

Redevelopment of idle Waqf property through financial technology: Case of Malaysia

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ABSTRACT

Awqaf properties are facing several challenges when it comes to fundraising and transparency and that we aim to resolve in this research. The main purpose of this study is to explore the potential of Crowdfunding and Blockchain technology in overcoming fundraising and transparency issues. This study adopts a qualitative method using semi-structured interviews with experts and academicians in Fintech and Islamic finance, moreover, a survey was conducted collecting responses from 101 participants. This study focuses on practical challenges and explores the extent to which Crowdfunding and blockchain can solve these mentioned practical challenges. We found that there is a great potential and opportunity applying crowdfunding and blockchain concept in Waqf especially when it comes to fundraising, developing Awqaf lands and enhancing transparency. Nevertheless, there are some significant legal and operational challenges encountering the implementation of Crowdfunding and Blockchain into the Waqf system.

Keywords: Crowdfunding, Blockchain, Transparency, Fundraising

RÉSUMÉ

Les propriétés des Awqaf font face des Contraintes et défis, en particulier lorsqu'il s'agit de lever des fonds ou de créer de la transparence dans le secteur. Le but principal de cette étude est d'examiner les possibilités d'appliquer le modèle de Crowdfunding et le Blockchain pour résoudre le problème du processus de collecte de fonds et améliorer la transparence pour gagner la confiance du public. La méthodologie de recherche est basée sur l'utilisation d'une analyse qualitative à travers l'étude d'articles précédents sur le Waqf et la technologie, ainsi que sur la méthodologie d'entretien avec six experts des domaines du Waqf et de la technologie

financière. De plus, un sondage a été menée pour recueillir les réponses de 101 participants. Cette étude se concentre sur les défis pratiques et explore dans quelle mesure le Crowdfunding et le blockchain peuvent résoudre ces problèmes pratiques. Nous avons constaté qu'il existe un potentiel et des opportunités considérables en appliquant le financement participatif et la blockchain dans le secteur du Waqf, notamment en ce qui concerne la collecte de fonds, la mise en valeur des terres des Awqaf et l'amélioration de la transparence. Toutefois, la mise en œuvre du Crowdfunding et de la blockchain dans le système Waqf pose des problèmes juridiques et opérationnels.

Mots-clés : Crowdfunding, blockchain, transparence, collecte de fonds

ملخص البحث:

تواجه ممتلكات الأوقاف تحديات كبيرة و بالخصوص عندما يتعلق الأمر بجمع الأموال أو مشكل الشفافية و تعزيزها في القطاع. الغرض الرئيسي من هذه الدراسة هو البحث عن إمكانيات تطبيق نموذج التمويل الجماعي و سلسلة الكتل أو ما يعرف بالبلوكشين لحل إشكالية عملية جمع الأموال و تعزيز عنصر الشفافية. تعتمد منهجية البحث على استخدام التحليل النوعي من خلال دراسة بعض المقالات السابقة في موضوع الوقف و التكنولوجيا، بالإضافة إلى هذا، سيوظف منهج المقابلة مع ستة خبراء في مجال الأوقاف و تكنولوجيا المالية. علاوة على هذا ، تم إجراء استطلاع من خلال توزيع الأسئلة على 101 مشارك، حيث أن الهدف منها هو تحديد مستوى الوعي بابتكارات تكنولوجيا المالية كتقنية البلوكشين و التمويل الجماعي. و جدنا من خلال هذا البحث أن التمويل الجماعي يعتبر حلا فعالا لجمع الأموال و استثمارها في مجال الأوقاف لإعادة إحياء الأراضي الوقفية المجمدة، كما خلصنا إلى أن تقنية البلوكشين تعتبر حلا فعالا لتعزيز عنصر الشفافية من خلال نظام محكم و فعال.

المفاتيح: التمويل الجماعي، تقنية البلوكشين، الشفافية، جمع الأموال

JEL Classification: O30, O31

INTRODUCTION

According to the world bank report (2017), people in the African region live on \$1.9 a day or less, and around 389 million of the population suffers from an extreme poverty in all the regions combined. Islamic Development Bank reported that the IDB member countries in 2015 are home to almost one-third of the world's multidimensional poor people, where 504 million of them are living in multidimensional poverty in 43 IDB countries (Alpay et al., 2016).

