

WAQF-BASED CROWDFUNDING: A CASE STUDY OF WAQFWORLD.ORG

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ABSTRACT

The traditional approach of managing waqf has been transformed into something that is more in line with the fast-moving world of financial technology (fintech) such as e-waqf or online cash waqf. This paper brings different view of what fintech can offer to empower waqf beyond the typical e-waqf. It is called crowdfunding. Crowdfunding is the process of raising money using an online platform to fund good causes, be it business venture or social causes. Using Waqfworld.org as a case study, this paper delineates the process of establishment of Waqfworld.org as the first waqf-based crowdfunding. It elaborates the challenges and issues pertaining to the Waqfworld.org. Findings from this study are useful for others should they decide to set up similar type of crowdfunding platform or any Islamic crowdfunding platform within the social Islamic finance areas.

Keywords: waqf, crowdfunding, fintech, online.

INTRODUCTION

Globally, waqf is a form of philanthropy or *sadaqah jariyah* (continuous charity). However, the concept of waqf is slightly different than 'charity' in the sense that the dedicated property of waqf (substance) is kept intact and only its benefits are used according to the wishes of the donor for person or group of persons specified by the donor (Siti Mashitoh, 2007; Stibbard et al., 2012).

Within the contextual form of Islamic economic system, waqf can be perceived as a fundamental pillar of the Islamic economic system. It is recognized as a poverty alleviation tool, a system that replaces the *riba* system and mechanism for wealth distribution. Traditionally Muslims pledge waqf assets in the form of tangible assets that carry the perpetuity feature. In a modern world, cash waqf has been acceptable as a new form of waqf asset. The strength of cash waqf lies in the fact that it can be participated by all segments of Muslim society regardless of the amount. Raising waqf funds can be either in conventional ways (offline) or through online. The latter benefits waqf from many different angles which will be discussed in this study. Online waqf is still considered at infant stage. Integrating waqf and financial technology (fintech) is a new perspective of empowering waqf. The strength of fintech can be exploited to enhance waqf performance to be more efficient. The existing online approach should be empowered with a sophisticated platform to connect communities through internet, as well as encourages risk sharing, democratizes wealth and channels capital to real economic activity. These can be achieved through crowdfunding. In this context, crowdfunding

and cash waqf are perceived to be inherently compatible and mutually reinforcing. This is the justification for the establishment of Waqfworld.org – the first waqf-based crowdfunding.

This paper uses Waqfworld.org as a case study. It aims to elaborate the process of establishment of Waqfworld.org and issues that arise. This paper is structured as follows: Section one is the Introduction, section two depicts Literature Review in relation to waqf and crowdfunding. Section three explains the Methodology and Data Collection employed in this study. Findings are in the penultimate section and section five concludes the paper.

LITERATURE REVIEW

In Malaysia, the authority to administer the waqf property is given to the State Islamic Religious Council (SIRC). SIRC is sole trustee of the waqf property with the objective to ensure that the waqf property is well administered, efficient and is able to generate good results for the beneficiary or for welfare purposes whether predestined or unspecified by the waqf donor (Mohd. Afendi and Asmah, 2010).

However, institutionalization of waqf has been surrounded with many issues. One of them is the manner of cash waqf funds have been raised. Waqf funds have been raised in both conventional and online methods. The weaknesses of the conventional method are resulted from lack of trust, lack of information and risk of being stolen. Lack of trust can be associated with the risk of fraud in which genuineness of the waqf collector permit is questionable. Lack of information could be due to the limited capability to broadcast the waqf projects. SIRC do not play their role on maximizing the opportunities in disseminating the waqf information to Islamic and non-Islamic society. Without a proper and smart method of broadcasting their projects, the time spent for waqf fund raising becoming longer which eventually increase the delay of project completion time. Apart from the absence of proper waqf collection system, the conventional method is perceived to be no longer suitable with the development of technology and digital lifestyle of Malaysian nowadays (Mohd. Faisal et al., 2014; Muhd Eizan et al. 2014).

