



## The Impact of the Third Sector through Infaq on Home Economic Development

Shamsul Azhar Yahya<sup>1\*</sup>

<sup>1</sup>Malaysian Islamic Economic Development Foundation (Yapeim), Petaling Jaya, Selangor, Malaysia.

\*Corresponding author email: [hjshamsul@yapeim.my](mailto:hjshamsul@yapeim.my)

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### ABSTRACT

Apart from the Government and private sectors, there is another important sector in economic development, namely the third sector. The third sector refers to a group or organization that falls somewhere in between. They are associations, non-profit organizations, or foundations established in the name of volunteerism and community. The prevalence of this third sector is driven by an issue or goal to be achieved, and it is founded on the collective spirit between members or the local community. The Malaysian Islamic Economic Development Foundation (YAPEIM) is one of the foundations established by the Prime Minister of Malaysia to empower the people's economy and provide the best and efficient services. Infaq is a key component of the foundation, and the public funds received by the foundation have developed a long-term and short-term economy for all Malaysians, irrespective of race and religion. Since its inception in 1984, 10 million Malaysians have benefited from the foundation. The infaq funds received have been used for domestic economic development, ranging from micro businesses to small and medium businesses. YAPEIM would like to share its 40 years of experience to prove that infaq is one of the solutions that can be used in domestic economic development. The data in this article is based on qualitative data and a literature review. The scope of the study only focuses on the findings in the records at the Foundation. This article identifies problems in infaq issues and how to overcome them. In conclusion, the infaq model that has been implemented by the Foundation, if worked on and managed properly, can help the government and the private sector in the economic development of a country, and it has been successfully demonstrated since the early days of Islam.

## 1. INTRODUCTION

One of the sources of income in the Islamic economic system is contributions. There are many verses in the Quran explaining contribution (Eni Devi Anjelina et al.,2020). The verse of contribution in the Quran is divided into two parts. Contribution that are mandatory are called zakat, when contributions that are not mandatory are called infaq (Che Adenan Mohammad et al.,2022). There are also many verses about infaq, and Islam invites its people to invest their wealth in the way of Allah. The relevant sentences are as follows:

إِنَّمَا الصَّدَقَتُ لِلْفُقَرَاءِ وَالْمَسْكِينِ وَالْعَمِلِينَ عَلَيْهَا وَالْمَوْلَاةِ قُلُوبُهُمْ وَفِي الرِّقَابِ وَالْغَرَمِينَ وَفِي سَبِيلِ اللَّهِ وَأَبْنِ السَّبِيلِ فَرِيضَةً مِّنَ اللَّهِ وَاللَّهُ عَلِيمٌ حَكِيمٌ.

Indeed, the contributions are only for the poor, and the poor, and the amils who take care of them, and the converts whose hearts are tamed, and for the servants who want to set themselves free, and those who are in debt, and for the way of Allah, and the pilgrims who are on the way. (Such a decree is) as a decree (which comes) from Allah. And Allah is All-Knowing, All-Wise. (At-Taubah 9:60)

وَمِنْهُمْ مَّنْ عٰهَدَ اللّٰهَ لَئِنْ ءَاتٰنَا مِنْ فَضْلِهٖ لَنَصَّدَّقَنَّ وَلَنَكُوْنُ مِنَ الصّٰلِحِيْنَ.

And among them there are those who make a promise to Allah saying, "Indeed, if Allah gives us out of His bounty, we will surely give contribution, and we will certainly be of the righteous" (At-Taubah 9:75).

The above sentence explains the two conditions, namely the sentence that leads to the obligatory contribution, namely zakat, and the distribution of zakat asnaf, while the second sentence explains about contribution in the form of infaq which will make a person belong to the group of righteous people. This circumscribed contribution is highly encouraged in Islam so that Allah mentions the regret of those who have passed away but do not give contribution as the verse says.

وَأَنْفَقُوا مِنْ مَّا رَزَقْنٰكُمْ مِنْ قَبْلِ أَنْ يَأْتِيَ أَحَدَكُمُ الْمَوْتُ فَيَقُولَ رَبِّ لَوْلَا أَخَّرْتَنِيْ إِلَىٰ أَجَلٍ قَرِيْبٍ فَأَصَّدَّقَ وَأَكُنْ مِنَ الصّٰلِحِيْنَ.