In the last few decades, there have been discussions on the importance of waqf properties in enhancing socioeconomic roles. Different innovative modes of finance have been introduced and presented to redevelop waqf lands. Numerous studies have been conducted on these innovative modes of financing to find out to which extent they are relevant to fight against socio-economic problems. According to the recent statistics, there are nearly 13.5 thousand hectares of waqf land in Malaysia which only two percent of the total area has been redeveloped where 98% of it remains idle due to the lack of financing (Shah, 2018).

The theory is not enough to ascertain the robustness of Waqf modes of financing in all its aspects. Only practice will tell how efficiently its objectives are achieved. *ZamZam* Tower is an example of the use of the *sukuk alIntifa'* concept. Having said that and despite all the initiatives that have been done to redevelop *Awqaf* lands, there is still lack of accountability, negligence, and mismanagement of *Awqaf* properties not only in Malaysia but in the different Muslim countries. Also, the lack of sources of funds is the main obstacle in redeveloping *Awqaf* properties in Malaysia. Mohsin et al. (2016) argue that mismanagement is an issue that took place in the institution itself and the appointed trustees were the managers of the majority of waqf properties, whom they do not have an interest in other than receiving their monthly salary or keeping money generated from waqf revenues for their own benefit.

Financial technology (Fintech) is an emerging financial services sector that has come up with a lot of financial solutions in the 21st century era. Islamic

crowdfunding is a new concept introduced recently as a solution to raise funds for different projects. It is where the company introduces a platform through the website to raise funds for specific projects providing an attractive return to the investors compared with other financial institutions, then different investors from all over the world to contribute together and raise funds for specific projects, then for the capital plus return to be disbursed upon completion and generation of the project's cash flow.

1. Literature review

There are various challenges facing the development of Waqf properties in terms of management, administration and financing. The limited sources of funds and the lack of capital are one of the factors disabling Awqaf properties from being developed. This is due to that the revenue generated is used to cover the maintenance and management costs which sometimes exceed the revenue. (Ismail, Salim and hanifah, 2015). Similarly, Puad, Rafdi, and Shahar (2014) Claimed that the lack of financial fund could threaten the completion or the execution of some projects which has been already planned.

Besides this, the fundraising issue is not the only obstacle to developing waqf properties. Majlis Agama Islam dan AdatIstiadatMelayu Kelantan encountered serious problems when it comes to the legal and regulations that governed the development of *Awqaf* assets in Kelantan. This is because of the absence of legislation and laws regarding the practices of waqf in Kelantan and due also to the poor management and administration. (Azmi, Muhamad andKamarudin,2014). Likewise, another challenge faced by *Awqaf*institutions is that the majority of Waqf assets in Malaysia consist of land properties which do not have any economic benefits and they are located ina non-strategic place (Al-Habshi, 1991).

Furthermore, Muhammad, Sharifah Zubaidah, and NuarrulHilal, (2011) stated that the ownership and registration is another barrier while dealing with Waqf land in Malaysia due to the requirement of land administration authorities in Malaysia. The problem existed during the failure of registration in cases if the land owner died and it becomes worse if the trustees died as well. Hence, more Legal challenges

consisting of lack of specific legal provisions for the administration of lands and low education for the practitioners (Mohamad, Kader, Zubaidah and Ali 2012). Legal and administration problems are one of the main issues encountering the Idle Waqf properties in Malaysia and this can be a challenge for the future of Waqf if it is embedded in financial technologies.

The fastest technological progress in the last decade afforded opportunities to the Waqf organizations and philanthropic institutions in general. This is going to enable a consistent growth and to improve the administrative system of Waqf. Malaysia is one of the countries that has been prominent in improving the information system and handling Waqf Management. Majlis Agama Islam Kadah owns a database system that is very efficient in managing waqf property and in collaboration with UUM, they come up with an E-waqf system where the data is updated and improved from time to time (Isa, Zuraidah, Harun, 2011). This type of technology can bring a lot of benefits to the Waqf system; however, it is not enough to solve the financial problems and the fundraising issues.

Crowdfunding concept has been known widely in the few last years and according to the Oxford dictionary, it is “The practice of funding a project or venture by raising many small amounts of money from a large number of people, typically via the Internet”. The Pew Research Center (2016) found that 22% of American adults crowdfund to fundraise money for specific projects where 68% of them contributed to help people in need.

Abid and Shafiai (2017) addressed several problems encountered by the Malaysians (Bumiputra citizens) which is the low savings that have been caused by the increasing level of taxes, food prices and interest rate for the borrowers where the statistics showed that 40% of them triggered greater wealth inequality and wealth accumulation. The same problem remains even though the Malaysian government came in with an initiative providing what is known of cash transfer or BRIM. They suggested the collection and distribution of cash waqf through a Crowdfunding platform to solve collection and distribution issues and to enhance transparency at the end.