On the other hand, online cash waqf improves the collection of waqf electronically in many ways. Firstly, it is able to reduce the number of intermediaries, reduce the cost in managing the waqf money and shorten the duration of the fundraising. This is because the waqf funders make cash waqf contribution directly to the association or institution to fund for their waqf projects (Amin, 2014). Secondly, online cash waqf can also be perceived as a mitigation method to reduce the risk of cash waqf being stolen (Mohd. Faisal et al., 2014). Thirdly, the online method also provide more systematic and efficient system for waqf. It provides the waqf institutions with the digital system to track the record of transaction and waqf certificates are issued in electronic form (Mohd. Faisal et al., 2014). When waqf goes online, everyone from all over the world can take part in cash waqf donation.

Mohd. Faisal et al. (2014) find that waqf institutions do not have internal expertise to put the idea of online cash waqf into practice. They depend on the expertise from consultants. Interestingly, they also point out that they cannot proceed to help many institutions to develop online waqf platforms because these institutions are not legal waqf trustees. Therefore, they suggest the utilization of internet banking and mobile banking to support the idea of online cash waqf. The controversial issue over the validity of waqf is also part of their concern when promoting the online cash waqf.

Muhd Eizan et al. (2014) find there are only two SIRC namely Selangor Islamic Religious Council and Johor Islamic Religious Council have incorporated online and digital technology into their waqf management. Johor is a leading example in Malaysia that uses information system in managing waqf projects (<https://www.ewakafjohor.gov.my>). However, the information system is built up not for all waqf activities, especially on how they distribute the accumulated fund. Apparently, the transparency issue has yet to be solved.

Leveraging fintech seems to be able to boost the practice of online cash waqf which is still considered in dormant stage. This is possible when crowdfunding is taken into consideration. Crowdfunding is defined by the International Organization of Securities Commissions (IOSCO) as ‘an umbrella term, describing the use of small amounts of money, obtained from a large number of individuals or organisations, to fund a project, a business or personal loan, and other needs through an online web-based platform’ (Kirkby and Worner, 2014). Basically there are four types crowdfunding namely donation, reward-based, peer to peer lending and equity crowdfunding. There are distinctive features to distinguish crowdfunding and other online fundraising system. On the crowdfunding platform there are many campaigns to choose from. The owners of the campaigns compete among themselves to attract funders. Hence, they usually provide information of the projects in the form of written short story or video recording. Each campaign has targeted amount of fund to be raised within the predetermined period. Some campaigns are successful in achieving targets while others fail. The fund raised is disbursed to the owner of the campaign depending on the policies set up by the crowdfunding platform (Baskerville and Cordery, 2014).

A number of previous studies propose crowdfunding models within the scope of Islamic social finance. Muhammad Amir and Mohd Adib (2016) recommend *sadaqah*-based crowdfunding. *Sadaqah* fund raised via this platform will be used for the purpose of microfinancing projects and *qard al-hasan* is the underlying contract. Abidullah and Muhammad Hakimi (2017), on the other hand, propose a waqf-based crowdfunding model. In regard to zakat, Alma’amun (2017) argues that *zakah* institutions should consider several factors should they decide to integrate crowdfunding into zakat. She does not propose a *zakah*-based crowdfunding model but she elaborates several approaches used abroad for campaigns that involve zakah fundraising. These include using donation-based third-party platforms such as JustGiving and LaunchGood and zakah-based crowdfunding platform that belongs to Darul Al-Jalal Islamic Center.

METHODOLOGY AND DATA COLLECTION

This is a case study paper and qualitative in nature. This study used observation as data collection approach collected based on the actual events occurred during the period when the project took place. Authors actively involved in the establishment of waqf-based crowdfunding project called as Waqfworld.org. They worked together with the technology partner of Waqfworld.org, Ethis Ventures and officials from Tun Abdullah’s office. The chronology of the actual events are as follows:

- 1) Proposed the idea of establishing waqf-based crowdfunding at the Roundtable Discussion (RTD) on waqf-based crowdfunding at Islamic Development Bank (IDB), Jeddah on January 21, 2016.
- 2) Post RTD, authors worked with Ethis Ventures, the pioneer of Islamic crowdfunding to establish the Waqfworld.org.
- 3) Waqfworld.org launched on August 3, 2016.

