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MUDHARABAH INSTRUMENT VIA AN INTEGRATED WAQF–EQUITY CROWDFUNDING MODEL FOR SUSTAINABLE BLENDED FINANCING IN MALAYSIA

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ABSTRACT

This study aims to develop a new model of mudharabah blended financing through integration between waqf fund and equity-based crowdfunding in Malaysia. Since this study is exploratory in nature, it is designed based on qualitative research methodology. The data is based on semi-structured interviews with related experts and practitioners in Shariah, crowdfunding, and State Religious Islamic Councils (SRICs). The findings reveal that mudharabah might be risky as the crowdfunding instrument and waqf-based financing. Nevertheless, both can be integrated as a blended instrument to enhance the efficiency of mudharabah and minimize its risks. Through this model, the waqf fund and investors can join to support potential business projects through an equity-based crowdfunding platform. Through the platform, business owners can convince investors and waqf fund managers about their projects, and their progress can be efficiently monitored to minimize the risk. This study proposes a new working model of mudharabah blended financing through an integration between waqf fund and equity-based crowdfunding. This model can empower entrepreneurs to operate their businesses with greater autonomy, creativity, and accountability as well as contributes to the sustainability of waqf fund. While this study is an exploratory on a potential model from Shariah's perspective, its findings may not be generalized into other aspects. Moreover, this study is limited to Malaysia, which has a unique legal framework on waqf administration. Nevertheless, a new practical model of mudharabah blended financing is proposed through the findings and discussion of this study. This model can be applied with a strategic collaboration between the Security Commission as a regulator for the crowdfunding market and SRICs as the sole authority on waqf in Malaysia.

Keywords *– Mudharabah, Waqf financing, Islamic equity-based crowdfunding*

1. INTRODUCTION

Over the period, waqf has proven to have a significant role in contributing to the socio-economy of Muslims. This unique charitable fund provides an opportunity for Muslims, particularly those with extra wealth, to do kindness and good deeds by giving up their valuable asset for the sake of the public. Through waqf, these assets or properties are transformed into God's ownership so that their benefits continuously flow for society. From contributing land to building mosques and education centers, nowadays, with efficient management and advanced financial engineering, the benefit of waqf assets can significantly be maximized. At the time of Ottoman, it was reported that waqf became financing tools for public expenditures, including building schools, paying retired sailors, constructing commuter ships, defense of a town, water delivery, and creating employment opportunities (Azrai Azaimi Ambrose et al., 2015).

One of the significant roles that can be played by waqf funds in modern times is to provide financing, especially for small and medium businesses that are well-known to experience difficulties in accessing financial aid from mainstream financial institutions. As waqf is one of the Islamic funds, it can be developed as a source of funds for Shariah-compliant financings. Nevertheless, the availability of waqf-based financing products in Malaysia is limited. Currently, two institutions have been identified as providing such waqf-based financing products: Waqaf An-Nur Corporation Berhad (Waqaf An-Nur) and Yayasan Waqf Malaysia (YWM). As for Waqaf An-Nur, it offers a microfinancing scheme through *qard* (loan) and *tawarruq* (monetization) contracts (Waqaf An-Nur, n.d.). As for YWM, this national body provides microfinancing specifically for SMEs in the halal industry (Bakar, 2023). This microfinancing is provided to support entrepreneurs purchasing equipment and machinery (Halal Development Corporation Berhad, n.d.). Several factors contribute to the limited availability of waqf-based financing. Such factors are limited liquid assets, expertise, skills, and strategies for investment strategies and social development. At the same time, channeling this fund as seed money for businesses may threaten its sustainability.

In this regard, crowdfunding platforms can overcome the problem of liquidity by conducting fundraising through the platform. This initiative has been practiced by the MyWakaf platform through a strategic coloration between Islamic banking institutions and Waqf institutions (Eldersevi & Muhammad, 2021). However, it aims only to fund charitable projects, not to support businesses. As an alternative, equity-based crowdfunding that aims to support businesses, especially start-ups, can play this role by enabling entrepreneurs to pitch their business projects. As for the issue of fund sustainability, waqf-based financings can be designed in the form of *mudharabah* (partnership). Through *mudharabah*, the fund channeled by waqf institutions is considered a capital venture as they deserve to profit from the business instead of giving seed money or *qard*.