Muslims considered as one of the communities that contribute and support each other, hence Crowdfunding is an efficient method to fundraise money effectively and efficiently especially if people have confidence of that their donation is going to have an impact. Kuppuswamy and Bayus (2017) proposed that people contribute in the crowdfunding projects if they believe that it will end up with a significant impact, hence, they found that there is a significant relationship between crowdfunding contributions and the realization of the target goals. To illustrate, the donation level increased in the case if donors believe in the immense impact of the portion they have contributed. Therefore, crowdfunding platform managers need to ensure that transparency is achieved through the adoption of new technologies, to attract donors and to achieve the targeted objectives.

The Blockchain is the next internet and the concept that has been largely discussed in the media, conferences and research departments. It is defined as several blocks that are added to the blockchain in a chronological and linear order, and when the miner joins the bitcoin network, that is ended of that every node to have a copy of the blockchain. Hence, people would be able to track and see transactions which the person received from their own wallet (Swan 2015). By using Bitcoin, donations can be addressed as it there will be a publicly available audit trail detailing exactly where a certain donation goes (Jayasinghe et al., 2012).

2. Data and Methodology:

Semi-structured interviews to be used in the data collection preparing an interview guide incorporating the themes to be covered and discussed during the period of the interview, this is to be able to direct the conversations toward the issues and opportunities that the interviewer aims to investigate. The interviewees are Academicians and practitioners in Waqf, Financial Technology or both.

Another study involved data collection through the distribution of a survey questionnaire. The targeted audience was more than 100 people from different backgrounds. The participants were briefed on the objectives of the research. The Survey questionnaire was divided into three main sections. The first section comprised general questions expecting from the participants a “Yes” and “No”

answer. The second section comprised statements based on a scale of one to five allowing them to express whether they agree or disagree with the sentences. And finally, the third section ascertained the respondent's demographic profile. SPSS software has been used for the descriptive analysis of the data.

3. Reading and Discussing the Results:

3.1. Semi-Structured Interview:

Five experts and academicians in Waqf and Financial technology were interviewed exploring cash Waqf and Waqf assets and shedding light on the challenges and opportunities for the adoption of the new financial technology system. The table below showed a sample characteristic of the interviewees who all of them are based in Kuala Lumpur. The majority of the respondents have a minimum master's degree in Islamic finance. The five interviewees are from different backgrounds and they are academicians, Shariah consultants, and financial technology experts:

Table 1: Interviewees' Information

Interviewees	Years of experience	Position	Institution	Highest education level
1	10	Shariah-Technology consultant	Crowdfundin g start-up	Masters
2	5	Academician (Islamic Finance and Fintech)	University	PhD
3	10	Senior Tech	Crowdfundin	Master

		Manager	g start up	
4	5	Shariah-Legal Consultant	Crowdfundin g start up	Master
5	10	Founder/Chairma n (Waqf foundation)	Waqf foundation	Master

The selected sample of the interviewees provided different views and thoughts on three different points that were discussed to address the research objectives of this paper. The following part to discuss the questions addressed in the interview enabling the researcher to formulate his analysis and answers.

3.1.1. Exploring cash Waqf and waqf assets, Challenges and opportunities:

This section explores the opinions of the respondents on the cash waqf and the challenges encountering cash Waqf and Waqf assets. Furthermore, the opportunities for the society to benefit from the unproductive *Awqaf* was among the discussions. The Interviewee's opinions are based on their general knowledge and experience, and the opinions were expressed in different ways. The responses from the interviewees regarding the challenges are as followed:

[...] Lack of financing is absolutely not the reason! Lack of will, competencies, desire, are one of the causes. [...]It should be most probably lack of proper management, luck of privatisation, Lack of trust and transparency other than financing issues. (Interviewee No. 1)

Legal and regulatory challenges tend to be the main barrier. [...] Regulations for waqf are not as well defined compared to other areas of Islamic finance. (Interviewee No. 3)

It can be clearly seen from the above discussion that all respondents without exception consider lack of financing as not a major challenge that prevents *Awqaf* institutions from being developed. Issues like Lack of management and transparency, Lack of competencies, legal issues and centralization of waqf are considered the main problems that were discussed by most of the respondents. This view is supported by the study conducted by Ismail, Salim and Hanafiah (2015) who found that ownership and registration of waqf land, shortage of competent managers and illegal occupation were the main obstacles toward the development of *Awqaf* lands. Beside this, Muhammad, Sharifah Zubaidah, and NuarrulHilal, (2011) argue that ownership is an issue facing *Awqaf* institutions.