The Inception of Waqfworld.org

The first waqf based crowdfunding, Waqfworld.org was officially launched during the World Islamic Economic Forum (WIEF) in Jakarta, Indonesia on 3rd August 2016 by Malaysia’s 5th Prime Minister Tun Abdullah Ahmad Badawi, who is also the founding patron of Waqfworld.org. Waqfworld.org is the outcome of the collaboration between three parties

namely Tun Abdullah's office, research team from the Research Center for Islamic Economics and Finance (EKONIS) Universiti Kebangsaan Malaysia (UKM) and Ethis Ventures.¹

Basic Operational Structure

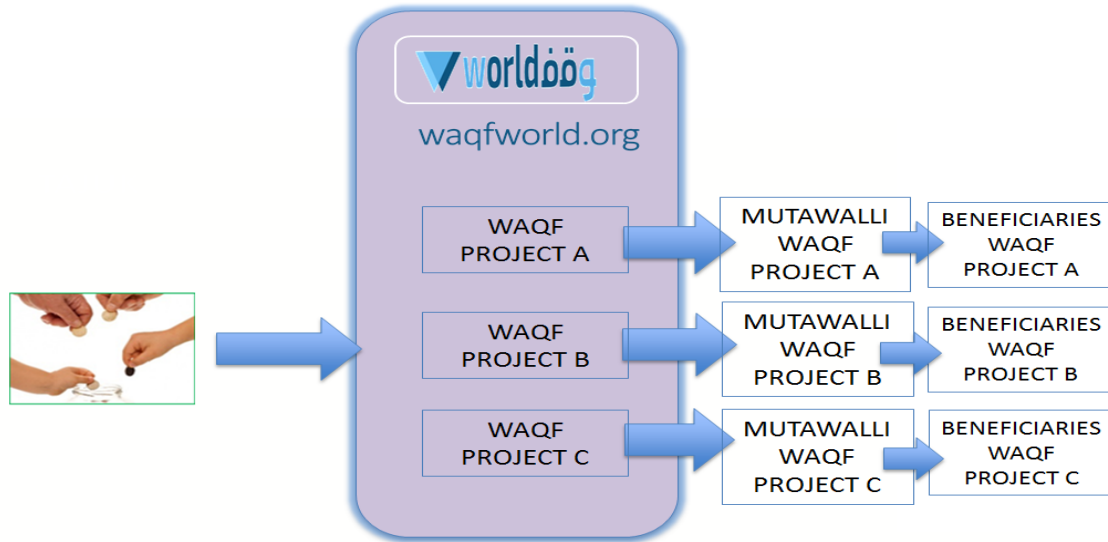


Figure 1: The basic operational structure of Waqfworld.org

Figure 1 shows the basic operational structure of Waqfworld.org. It should be noted that Waqfworld.org is not a waqf institution. It acts as a mediator for matching funds purpose. Waqf donors can make a minimum waqf donation \$50 (Sing Dollar) for each chosen campaign of the waqf project on the platform and additional \$3 for transaction fee applies.

Waqf Campaigns

Four waqf campaigns were selected and put on the platform for the purpose of pilot testing. Each waqf project on the platform belongs to the mutawalli of the Waqfworld.org's counterparts. The details of campaigns listed on the platform are as follows (see Table 1):

Table 1: Details information of waqf projects on the Waqfworld.org

No	Campaign/Project	Category	Mutawalli	Fund Pledge
1	Provide new boats with good engines and modern sonar equipment	Social Enterprise	Wakaf Perak Ar-Ridzuan (WPR), Malaysia	\$66,350
2	Lending Capital for business and subsidized departure fare rates	Education/ Human Development	KSPPS BMT Ben Sejahtera	\$5,985
3	Fund business costs for Sarwadidi Brooms Craftsmen	Social Enterprise	Baitul Maal wa Tamwil	\$1,025

¹ It should be noted that Waqfworld.org.'s website is no longer accessible. According to the latest conversation with Ethis Ventures on 18th April 2018, we were informed that Ethis Ventures has set up a new Islamic crowdfunding platform named Global Sadaqah. This new platform is meant to integrate all contributions in the form of sadaqah, zakat and waqf.

			(BMT), Indonesia	
4	Business Capital for Livestock Farming	Social Enterprise	Endang / Baitul Maal itQan, Indonesia	\$5,120

The flow of waqf fund from mutawalli to beneficiaries is not necessarily a straightforward process. Each waqf project has its own waqf model. Depending on its waqf model, waqf by cash from the donor via Waqfworld.org can end up in three possible situations. Firstly, it can remain in the form of cash whereby only proceed from investment used for the beneficiaries and principle goes back into the cycle for investment. Secondly it is transformed into a tangible asset that generates income to buy another asset. Thirdly, it is used to possess immovable assets such as buildings or land. Regardless which model of the waqf projects follow, the corpus of waqf assets remain intact. Figure 2 and Figure 3 simplify the waqf models for Boat Waqf and Cash Waqf (Microfinance) which were part of the waqf projects on the platform.

