

Chapter 3

Towards Developing Islamic Equity Crowdfunding-*Waqf* Model (IECWM) to Harness the Potential of *Waqf* Land in Malaysia

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Abstract

Over the centuries including during the era of Islamic civilization, *Waqf* land has played a significant role towards enhancing the social and economic status of the Muslim societies. However, in the contemporary times, *Waqf* land is facing the problem of underdevelopment particularly in the context of Malaysia. Currently, there are around 11,091.82 hectares of *Waqf* land in Malaysia that is worth about RM4 billion or equivalent to US\$0.9 billion (Ali et al., 2015). Though, State Islamic Religious Councils (SIRCs) have a huge number of potential *Waqf* land, most of the lands are however still lying idle and remained undeveloped, mainly due to liquidity constraints or shortage of financial resources by SIRCs. Liquidity constraints have been considered as a main factor that hindered the execution of the various development plans of *Waqf* land in Malaysia. This thus calls for more innovative financing mechanism that can help to harness the potential of *Waqf* land. With this initiative, the research is developing a sustainable source of financing by integrating elements of crowdfunding and *Waqf*. The proposed model is known as Islamic Equity Crowdfunding-*Waqf* Model (IECWM). The proposed model will assist *Waqf* institution in identifying sustainable financing source to develop *Waqf* land in Malaysia. Through this, Malaysia will play a leading role among the OIC member states with the noble idea of Islamic crowdfunding and *Waqf* land development.

1.0 Introduction

During the Islamic history and civilization, *Waqf* institution have played its significant role in providing the social goods such as education and health, public goods (roads, bridge and national security), commercial business, utilities (water and sanitation), religious services (building and

maintenance of mosque and graveyards), helping the poor, orphans and the needy, creating employment, supporting agricultural and industrial sector without imposing any cost on the government (Sadiq, 2002). It has brought a significant movement to the Muslims in various dimensions of social and economics. The *Waqf* institution which is also known as a non-profit institution had played a very significant role through its varied and wide contributions to the economic and social life during the early period of Islam.

The practice of *Waqf* is not new to the Malaysian history. The *Waqf* practice in Malaysia can be traced to the 14th century after the embracement of Islam by the Malacca Sultanate (Aun, 1975). There are a number of *Waqf* lands that are existence since the Malaya period, which is before the independence of Malaysia. The administration of *Waqf* in Malaysia was managed by group of people like *Imams*, *Penghulu* (individual *Mutawalli*) and then gradually the responsibility was placed under one organisation which is the State Islamic Religious Councils (SIRCs) at each state level. The functions of SIRCs in Malaysia seem to have improved with various steps have been taken by the government, such as introducing national *Waqf* entities like Jabatan Wakaf, Zakat dan Haji (JAWHAR) and Yayasan Wakaf Malaysia (YWM) and SIRCs' subsidiaries such as Perbadanan Wakaf in some of the states (e.g. Selangor, Negeri Sembilan and Johor).

The current report of the Portal i-Wakaf and study by Ali et al. (2015) estimated that the total size of *Waqf* lands as recorded by the State Islamic Religious Councils (SIRCs) to be around 11,091.82 hectares that is worth about RM4 billion or equivalent to US\$0.9 billion. Though, SIRCs have a huge number of potential *Waqf* land, most of the lands are however still lying idle. According to the study by Maznah et al. (2014), out of 11,091.82 hectares of *Waqf* land, 92.8 percent of the *Waqf* land is undeveloped. According to the former director of Jabatan Wakaf, Zakah dan Haji (JAWHAR), Datuk Dr. Sohaimi Mohd Salleh mentioned that *Waqf* land currently remained undeveloped, mainly due to shortage of financial resources (Sabit, 2009).

So far, the Malaysian government becomes the main source of funding to the SIRCs for developing *Waqf* land through many projects and development. In the 9th Malaysian Plan (RMK-9), the Malaysian government has allocated RM256.89 million. Only 16 projects can be

developed with this funding which is only 0.16% of the overall *Waqf* land throughout the country. However, under the 10th Malaysian Plan (RMK-10), the government's allocation has been reduced to RM72.76 million due to economic reasons and limited to 10 selected projects. Furthermore, SIRCs needed at least RM80 billion to develop the entire *Waqf* lands in Malaysia (Nghah, 2012). Consequently, SIRCs have to find other alternatives to finance the development of *Waqf* land.