3.1.2. Technology developments and *Awqaf* institutions:

The second part of the interview discussed the possibilities of the financial technologies to develop idle waqf properties and to provide an incredible opportunity for *Awqaf* institutions to be impactful. The responses are as followed:

Crowdfunding can solve the problem especially when we use the technology to overcome Idle waqf issue enabling people to know more about the project. (Interviewee No. 1). [...] lack of financing is one of the issues I've already mentioned above. And I think Crowdfunding is the best solution for now to solve the issue (Interviewee No. 2). [...] Crowdfunding is not a financial technology. It is just a way of fundraising. So, can additional fundraising be used to help with the development of idle waqf? Of course! Good business is what is required to develop idle waqf. Like all good businesses using the best tools for the job at hand is what is required to solve the issues. However, is fintech a 'silver bullet'? Of course not. More fundamental issues must be addressed that I have already alluded to. (Interviewee No. 5)

Transparency is an important tool in the current era to attract Waqifs or donors, therefore, the new technology system like Blockchain and Crowdfunding has been introduced in order to solve transparency issue and contribute toward the

development of Idle Waqf. Feedbacks from the Academicians and experts of the field are as followed:

[...] If there is a trust and no transparency then the donors will decide not to donate anymore. (Interviewee No. 1)

[...] Beside blockchain, you need a complementary process of Audit and compliance framework on how you are going to make better standards for waqf institutions and make the organizations abide to the guidelines (Interviewee No. 2).

Transparency seems to be the most important thing in the whole technologies system. The respondents are of the same opinion on that the blockchain can improve transparency enabling the public to trace transactions and to follow up on the progress of the project. One of the respondents had a different opinion and argued that Blockchain is not the full solution of the problem but also big data and machine learning are important to be taken into consideration. Thus, being transparent enough to people may attract them to fundraise cash and contribute to the redevelopment of *Awqaf* properties.

3.2. Respondents' Profile

100 questionnaires were distributed randomly to all respondents from different backgrounds, ethnics and countries. A survey method has been used through an online questionnaire. The profile database was developed based on Gender, Age, Occupation and Income. The table below shows the descriptive statistics of all respondents where 70% of them are males. The analysis also showed that most of the participants are students between 20 to 30 years old. However, around 70% of them have an income ranged between below 3,000 to above 15,000.

Table 2: Basic Information of Respondents

Number	Information	Frequency	Percentage (%)
1	Gender male		

	Female	70	69.3
		31	30.7
	Total	101	100
	<20	1	1.0
	20-30	66	65.3
	32-45	30	29.7
	>45	4	4.0
2 Age	Total	101	100
	Employed	40	39.6
	Student	54	53.5
	Unemployed	5	5.0
	Total	99	98.0
	System	2	2.0
3 Occupation	Total	101	100
	<3,000	32	31.7
	3,000-8,000	22	21.8
	8,000-15,000	14	13.9
	>15,000	2	2.0
	No income	31	30.7
4 Income	Total	101	100

3.3. Data Analysis

The questionnaire was divided into two parts. The first part contains direct questions with “Yes” or “No” answers. This to test the level of awareness among the respondents and to Investigate the public willingness towards the practice of Crowdfunding and Blockchain in Waqf. The second part of the questionnaire are multiple choices that were created to test the level of acceptance and rejection of the statements provided based on a scale of One “Strongly Disagree” to Five “Strongly Agree”.