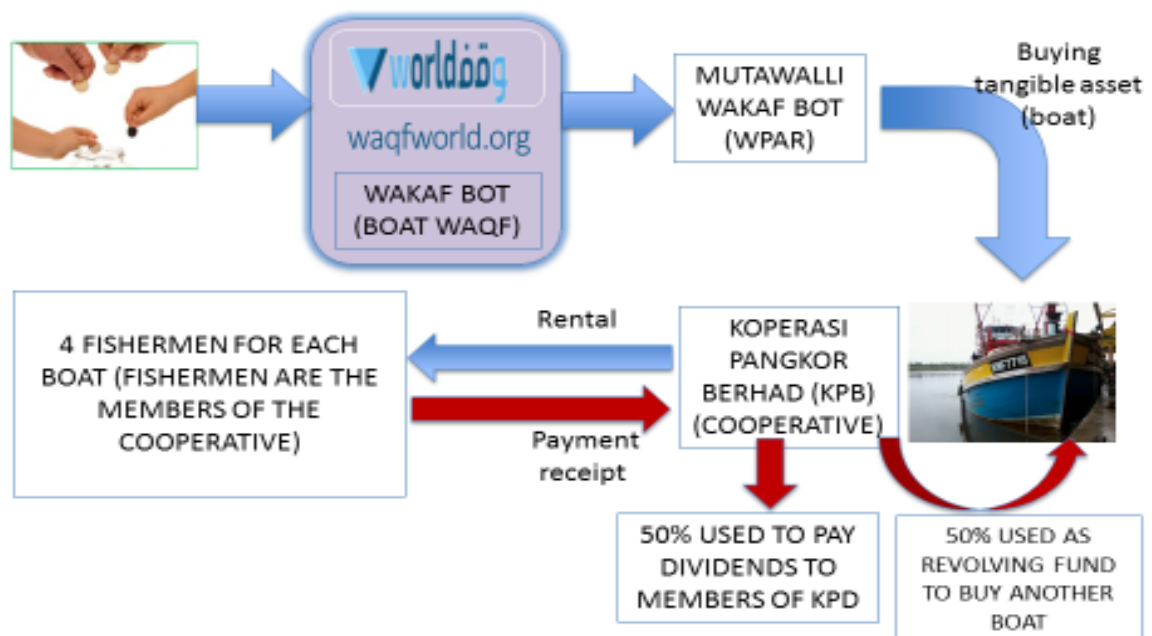


Figure 2: Model for Boat Waqf by Wakaf Perak Ar-Ridzuan (WPR), Malaysia

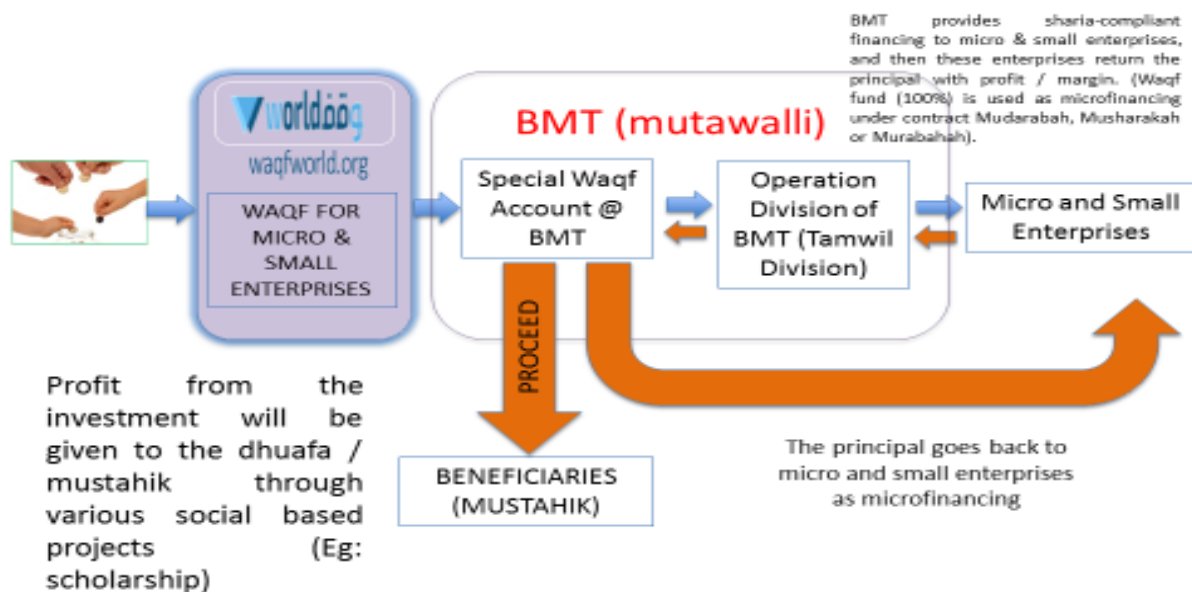


Figure 3: Model for Cash Waqf (Microfinance) by BMT, Indonesia

Challenges And Issues

Mohd. Faisal et al. (2014) argue that many institutions cannot develop their full branding online waqf platforms because these institutions are not legal waqf trustees. The project team was aware that waqf in Malaysia is subject to the Islamic Administrative Enactment or the Waqf Enactment of the various states which assign the administrative power to the SRIC as the sole trustee. Therefore, after several meeting sessions, the team decided the crowdfunding platform should only act as mediator between funders and recipients. The four selected waqf campaigns were put on the Waqfworld.org platform upon the consent of mutawalli of each waqf campaign. This is considered as the best approach when the existing legislation is the main concern of this project.

The objective of crowdfunding platform must be clear to attract funders with the same objective. Waqfworld.org's objective is to develop or empowering the ummah. After several discussions, meetings and on-going research, the concept of ummah development was carefully defined so that it is in line with the sustainable development goals (SDGs) promoted by Islamic Development Bank (IDB). Therefore, from the Waqfworld.org point of view, the concept of ummah development is something that can be achieved when the fund is mobilized for projects that are able to create wealth, increase the human capital, for humanitarian relief and as well as for any Islamic religious activities.

To materialize the concept of the waqf-based crowdfunding, assistance from crowdfunding expert in the form of technical aspect was another challenge for this project. Ethis Ventures, the pioneer of Islamic crowdfunding was chosen as the technology partner based on its good track record in Islamic crowdfunding. The problem of internal technical expertise is pointed out in Mohd. Faisal et al. (2014). This study supports their finding in which the expertise from crowdfunding expert is inevitable when waqf engages with digital and online elements.

