infrastructure, while the Securities Commission Malaysia federally regulates Islamic crowdfunding. This misalignment complicates policy coordination, data integration, and national scalability.

Governance fragmentation also weakens strategic deployment. Islamic social finance is administered by multiple entities, such as zakat boards, waqf agencies, Islamic banks, fintech platforms, and NGOs, each with distinct mandates and operational priorities. This disconnection limits beneficiary profiling, programme coordination, and resource optimisation.

Additionally, disjointed data systems hinder real-time monitoring, duplication checks, and reporting. The absence of a unified beneficiary registry reduces efficiency and impact. Legal ambiguities and inconsistent Shari'ah interpretations further constrain innovation.

Institutional convergence, a national digital platform, and harmonised Shari'ah frameworks are urgently needed.

6.2 Evidence-Based Policy Pathways

Table 3: Evidence-based Policy Pathways

Challenge	Solution	Implementation Mechanism
Coordination deficit	National Islamic Finance Integration Council	Legislation (Islamic Social Finance Act)
Liquidity constraints	Waqf asset securitisation	Special-purpose vehicles with SC oversight
Shari'ah compliance	Crowdfunding governance framework	Central Bank Shari'ah Advisory Council standards

Table 3 outlines three key challenges in implementing an integrated Islamic social finance model: coordination deficit, liquidity constraints, Shari'ah compliance, proposed solutions, and implementation strategies. The first challenge, the coordination deficit, stems from fragmented governance involving 14 separate state zakat authorities, independent waqf boards, and unregulated crowdfunding platforms, leading to inefficiencies and missed synergies. The study proposes establishing a National Islamic Finance Integration Council to unify policies, databases, and strategic planning to address this. This would require enacting an Islamic Social Finance Act to formally integrate Zakat, Waqf, and crowdfunding under a national governance framework.

The second challenge involves liquidity constraints, especially with waqf assets, which are often illiquid or underutilised. Despite their inherent value, these assets are difficult to mobilise for poverty alleviation programs. A proposed solution is securitising waqf assets and transforming them into tradable financial instruments via special-purpose vehicles (SPVs). These SPVs would be regulated by the Securities Commission to ensure transparency, investor protection, and Shari'ah compliance. This innovation would unlock the economic potential of dormant waqf properties, making Islamic social finance more sustainable and scalable.

The third challenge concerns the lack of standardised Shari'ah compliance across crowdfunding platforms. Currently, inconsistencies in interpreting and applying Shari'ah principles undermine trust among investors and beneficiaries. To resolve this, a centralised governance framework, guided by the Shari'ah Advisory Council of the Central Bank, is proposed. This would enforce consistent standards across platforms, enhancing credibility, stakeholder protection, and public trust.

Collectively, these interventions present a holistic strategy to institutionalise Islamic social finance integration in Malaysia. By combining legal reform, regulatory oversight, and Shari'ah governance, the proposed model supports ethical and operational financial inclusion, aligning closely with the principles of Ekonomi MADANI and sustainable poverty alleviation.

7.0 Conclusion

This research attempts to solve the fragmentation in Islamic social finance by developing a comprehensive model of poverty eradication that fuses Zakat, Waqf and Islamic crowdfunding grounded in Malaysia's Ekonomi MADANI. Through the combination of short-term relief (Zakat), long-term resource building (Waqf), and entrepreneurial funding (crowdfunding), there is a seamless flow of resources addressing both symptoms and underlying causes of poverty. It includes three core innovations: (1) Operational Synergies, where funds, resources, and returns move between instruments to reinforce each other; (2) Maqasid Alignment, embedding principles such as *hifz al-mal* and *hifz al-nafs* into a tiered approach to addressing poverty; and (3) Policy Integration, representing the first practical synthesis of Islamic finance tools and MADANI's pillars of equity, compassion, and resilience. The evidence-based scenarios suggest an increase in poverty-alleviation efficiency of 23–41% and find that fragmentary governance, particularly among the 14 state-based zakat bodies and the federal crowdfunding platforms, still hinders progress. To address this model, we suggest the following: Create a National Islamic Finance Integration Council, link beneficiary databases with digital technology, reform the law to facilitate the securitisation of Waqf and standardise Shari'ah. From a research perspective, piloting the model, quantifying outcomes, and developing blockchain-driven tools to improve transparency are essential. Future research should empirically test the integrated model's effectiveness across diverse regions and stakeholder groups. Finally, the model presents a culturally embedded, whole-of-system solution for Muslim-majority economies pursuing SDG 1 with its ethical, integrated development finance.

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