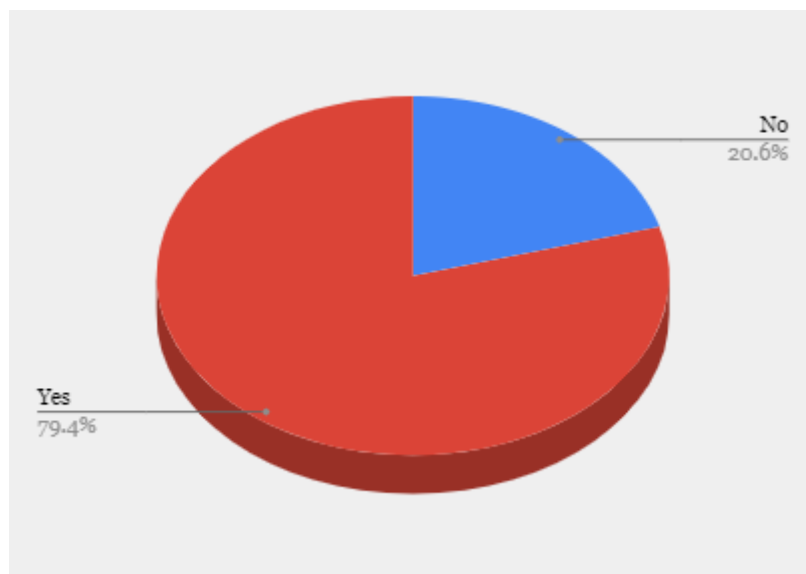


Figure 1: Do you think that Blockchain can enhance Transparency as it is highly secured and protected?

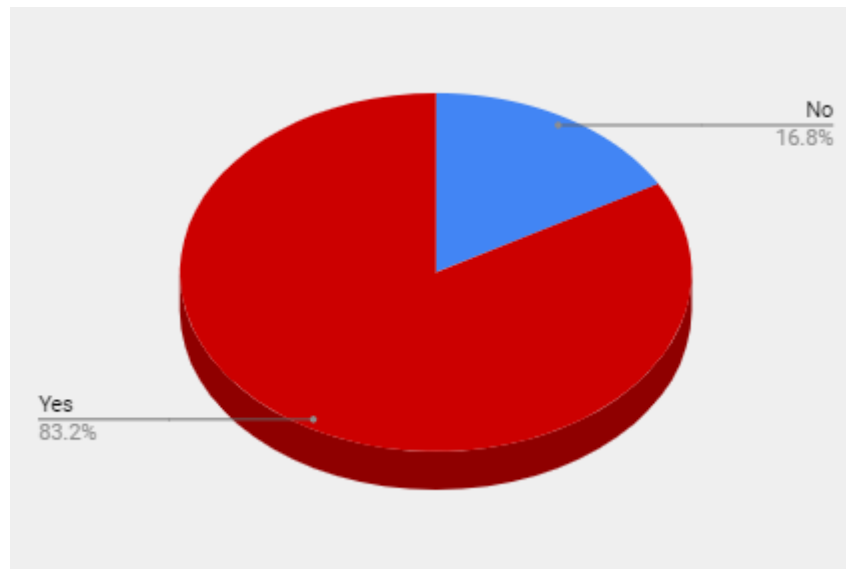


Figure 2: Have you heard before of Financial Technology especially Crowdfunding and Blockchain?

Crowdfunding and blockchain were introduced in the last few years as the main attractive technologies for businesses and different entities. The level of awareness among participants is to be investigated, and two questions were addressed in the survey and which are presented in the two above figures. The result showed that 79% of the participants believed that blockchain is an efficient tool to enhance transparency as it is highly secured. 83% of the respondents have heard before of crowdfunding and blockchain, furthermore.

The second part of the questionnaire is based on a scale of One if “Strongly Disagree” and Five if the person “Strongly Agree” with the statement. Figure six shows the percentage of people who believe that online donation tends to have more benefits to the society than traditional donations. The result in the figure above showed that 60% of the participants agree with the statement whereas 28% are neutral. This finding is line with the outcome of the interview where most of the

interviewees agreed on that online donation is efficient compared with the traditional system.

Figure Six is investigating the level of awareness of the participants on the blockchain as a sole key to enhancing transparency. 52% believe on that blockchain can solve the problem of transparency while 35% are neutral which whether signifies that people are not aware of the relationship between Blockchain and transparency or they believe that there are other methods that can be taken into consideration rather than transparency.

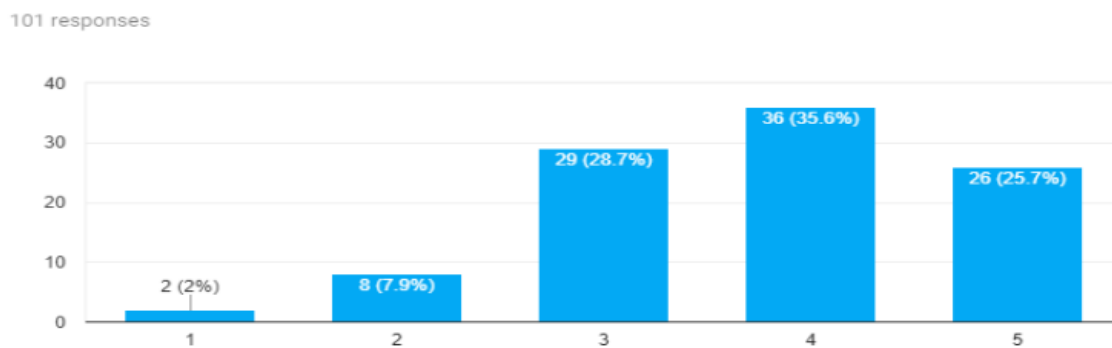


Figure 5: online donation have more benefits to the society than traditional donation.