And spend (donate) a part of the sustenance that We have given you before any of you dies to him, (otherwise) then he will appeal with him, saying, "O my Lord! It would be good if You delayed the coming of my death - to a little more time, so that I could give contribution and I could also be of the righteous." (Al-Munafiqun 63:10) This encouragement for charity has no limits and limits. However, Allah explains in

the Quran that this contribution is between two conditions. Not too stingy and not too generous. This is explained in the Qur'an, which is

وَالَّذِينَ إِذَا أَنْفَقُوا لَمْ يُسْرِفُوا وَلَمْ يَقْتُرُوا وَكَانَ بَيْنَ ذَلِكَ قَوَامًا

And also those who, when they spend their wealth, do not go beyond the limits and are not stingy; and (on the contrary) their expenditure is rightly moderate between the two ways (extravagant and wasteful). (Al-Furqan 25:67)

That is how Allah explains the position of contribution in Islam. There are no less than 24 verses in the Quran that talk about contribution and guidelines regarding contribution. This clearly shows that contribution can help a country's economic growth apart from helping someone in distress.

The existing economic model practiced in all countries, including Malaysia, is a two-sector model, namely the public sector and the private sector. The public sector is a sector that is managed by the government through various ministries according to the expenditure that has been approved. Meanwhile, the private sector is driven by various parties and companies. Most of them aim for profit and some provide funds in the name of CSR (Corporate social responsibility). Human elements such as values and ethics are not important factors in these two models and this has led to the occurrence of imbalances and conflicts of interest. Finally, the development agenda, poverty, and economic crisis cannot be achieved (Nahar & Aslam, 2016).

The third sector refers to a group, institution, foundation, social company and non-profit organization that makes the welfare agenda their main agenda (Molla & Alam, 2011). This group was named as the third sector group to fill the gaps that could not be filled by the two sectors in the overall development (Najam, 2000). This group will move and have a focus and have their specific agenda, whether it is environmental, political, educational, economic, welfare issues faced by certain groups that cannot or cannot be successfully solved by the government and the market. (Helmut, 2016). Usually this group will move voluntarily and in general it can be described that this third sector stands on elements of volunteerism and community. (Olaf, 2010).

This third sector is growing all over the world. There are even some establishments or middlemen who take the initiative to raise funds for specific purposes and objectives. This can be seen by the existence of various platforms to contribute funds

around the world, whether organized by Muslim or non-Muslim organizations. Examples of platforms that move around the world are such as Lunch Good, GivingHub, give.asia, kitabisa, globalsedekah and dozens of other platforms to channel funds for specific causes.

Several problems were identified related to the activities of collecting public funds. Among the concerns of the government and the public is the non-transparent management of public funds. The question that is always playing out among the community is how much of the funds collected are utilised by the general public. Apart from that, the lack of detailed reports on the use of the accumulated funds has caused the community to take the attitude of managing their own funds and distributing them to whomever they want. (Malaysian Gazette, 2021).

This article would like to explain the position of infaq and how to manage public funds more transparently and well. In order to ensure public trust in an institution, the role and support of the government is important to increase the confidence of the people to contribute to an institution. This article also wants to answer some of the economic problems that will be solved if all parties join forces, especially in terms of funds to help each other. It will also reduce the burden on the government in managing the larger economy.

This article is based on a report issued by YAPEIM for public information as well as the report contained in the corporate profile published in 2024 in conjunction with the 40th anniversary of the establishment of YAPEIM. This data has the Foundation's background as well as predetermined focus areas. It also includes the amount of funds obtained and the amount of funds that have been delivered to the relevant parties.