Utilizing waqf funds as a source of financing has been proposed by previous studies for different purposes, such as to support environment-based projects (Ari & Koc, 2021), the agriculture sector (Majid & Sukmana, 2023), and undeveloped land (2023). Meanwhile, studies on exploring *mudharabah* as a potential contract for waqf fund have been carried out by Osman et al., (2015), Traore et al., (2018) and Fazial et al., (2024). Meanwhile, studies on utilizing *mudharabah* as crowdfunding instrument have been conducted by Abdullah and Oseni (2017), Muneeza et al., (2018), Febrina et al., (2019), Firdaus et al., (2021), Abdeldayem and Aldulaimi (2022), Ishak and Rahman (2022). Nevertheless, there are still gaps in enhancing waqf financing and *mudharabah* as an investment instrument.

Thus, this study aims to develop a new model of *mudharabah* blended financing through integration between waqf fund and equity crowdfunding platforms. To achieve this objective, a qualitative research approach is applied as the data is gathered through semi-structured interviews with experts and practitioners in crowdfunding and waqf. Although the results of qualitative research may not be generalizable in many aspects, this study nevertheless significantly adds to the analysis of a working model of waqf financing through *mudharabah* contracts in Malaysia. By supporting capital for small businesses, waqf financing may alleviate some of the pressure on the government and provide alternative Shariah financings. This new model empowers micro-entrepreneurs to operate their businesses with greater autonomy, creativity, and accountability.

2. LITERATURE REVIEW

2.1 *Waqf fund as a source of financing*

Waqf is one of Islam's main social finance instruments that has contributed to various sectors, including educational institutions, health services, and public infrastructure over the centuries. In general, there are three principles of waqf, namely irrevocability, perpetuity, and ineligibility (Hassan & Yusof, 2020). Meanwhile, historically, waqf has been practiced through tangible asset contributions like land and buildings (Rahmalan & Hussin, 2021).

Today, liquid assets like cash seem to be the most popular ones (Ali & Markom, 2020). Through this cash waqf, it allows individuals to contribute their money regardless of their financial capacity, as no minimum limit is imposed. As a result, the collection of waqf funds has steadily increased, becoming more liquid, and it enables a greater and more far-reaching impact of waqf funds over time (Saiti et al, 2021).

In regard to Malaysia, a federal country with two levels of government, a central government and state governments, the waqf administration is uniquely positioning itself. Meanwhile, the central government enjoys authority in the majority of areas, and all matters related to Islam belong to the state governments. These include the collection and management of Islamic funds, particularly zakat and waqf (Federal Constitution, 2009). In this regard, the State Islamic Religious Councils (SIRCs) are the sole authority for waqf funds: collection, management, and distribution. In other words, each state has enacted their waqf enactment and its administration differently (Ali & Ruzian 2020).

Meanwhile, several SIRCs administrate their waqf fund directly, while others have privatized their waqf management (Abdullah et al, 2021). The examples are Pahang, Penang, and the Federal Territory. Regarding channeling waqf funds, the practice is slightly different due to different enactments or managements. For example, Terengganu, through its SIRCs, has divided waqf projects into four sectors, including the religious, commercial, educational, and social sectors (MAIDAM, n.d.). However, most waqf funds today are used to support the religious sector, such as the construction of mosques and religious schools (Rahman et al, 2024).

Meanwhile, waqf collection has significantly evolved, and its contribution to the socio-economic sector in the form of business financing is still limited. Currently, two institutions, Waqaf An-Nur Corporation Berhad (Waqaf An-Nur) and Yayasan Waqf Malaysia (YWM), offer waqf-based microfinancing products. Waqaf An-Nur currently extends microfinancing up to RM 20,000.00 through *qard* and *tawarruq* (Waqaf An-Nur, n.d.). Meanwhile, YWM offers several waqf-based microfinancing products for SMEs in the Halal industry (Bakar, 2023). It is specifically designed in the form of financing, up to RM 25,000, to purchase equipment and machinery (Halal Development Corporation Berhad, n.d.).

It is argued that several factors have contributed to the limited availability of waqf financing in Malaysia. Meanwhile, waqf institutions have many assets registered under them, and they are facing shortages in liquidity. In addition, the lack of expertise and strategies for investing funds and social development are the main factors of this limitation. At the same time, channeling waqf funds directly to micro-businesses in the form of seed money is not favorable to waqf institutions. This may threaten the sustainability of waqf funds. Thus, there is a need to explore new financing contracts beyond *qard* or seed money to maximize the potential of waqf funds and to ensure their sustainability, one of them *mudharabah*.