It can, therefore, be rightly asserted that the development of *Waqf* land requires other innovative financing mechanism and sources of funding in addition to the government funding. As such, a new mechanism that will allow for a sustainable source of financing is needed in harnessing the potential of *Waqf* land in Malaysia. If these *Waqf* land could be developed, its benefits would have significant contribution to the economic development of Muslim society in Malaysia as claimed by Rashid (2012). Rashid highlighted that the investment in developing idle *Waqf* land in Malaysia is expected to provide the annual rate of return of 20% to 25%. This means the initial investment outlay will be getting back in 4 to 5 years. Thus, the present study aims to harness the potential of *Waqf* land in Malaysia by developing a viable and attractive model which is known as Islamic Equity Crowdfunding-*Waqf* Model (IECWM) as a source of financing, and demonstrate the possibility to integrate modern financing mechanism particularly Islamic crowdfunding with traditional Islamic institution of *Waqf*.

The Islamic Equity Crowdfunding-*Waqf* Model (IECWM) is anticipated as the most suitable model that can effectively address or minimize the liquidity constraints faced by *Waqf* institutions in Malaysia. Instead of disseminating results to a broader community upon completion of the research, Islamic Equity Crowdfunding-*Waqf* Model (IECWM) garners public support through joint venture or profit sharing basis (*Mudharabah* mode of financing) before any project is initiated by the *Waqf* institution particularly SIRCs. Public outreach is at the forefront of crowdfunding proposals, and cultivating early connections with a wide audience often determines the success of individual funding drives. Crowdfunding takes advantage of crowd-based decision-making and innovation, and applies it to the funding of projects. Since the mode of raising initial capital through crowdfunding has proven to be successful in country like Australia, United States, Netherland, the United Kingdom, France, India and Brazil.

2.0 Literature Review

2.1 Liquidity Constraints of *Waqf* Assets

Liquidity issue is among the major constraint that impedes the *Waqf* institution to develop *Waqf* lands. Statistic of *Waqf* land proves that *Waqf* institution has numbers of assets which are in form of fixed assets and still remaining idle and, could not serve the objective of the donors. Literature shows that there are various past studies have been conducted which focus on liquidity issue.

According to the earlier study by Ngah (2012) on *Waqf* challenges in Malaysia, he found that there was lack of finance/capital for developing *Waqf* land. Indeed, the income generated from *Waqf* properties is too low due to few factors which are: (i) the rental of the *Waqf* property is lower than the market value; (ii) the rental payments for *Waqf* properties are long overdue; and (iii) lack of manpower for collecting rentals. As implication, he mentioned that the expenditure of SIRC exceeds the revenue generated.

Similarly, in another study by Habshi and Othman (1998) noted that Muslim countries like Malaysia are struggling to utilise the existing *Waqf* lands due to internal constraints. According to their findings, financial is among the constraints considered the main factors that hindered the growth of *Waqf* land in Malaysia. Their findings also consistent with the recent study conducted by Pichay et al. (2015) who find that lack of liquidity faces by *Waqf* institution is among the main reason why *Waqf* assets could not benefit the people. Meanwhile, Ahmad and Muhamed (2011) noted that present practise of *Waqf* among the Muslim people is not encouraging due to financial shortage. They claimed that the contemporary founders of *Waqf* declared un-productive or commercially viable land compared to history practiced. The consequences of this, most of the lands are idle due to financial shortage that faced by SIRC.

Chowdury et al. (2012) noted other problems in the systems are such as *Waqf* revenue are insufficient to bear the operational cost, *Waqf* properties has no self-generating income and unproductive, delay in the earning of the compensation in the acquisition of *Waqf* properties, procrastination is the *istibdal* and irregularity in receiving the benefit of the *Waqf* properties by the beneficiaries.