## **2. LITERATURE REVIEW**

The Malaysian Islamic Economic Development Foundation is an institution established by the Federal government on 13 October 1976 and incorporated under the Trustees Act 1952. YAPEIM was restructured and relaunched on 20 July 1984 by the then Prime Minister. YAPEIM's mission is to be a leading institution in leading socio-economic development in an inclusive and effective manner for the well-being of the people. YAPEIM carries out its operations with the objective of three main

components, namely Education, Islamic Economic Development and Social Development. Although YAPEIM is placed under the supervision of the Minister in the Prime Minister's Department (Religious Affairs), the institution does not receive any annual grant to carry out day-to-day operations. This institution has been fully operational since its inception by using the proceeds of infaq collection from the public. In 2000 YAPEIM took a step forward by creating a cooperative and this cooperative manages the ar-Rahnu microcredit.

Generally, YAPEIM operates using part of the proceeds and part of it is using profits contributed by ar-Rahnu's micro-credit business. As an organisation under the Prime Minister, YAPEIM has always supported all the government's intentions to help the low-income group to survive. Apart from that, YAPEIM's main focus is to help improve the ability of the people to start small businesses. Under the Dana Niaga Programme, YAPEIM will identify target groups and purchase business equipment and additional cash capital to start a business. This programme aims to enable those involved to earn their own income without relying on the help of others through business to meet the needs of their families in the future.

YAPEIM's source of income is from public contributions, especially from government civil servants. The minimum contribution at the initial stage is only RM5-10. The contribution obtained will be used for three core objectives, namely Islamic economic development, education and social development. However, YAPEIM will charge 12.5% of the total contribution as management costs (YAPEIM, 2024). Through the core of education, the aid is divided into two parts, namely holistic education and civilization development. The holistic education assistance will provide learning assistance that includes tuition classes and module development for examinations for the secondary school level. Also assisted in this terrace is the development and improvement of selected school infrastructure. Financial aid to student's ranges from primary school to university students. This assistance will focus on students who belong to the low-income group (YAPEIM, 2024). The development of civilization will focus on the development of thinking, knowledge programs and the publication of scholarly books. This thrust also provides awareness on the role of infaq in Islam including an explanation of the function of YAPEIM. The core will bring together local and foreign economic and

entrepreneurial experts through seminars and roundtables to forge strategic links and collaborative partners for economic development. From 2014 to 2023, a total of RM45 million has been distributed and a total of 2 million recipients are in this core (YAPEIM, 2024). Social development core or YAPEIM Prihatin provides greater assistance to the selected ones, namely residential assistance. The main condition to get this assistance is that they are an entrepreneur who is a small business and does not yet have a residential house. Financial assistance and business equipment are also provided under this thrust. From 1985 until 2023, a total of RM564 million has been distributed and a total of 7 million recipients have received assistance under this thrust (YAPEIM, 2024). The thrust of economic development is focused on microfinance through the ar-Rahnu program which offers competitive savings wage rates with high financing for business purposes. The Dana Niaga Programme is given to target groups identified through the purchase of business equipment and additional cash capital including collaboration with strategic partners. From 1985 to 2023, a total of RM81 million has been distributed through this pillar and 186 thousand have received assistance under this pillar (YAPEIM, 2024). Overall, the funds raised by YAPEIM from 1985 to 2023 is RM700 million and a total of 10 million Malaysians have benefited from YAPEIM. In 2023 alone, RM30.7 million has been distributed and 1.5 million has benefited from each of the existing thrusts. YAPEIM's performance in distributing these donation funds gives confidence to Malaysians to continue contributing to YAPEIM and gives them the confidence to continue the economic development programs of the Malaysian community (YAPEIM, 2024).

### 3. CONCLUSIONS

Based on 40 years of experience, YAPEIM has become the third major sector in the country's economic development. Apart from being supported by the government, YAPEIM is still trusted by Malaysians because of its transparency and good governance in managing public funds. However, there is no doubt that there are also organizations that collect public funds that are unable to channel the relevant funds properly due to the management problems of an organization. Therefore, proper governance and efficient management are essential in managing public funds. The expenditure report prepared annually gives confidence to contributors to continue

contributing to YAPEIM. The government should play an important role in the development of society and the economy. The government needs to give space to the third sector to help develop the community. Afghanistan could be more developed if all these sectors moved simultaneously earlier. The third sector can move by focusing on more focused purposes such as education, agriculture and entrepreneurship. The third sector needs to be more creative in helping the government build a strategic network with a new, more efficient network such as YAPEIM in managing public funds.

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