Lack of trust was minimized through several methods. First, Waqfworld.org only works with authorized and selected waqf bodies and NGOs. Second, projects are managed by

authorized mutawallis. Third, only impactful waqf projects are considered. Fourth, Ethis Ventures uses its Shariah Advisors to ensure the operational structure of Waqfworld.org does not violate any Shariah principles. At the same time, validity of cash waqf is not questionable.

WaqfWorld.org did not charge any fees. Ethis Ventures was willing to run the platform and provided service on free of charge basis as part of its corporate social responsibility (CSR). In regard to transparency, the crowdfunding system is transparent enough in the sense that the funders know where their monies go to, they know how much is needed and they can tell the progress of the projects from the platform itself. In terms of governance, the whole structure was known as Secretariat of Waqfworld.org., the Founding Patron was Tun Abdullah Ahmad Badawi, Research Center for Islamic Economics and Finance (EKONIS), Universiti Kebangsaan Malaysia (UKM) contributed to this platform in the form of research and consultation and Ethis Ventures played the role as the technology partner. However, the current structure of Waqfworld.org now has been rebranded as the Waqf World Growth Foundation.

CONCLUSION

Apparently this study is different from other because it provides useful insight on waqf-based crowdfunding based on the actual events. Other studies only describe the concept or idea and elaborate challenges and issues. Some challenges and issues may need solid solutions especially the governance structure of Waqfworld.org but this study proves that the establishment of the waqf-based crowdfunding is possible. The new structure of Waqfworld.org is believed to provide a better governance structure and hence, strengthen the operational aspect of the crowdfunding platform.

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