2.2 *Mudharabah As a Financing Instrument*

Technically, *mudharabah* can be defined as a contract of collaboration between two parties: a *mudharib* (project manager) on one side and *rab al-Mal* (capital providers) on the other side. Operationally, *rab al-Mal* provides funds for the business venture while *mudharib* offers expertise, skill, knowledge, or labor to ensure its success (ISRA, 2023). Both share responsibility for the venture as *rab al-mal* is in charge of finance while *mudharib* must use his best efforts to ensure the business can bring profit (Awad, Hamid, & Allaymoun, 2019). From Shariah's perspective, scholars over the period unanimously agree with the permissibility of *mudharabah* (Ibn Munzir, 1999). This contract had been widely practiced by Arab tribes prior to Islam. Later, it was recognized by this religion (ISRA, 2023). From a classical perspective, *mudharabah* is a substitute for *riba*-based capital. At the same time, in modern economics, it is an underlying contract for securities and investments without the aim of fulfilling the elements of the contract but rather generating profit from them (Hasan, 2010).

To ensure the validity of *mudharabah*, it must comply with several requirements. The majority of jurists view capital as being in the form of money (Shafii, Mohd. Yusoff, & Md. Noh, 2013). Even though a small minority of scholars like Ibn Abi Ya'la and al-Auza'I were reported to allow other non-monetary items as the capital, this view is unacceptable by the majority since it may lead to the conflict among involving parties on how profit is divided later (Al-Zuhaili, 2006). In general, the profit distribution needs to be agreed upon by both parties before the contract is concluded and the project begins. Nevertheless, it is allowed to change the distribution later if there is a mutual agreement between them (ISRA, 2023). Furthermore, since *mudharabah* is a partnership arrangement, the profit ratio must be calculated in percentages rather than specific amounts of money (Al-Zuhaili, 2006).

Regarding the return, if a *mudharabah*-based project is profitable, its earnings need to be allocated based on a predetermined ratio. In this regard, *mudharib* are not permitted to seek a particular fee for their job unless two parties have a separate agreement to give a special charge for the *mudharib* under other contracts (AAOIFI, 2015). In the case the project is lost, *rab al-Mal* will bear the entire cost of the project. This seems fair between the two parties since *mudharib* has already experienced a loss in terms of time, ideas, and work without receiving any payment. Nevertheless, to protect the interest of *rab al-Mal*, *mudharabah* can be designed as a restricted venture. This can be applied by imposing certain conditions on a business, including location, type, and business sector (ISRA, 2023). If these limitations are breached, *mudharib* would bear total responsibility for the project loss (Mazuin, 2015).

In modern times, *mudharabah* is not favorable as a financing instrument by Islamic financial institutions due to its high risk. For example, Islamic banking institutions are well known as risk-averse as they tend to provide debt-based financings that protect the capital and secure the return. Nevertheless, some Islamic banking institutions are reported to offer investment accounts based on *mudharabah* contracts. In other words, depositors who opt for this investment account act as *rab al-Mal* while Islamic banks become *mudharib* (Ishak & Rahman, 2021). This is a unique feature of Islamic banking in comparison to conventional banking, where the latter, every financial is based on interest-bearing loans. In the Islamic money market, *mudharabah* is designed as an interbank money market instrument between Islamic banking institutions to manage their liquidity as its rate is determined by the Central Bank. In the Islamic capital market, *mudharabah* has become one of the popular underlying contracts for the *sukuk* structure (ISRA, 2024).

Since the main risk of *mudharabah* is that the fund placed by investors who expect a high return, or at least capital protected, could be jeopardized, the scenario would be different if *mudharabah* is applied by utilizing philanthropic funds. Instead of providing waqf funds as seed money or as a *qard*, which is prohibited from requesting any additional return, *mudharabah* can be an efficient contract. It can, therefore, be proposed as a waqf financing instrument to support any business, especially micro and small enterprises. To minimize the risk, the business must be proposed and screened through crowdfunding platforms.