Hasan and Abdullah (2008) have conducted a study on the investment of *Waqf* land as an instrument of Muslim economic in

Malaysia. This study has highlighted the issues of financial resources that limit the growth of *Waqf* lands in Malaysia. On the financial provider aspect, basically SIRC's in Malaysia are depending on government fund allocation. Malaysian national broadcast, Bernama (2012) reported that in 9th Malaysian Plan (RMK-9), Malaysian government has allocated RM256.89 and in 10th Malaysian Plan (RMK-10), government has reduced the allocation of budget to RM72.76 million due to some economic reasons. The total allocation of budget in RMK-9 and RMK-10 only contributed to develop 0.16 per cent of total land and according SIRC's need at least RM80 billion to develop the entire *Waqf* lands in Malaysia (Ngah, 2012). Thus, the existing Director of JAWHAR, Datuk Haji Anan Bin C. Mohd has claimed that the main challenges of developing *Waqf* land in Malaysia are: (i) lack of fund allocated by the government; and (ii) high cost of maintenance of *Waqf* assets.

Pitchay et al. (2015) finds that majority of the *Waqf* land in Malaysia is still in idle due to the liquidity problem face by the *Waqf* institution. They argued that the sole fund provider by the government become the major problem and could not able to develop the entire *Waqf* land in a sustainable way. Based on the total budget of RMK-9 and RMK-10, SIRC's has managed to develop only 0.16 per cent of the total land. The Minister of Prime Minister's Department (related to Islamic Affairs) Y.B. Mejar Jeneral Dato' Seri Jamil Khir bin Hj. Baharom said that SIRC's needed at least RM80 billion to develop the entire *Waqf* lands in Malaysia (Pitchay et al., 2015).

Similarly, Sabit (2009) finds that the *Waqf* institution needs to be independent and self-reliant in order to overcome the liquidity problems. He argued that because most of the *Waqf* land could not achieve the objective due to the liquidity constraints that faced by *Waqf* institution, which impedes the development of *Waqf* land. Abul Hassan and Muhammad Abdus Shahid (2010) find that vast *Waqf* properties and lands in Malaysia are ill-managed due to the liquidity constraint face by the *Waqf* institution. Abdullah Jalil and Mohd Ramli (2008), find that the increasing cost of construction and limited source of funds become the limitation for *Waqf* institution to develop the *Waqf* lands.

Based on the previous and current findings, *Waqf* institutions in Malaysia faced liquidity constraints. The government funding only is not sufficient to support the development of *Waqf* assets in Malaysia. Hence, to harness the potential of *Waqf* land in Malaysia, *Waqf* institutions have to generate new method of generating fund to overcome the liquidity problems faced by *Waqf* institutions.

2.2 Crowdfunding

In a few years, crowdfunding has become a widespread and effective alternative for raising capital to support investment opportunity and source of venture capital. The crowdfunding market has grown tremendously in recent years. An industry report (Massolution, 2012) indicates that around \$5.1 billion total transactions occurred globally in 2013 (rising from \$2.6 billion in 2012), while a recent World Bank Report (2013) expects that the crowdfunding market to skyrocket and reach about \$93 billion in 2025 in developing countries alone. Such a growing market has garnered the attention of policy makers, which have legalized crowdfunding in many countries such as the United States, United Kingdom, Finland, Australia, France, India, Brazil and Italy (World Bank, 2013; Massolution, 2012).

Crowdfunding or crowd financing is “the collective effort of individuals who engage in network and pool their money, usually via the Internet, to support efforts initiated by other people or organizations” (Ordanini et al., 2011). Crowdfunding comes to practise with the help of web-based platform (i.e. RocketHub, Kickstarter, and IndieGoGo) and explosive growth of social media, with Facebook and Twitter at the forefront, as well as the affordable online payment transfer services such as Paypal and MoneyGram. The scope of crowdfunding projects is very diverse such as for business start-up, development projects, development and catastrophe aid, scientific research, entertainment such as videogames, movies and music, political campaigns, utilities and many other targets.