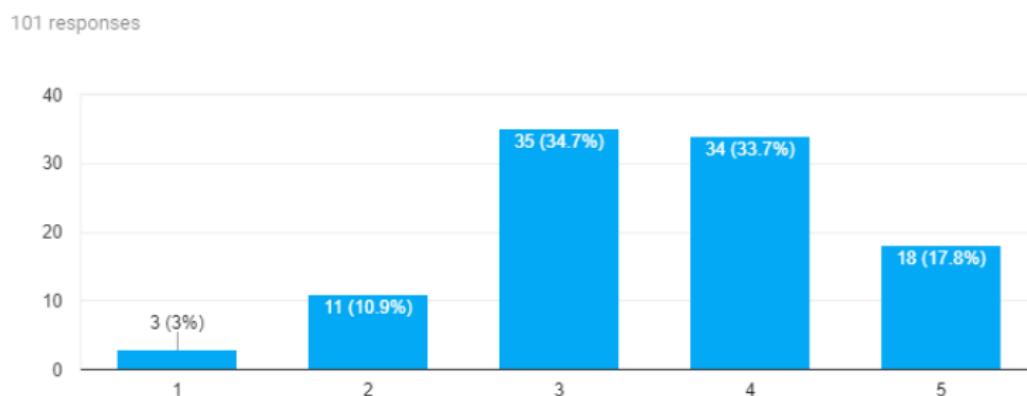


Figure 6: The implementation of blockchain in Waqf is the key element to increase transparency levels

When it comes to the statement of “The using of crowdfunding in waqf is a bit challenging especially when it comes to the investment of money that has been

crowdfunded”. Around 60% of respondents agreed with it. This is an expected result as the investment of *Awqaf* assets is a bit challenging with regards to the management of the fund as was mentioned before by the Interviewee number two. Hence, crowdfunding can solve the issue of money, but the challenging part is the management of the fund from receiving to the distribution of capital and profit.

CONCLUSION

Before running the data, we were expecting to find that lack of financing is the main issue for the waqf properties, and the financial technologies are the solutions that are expected to overcome the problem. Based on what we have deducted from the literature review, *Awqaf* assets are not developed due to the lack of financing (Puad, Rafdi, and Shahar 2014 and Ismail, Salim and Hanifah, 2015). However, the result of the interview drew a different landscape. The delay of redeveloping *Awqaf* lands was due to the various reasons where the lack of financing is not the main problem. The result from the discussion with the interviewees showed that lack of financing is not the reason that prevents *Waqf* properties from being developed. However, legal and ownership issues, mismanagement, lack of competent people, lack of professional structuring, ownership and registration problems were found to be the main issues. This finding is supported by (Azmi, Muhamad & Kamarudin, 2014; Muhammad, Zubaidah, and Hilal, 2011).

Blockchain can play a vital role enabling *Awqaf* organizations to track the ownership of the assets from now onwards by creating a reference number of every owner which is going to be shared with the public. For mismanagement and lack of competencies, Blockchain can increase transparency allowing people to see if there is any mismanagement and to recognize whether the institution is working hard to achieve the maximum benefits for the society. This technology is going to allow people to trace *Awqaf* projects and track the improvements during the construction period. This is concurred by (Swan 2015; Jayasinghe et al., 2012; Reiten et al., 2016). The findings showed that blockchain can enhance transparency enabling people to trace their donation in the case if we have a *Waqf* project lands that need to be developed as well as it is an advanced tool of keeping the records of

transactions accessible by the whole public. In addition, the result from the survey showed that most respondents believe that blockchain can solve the problem of transparency.

In a later part, we tried to take a closer look testing whether people have a donating experience in a crowdfunding platform. The result was not as to the expectations. 69% People never donated to a crowdfunding platform. 70% trust Awqaf managers while giving donations. This explains that the main issue is not lack of trust, but it is lack of awareness of crowdfunding platform.

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