2.3 *Equity-Based Crowdfunding*

Crowdfunding has become a popular alternative finance in the last few decades. With the power of the internet, crowdfunding has successfully become a new financial intermediary, connecting businesses and investors. This financial inclusion has created an opportunity for a large group of people to raise money to support talent, business projects, and start-ups. Originally, the term crowdfunding came from crowdsourcing (Mollick, 2014). In fact, both terms share similar practices to reach targets by receiving small contributions from individuals (Zhang, 2012). In more detail, crowdfunding facilitates the joint venture of friends, families, and unknown people, whereby its platform is utilized to seek mutual initiatives on a small to a large scale (Mollick, 2014). Over the period, crowdfunding has been recognized as an alternative to mainstream financial institutions where entrepreneurs, particularly start-ups and SMEs, could obtain funds directly from the people through digital platforms.

Modern crowdfunding is characterized by the three following elements: (i) the fund comes from various individuals, known as backers or funders (Beaulieu et al., 2015), (ii) the fund is meant to support business raised by project managers or fundraisers (Beaulieu et al., 2015), (iii) the internet platform links between both parties. Thus, modern crowdfunding differs from traditional crowdsourcing because the former utilizes the internet as an intermediary platform for transferring funds between funders and fundraisers (Hendratmi et al., 2019).

In general, there are four popular crowdfunding models: donation-based crowdfunding, reward-based crowdfunding, lending-based crowdfunding, and equity-based crowdfunding. Both donation-based crowdfunding and reward-based crowdfunding are practiced when funders channel their money without expecting any return, except for reward-based where fundraisers reply to the kindness of funders by giving them gifts like album covers, tickets, t-shirts, mugs, and key chains (Kraus et al., 2016). Both these two models are known as community-based crowdfunding, where funders support a certain social project with their money (Marzban et al., 2014). Usually, fundraisers are individuals, small businesses, artists, and NGOs (Salido-Andrés et al., 2019).

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As for lending-based crowdfunding and equity-based crowdfunding, both are designed for financial return. In other words, funders seek potential business and investment to support with the motive of creating profit. As for lending-based crowdfunding, it is also popular with the term Peer-to-Peer (P2P) lending when funders lend their money to fundraisers and expect interest. This model is similar to the banking practice where depositors place their money in the bank with the expectation of interest. Then, the bank lends it to borrowers with interest charges (Aderemi & Ishak, 2023).

As for equity-based crowdfunding, it is an online platform in which funders are investors expecting benefits or financial returns from the campaign that they are involved in (Battisti et al., 2020). Their contribution is considered part of the fundraiser's equity-based revenue or profit-share arrangements (Collins & Pierrakis, 2012). In other words, fundraisers decide how much cash they would like to raise in exchange for a percentage of fairness. Every funder receives a pro-rata share. Usually, ordinary shares of the project rely on the fraction of the target quantity they determine to commit (Wilson & Testoni, 2014). According to Thaker et al. (2018), this platform may serve as an intermediary between start-up companies and investors as this platform is used to raise funds by advertising the business.

Wilson and Testoni (2014) ascertained that the equity crowdfunding rate is the most complex crowdfunding model. From a legal viewpoint, the funder purchases a share in the company, the value of which needs to be estimated. Moreover, the uncertainty level in equity crowdfunding is considerably greater when compared to the other models of crowdfunding because it has to do with the entrepreneur's capacity to generate equity value in the company, which is exceptionally difficult to evaluate. Furthermore, this complicated practice causes more problems than other crowdfunding models (Angerer et al., 2018). On the other hand, equity-based crowdfunding is the fastest growing form of crowdfunding model as it has gained more attention across the globe in comparison with other models, particularly from policymakers. At the same time, it is argued that the increase of awareness, particularly in understanding risks, has contributed to rapid development of equity based crowdfunding market (Yasar, 2021). These young firms have no track record and also lack assets to be used as guarantees for bank loans (Biancone & Secinaro, 2016). This crowdfunding model is essentially an alternative for other companies and institutions when they are no longer active or do not exist within a country's principal market rather than a complement to those companies. Mainstream financing institutions obligate enterprises to hold lots or plenty of meetings in an attempt to seek funds, which is capital and labour exhaustive and highly unproductive (World Bank, 2013). As a result of integrating access to information on available investment chances, crowdfunding platforms can assist the progress of the flow of information from start-up enterprises to potential investors faster than has ever been attainable before (Jenik, Timothy, & Nava, 2017). Another benefit of crowdfunding is that it eliminates geographical obstructions to investment, which entails that networks do not need to be tied to geography and geographical differences between the investor and the entrepreneur (World Bank, 2013).