Massolution (2012) defines four categories of crowdfunding platforms (CFPs) namely equity-based, lending-based, donation-based, and reward-based crowdfunding. In equity-based crowdfunding, funders receive compensation in the form of fundraiser’s equity-based or revenue, or profit-share arrangements. Whereas in lending-based crowdfunding, funders receive fixed periodic income and expect repayment of the original principal investment. In donation-based crowdfunding, funders donate to causes that they want to support, with no expected compensation. Finally, in reward-based crowdfunding, the primary objective of funders is to gain a non-financial reward. Thus, equity-based and lending-based crowdfunding considered as crowdfunding for financial return, while donation-based and reward-based crowdfunding are used for campaigns that appeal to funders’ personal beliefs and passions. However, the present research focuses on the donation-based and reward-based crowdfunding

due to its popularity, flexibility and compatibility with the objective of *Waqf* institutions in Malaysia.

Since crowdfunding have been used widely in other countries to funds various philanthropic projects and charity purpose through small contribution from many sources, its application towards developing *Waqf* projects through *Waqf* assets may have significant contribution to socio-economic development, in particular. Hence, this study will therefore help in creating more awareness about crowdfunding among potential crowd funders that are willing to contribute small amount towards *Waqf* assets development. This could therefore open an opportunity for another means of raising sustainable funds for financing *Waqf* assets.

3.0 Crowdfunding Development in Malaysia

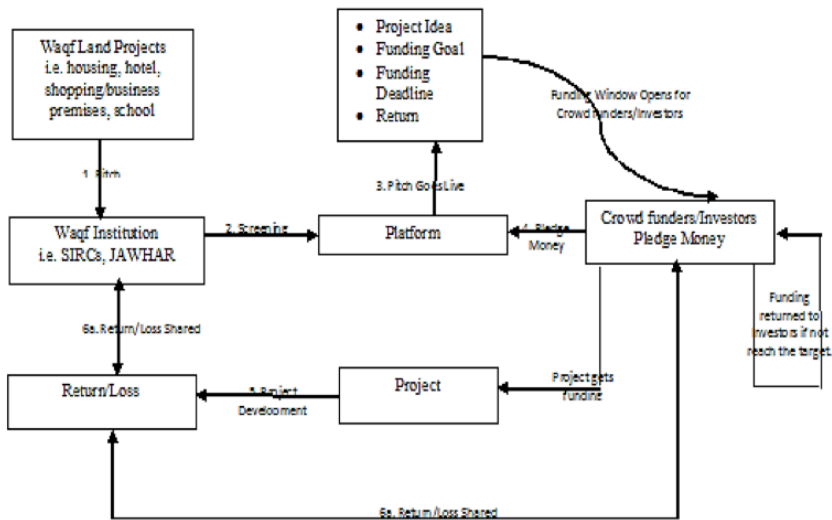
Malaysia is also not excluded in recognizing the importance of crowdfunding as shown by the concerted efforts by the government and some private agencies to introduce it to the local funding ecosystem. According to Asian Institute of Finance (2014), there are three main web platforms on crowdfunding in Malaysia namely pitchIN, MyStatr and MDeC. However, these crowdfunding platforms are reward based and donation based crowdfunding. So far, as August 2015, only 19 out of 103 projects are successfully raised funding through these crowdfunding platforms (Asian Institute of Finance, n.d.). Indeed, all the successful projects are focusing on community projects, film and video, arts and music.

The market volume for crowdfunding platform in Malaysia was over \$5 million between years 2013-2015. This is covering approximately 6% of total market activity across South East Asia. The total volume was dominated by donation based crowdfunding, which accounted for 92.4% of total Malaysian market, which raised a total of \$4.68m. Reward based crowdfunding accrued a total of 6%, which amounted to over \$325,000 over the period. In addition to existing crowdfunding platforms in Malaysia, recently, in June 2015, Malaysian Securities Commission has approving six equity based crowdfunding platforms for operation by the end of December 2015. Malaysia was one of the first countries in Southeast Asia to give regulatory approval for equity crowdfunding. Among the approved equity based crowdfunding platforms in Malaysia are Alix Global, Ata Plus, Crowdonomic, Eureeca, pitchIN and CrowdPlus.asia. Equity based crowdfunding began to emerge in with minimum value of \$58,000, equating to 1.1% of total market activity.