In general, crowdfunding is in line with the objective of Shariah in terms of promoting wealth circulation and providing financial aid for small businesses. It is in line with Shariah's encouraging transparency in financial activities. Nevertheless, like other finance segments, crowdfunding operations must comply with Shariah rulings. In principle, Shariah strongly prohibits *riba* (interest), *gharar* (uncertainty), and *maysir* (gambling) (Ishak, 2024). Alternatively, Shariah contracts must be put in place. In fact, various contracts can be adopted either in the form of equity-like *mudharabah* and *musyarakah,* or debt-based, like *tawarruq.* At the same time, any business project must be halal, as it is prohibited in Shariah to support non-halal activities like pork, alcohol, and gambling.

Regarding regulation, the Securities Commission (SC) is the sole authority in the financial market in Malaysia that has introduced a special legal framework for crowdfunding operations. Known as the Guidelines on Recognized Markets (GRM), SC requires any registered Islamic crowdfunding platform to comply with Shariah requirements (SCM, 2023). In this regard, the Shariah Advisory Council of SC is the highest reference for Shariah matters for all players in the equity market, including crowdfunding. All Shariah contracts applied must align with Shariah resolutions and decisions by the Shariah Advisory Council. At the same time, all businesses that need to raise funds through Islamic equity crowdfunding must comply with financial screening to ensure they are Shariah compliant (ISRA, 2024).

2.4 *Previous Studies and The Proposed Model*

Many studies have proposed waqf funds as a source of financing for various purposes. Ari and Koc (2021), for example, have analyzed several models of alternative equity-based financing before proposing a new Waqf Owned Financial Intermediary (WOFI) model to support environment-based projects like solar panel development. This model is based on a combination of agent-based and scenario-based computer simulations. Meanwhile, Majid and Sukmana (2023) proposed cash waqf as a financing model for supporting the agricultural sector. This model comes up with risk mitigation parameters and utilizes *salam*, *ijarah,* and *mudharabah.* Another waqf financing model proposed by Priyadi (2023) aims to empower the development of productive waqf land. He argues that this model can reduce the risk of loss and increase the waqf asset value.

In terms of utilizing *mudharabah* as waqf financing contracts, studies in this area are still limited. Osman et al 2015 have explored the potential of *mudharabah* in managing waqf commercial properties as it can promote wealth circulation within society. Meanwhile, Traore et al., 2018 proposed *mudharabah* to develop agriculture sector and to create more employment within society. Fazial et al (2024) come up with a proposal of waqf-based *mudharabah* financing to support traditional Islamic education institutions to ensure the sustainability of these institutions.

Another angle related to this study is utilizing *mudharabah* as a crowdfunding instrument. Previous studies have discussed the applicability of *mudharabah* as a crowdfunding instrument. For example, Abdullah and Oseni (2017) propose this contract to support the Halal industry. Through *mudharabah,* a crowdfunding platform plays a role as an agent to connect investors and entrepreneurs. Meanwhile, Muneeza et al. (2018) propose an integration between *mudharabah* crowdfunding and blockchain technology that promotes transparency to attract investors. Febrina (2019) proposes *mudharabah-based* crowdfunding for non-banking institutions, while Firdaus (2021), Abdeldayem and Aldulaimi (2022), and Ishak and Rahman (2022) view that *mudharabah* can be a potential investment instrument as far as investor interest is protected and related regulation is enhanced.

In practice, integrating the waqf fund and crowdfunding platform is not something new particularly in Malaysia. Crowdfunding can serve as an effective platform for waqf collection through a fundraising concept. A good example is the MyWakaf platform, established by the Association of Islamic Banking and Financial Institutions Malaysia (AIBIM). This platform fosters strategic collaboration between Islamic banking institutions and SIRCs to maximize waqf collection through targeted campaigns (Eldersevi & Muhammad, 2021). Each campaign is conducted through a special partnership between an Islamic bank and a SIRC. For instance, constructing a Hemodialysis Centre in Terengganu involves collaboration between the Terengganu Islamic Religious and Malay Customs Council (MAIDAM) and Bank Rakyat. Other notable projects initiated through this platform include the Waqf Solar Dome Dryer for the Fishermen and Farmers Community, Housing Waqf in Penang, Inap Waqf, and the Mobile Dental Clinic (MyWakaf, n.d.).

However, this current practice in Malaysia is limited to donation-based crowdfunding. The main potential of crowdfunding is to support businesses, especially micro start-ups and SMEs. It serves as a micro-capital market for them. Therefore, this study aims to propose *mudharabah* financing through an integration between waqf fund and equity-based crowdfunding. Based on the literature review, the technical definition for all concepts can be summarized as the following:

A. Waqf financing: financing whose source comes from the return of waqf investment.
B. *Mudharabah*: A financing instrument based on profit and loss sharing.
C. Equity-based crowdfunding: A digital platform to obtain funds from investors.

Based on these three concepts, a new model of blended financing can be developed as Figure 1

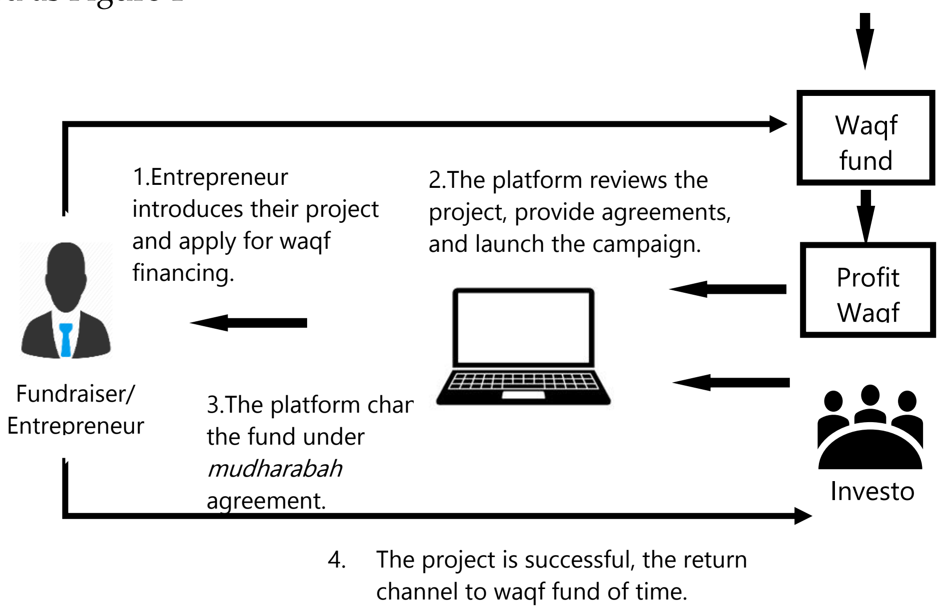

Figure 1. The proposed model

Explanations:

1. An entrepreneur applies to the platform to raise funds for his business project.
2. The platform reviews the project, and if it is qualified, it prepares agreements under the concept of *mudharabah* and launches the campaign.
3. Investors channel their money to the project. Their contribution represents 60% of the total shares.
4. Waqf fund channels its funding up to 40% of the total shares. The funding is not from the waqf fund. Instead, profit is generated from the investment of the waqf fund.
5. If the target is achieved, the platform channels the total fund under the *mudharabah* instrument. If the target is not achieved, extending the business or revising the agreement is necessary.
6. If the project succeeds, the entrepreneur channels the return to both investors and the waqf fund. Conversely, if the project fails, the cost is borne by investors and waqf funds.

3. METHODOLOGY

3.1 *Research design*

This study is based on a qualitative research approach. This approach provides a systematic categorization technique like themes, coding, or patterns to interact with the subjective interpretation of data (Hsieh & Shannon, 2005). Since the objective of this study is to provide a *mudharabah* financing framework based on waqf funds for micro-enterprises or start-ups, it must address the knowledge, comprehension, perception, and, most importantly, experience of specialists in the field. Therefore, the qualitative research approach is more practical because it enables the researchers to closely engage with people to acquire data relevant to their experiences and perspectives. This approach can create a depth of understanding that is impossible with numerical approaches or other quantification tools (Johnson et al., 2006).