4.0 Proposed Islamic Equity Crowdfunding-Waqf Model (IECWM)

Our proposed model which is known as Islamic Equity Crowdfunding-*Waqf* Model (IECWM) involves venture between two main different parties which are *Waqf* Institution and Crowd funders or investors. *Waqf* Institution can be consisting of SIRC's or JAWHAR. Meanwhile, crowd funders or investors are consisting of the public or a large audience (the so-called “crowd”), where individual provides a fund. This model is using equity based crowdfunding model, by incorporating *Mudharabah* mode of financing. *Waqf* Institution and Crowd funders or donors play a role as *Mudarib* (project developer) and *Rab Al-Mal* (capital provider), respectively. The proposed model could be illustrated by Figure 1.

Figure 1: Islamic Equity Crowdfunding-Waqf Model (IECWM)



The following are the detailed explanation of Islamic Equity Crowdfunding-*Waqf* Model (IECWM):

- 1) *Waqf* Institution such as SIRC's or JAWHAR plans to develop and harness *Waqf* land by developing various projects such as housing, hotels, shopping/business premises, schools, and hospital/clinic. *Waqf* Institution needs to raise the funding from crowd funders or investors to implement the projects. It can

be done through joint venture or *Mudharabah* concept. *Waqf* Institution identifies their potential *Waqf* land and does all the screening process on the projects to get financing from crowd funders.

- 2) *Waqf* Institution uploads and submits the potential of particular projects' proposal to the platform which is known as Web Based Platform and Social Networks. *Waqf* Institution can establish and manage its own Web Based Platform and Social Network instead of outsourcing from external parties. The projects have to be funded within a predefined timeframe.
- 3) Crowd funders or investors choose projects that they want to support and joint venture in. Crowd funders or investors browse the web to search requests and finally choose the projects they are willing to provide the fund or capital.
- 4) Crowd funders or investors transfer/send funds through payment gateways. *Waqf* Institution can have its own payment gateways through collaboration with existing financial institutions.
- 5) Once the target amount of fund from crowd funders is reached, the system will update the status of projects and keep track of received fund until it is ready to be distributed. If the fund is not reached to its target, the fund will be returned to the crowd funders or investors.
- 6) If the fund is successfully raised, the system distributes the fund to *Waqf* Institution and notifies them to get ready managing and supervising the projects they proposed earlier.
- 7) *Waqf* Institution manages and supervises their identified projects. *Waqf* Institution must track the progress regularly and updates the progress into the system until the particular projects completed and started to commence. This will ensure transparency between them and the crowd funders. The system communicates with *Waqf* Institution as for control and audit purposes through a simple communication media such as short message services (SMS).
- 8) Later, within the specified time framework of project, *Waqf* institution needs to provide return to the crowd funders or

investors if the project successfully generate profit. Otherwise, if there is loss, crowd funders or investors need to bear the loss of capital.

5.0 Conclusion and Recommendation

The developed Islamic Equity Crowdfunding-*Waqf* Model (IECWM) is anticipated to bring benefits to the society and economy as a whole. It makes towards a comprehensive scheme of socioeconomic development, namely, in terms of the economic, spiritual and social welfare of the Muslim community. This model helps in developing productive and potential *Waqf* land that will further enhance the wealth of the Muslims and ultimately, improve the socioeconomic condition of the society. *Waqf* institutions can involve actively in the establishment of educational institutions, business/shop lot premises, hotels, housing, hospitals and clinics, and other religious establishments.

Meanwhile, IECWM could also help in reducing the burden of the government. In other words, this suggests that IECWM may help the government to reduce budget deficit. Usually, the government has to allocate extensive amount of financing to *Waqf* institutions for the *Waqf* land development. The model could equally help in reducing government budget deficit. Thus, by adopting the IECWM, the government does not need to be bothered about the expenses for the development of *Waqf* land. Future research needs to refine ICWME-I model through focus group studies. The model should be validated through surveys to gauge the intentions of the stakeholder. Theories such as Technology Acceptance Model (TAM) (Davis, 1989) and TPB (Ajzen, 1985) can be very useful in this regard.

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