In general, data in qualitative study is obtained through focus groups, interviews, unstructured diaries, and observation to gather data (Hox & Boeije, 2005). The interview can be categorized into three: structured, semi-structed, and open. This study applies semi-structured interviews as a tool to obtain a thorough understanding of the topic matter. The semi-structured interviews are more practical for creating engagement and interaction between the interviewer and the interviewee. Additionally, it enables researchers to earn the trust of interview subjects and comprehend their responses more deeply. It is a trustworthy technique for obtaining study data (Ramy et al., 2018).

3.2 *Data collection*

When conducting interviews, purposive sampling ensures that researchers achieve the study's objectives (Etikan et al., 2016). Consequently, the extensive experience, expertise, and positions of potential interviewees were crucial factors in selecting interview subjects. Purposive sampling is a targeted and systematic method of selection where researchers do not randomly search for interview subjects. Instead, its primary objective is to deliberately choose knowledgeable and competent individuals who can provide insights on a specific topic (Etikan et al., 2016).

Therefore, the interviewees are chosen according to their positions and knowledge in Islamic crowdfunding and waqf management. In addition, they all have a background in Shariah law and knowledge of contemporary finance practices. Upon request, the interviewees' identities are encrypted to protect their personal information. Table 1 provides a list of interviewees.

Table 1. List of interviewees

Interviewee	Position	Institution
IV 1	Shariah advisor	Islamic Crowdfunding
IV 2	Shariah expert	University
IV 3	CEO	Crowdfunding
IV 4	Senior manager	Crowdfunding
IV 5	Shariah officer	Crowdfunding
IV 6	Assistant Secretary (Waqf and General Resources)	Waqf institution
IV 7	Senior Executive, Fund Management Division	Waqf institution
IV 8	Senior Managers, Shariah and International Units	Waqf institution
IV 9	Academia and Shariah advisor	University

3.3 *Data Analysis*

After the interview record is transcribed, the researchers use the thematic analysis to present the findings. The transcription and information are gathered through thematic analysis, then to categorize the data into key themes by segmenting, classifying, summarizing, and reconstructing it (Lisa M. Given, 2008). This approach is vital to emphasize interviewees' viewpoints by pointing out parallels and discrepancies and producing insights. (Nowell et al., 2017).

4. RESULTS & DISCUSSION

4.1 *Results*

The findings of this study are presented as the following themes: -

Theme I: Mudharabah in crowdfunding practice.

Table 2. Theme 1

Interviewee	Remark
IV 1	*To utilize mudharabah in crowdfunding, I mean pure mudharabah, raising funds may be risky in terms of involving in a fraud campaign carried out by a so-called project manager.*
IV 2	*Mudharib sometimes did not use the capital for the proposed business. Instead, the money may be used to pay for other things. This is against the concept of mudharabah.*
IV 1	*Mudharabah is not totally similar to equity investment, especially in investor protection. Unless we solve this issue through regulation, it may be difficult to apply mudharabah.*
IV 3	*While Islamic banking is the most regulated institution reluctant to use mudharabah because of risk, I don't think other entities are willing to do that.*
IV 4	*When you talk about equity crowdfunding, it is an investment. Mudharabah is part of them. It is between funders and project managers.*
IV 5	*Actually, this is between investors and project managers. If they agree (to do mudharabah), we just screen the agreement to see whether it complies with the regulation or not.*

Based on the findings, most interviewees view *mudharabah* as risky to adopt as a crowdfunding instrument. The main risk is the mismanagement by *mudharib,* who may use the money for another purpose. Moreover, the insufficient protection for *rab al-Mal* from the regulation perspective is argued to be a factor that discourages investors from being involved in the *mudharabah* arrangement. However, other interviewees are positive with *mudharabah* that equity-based crowdfunding has already applied the concept of profit and loss sharing.

Theme II: Mudharabah as waqf financing.

Table 3. Theme 2

Interviewee	Remark
IV 6	*Mudharabah may not be in our favor, unlike qard and tawarruq,*

	primarily due to our limited manpower, particularly within the waqf section. The mudharabah contract, which is built on partnership, may require fieldwork such as monitoring so it would pose significant challenges for institutions given our current resource constraints. The integration of our institutions into field operations is particularly difficult under these circumstances.
IV 7	*A mudharabah contract can be effectively utilized when the recipient of the financing is a trustworthy mudharib. However, implementing qard and tawarruq contracts is more straightforward for me. The use of other contracts may introduce operational complexities.*
IV 8	*If using a mudharabah contract, we don't want to be involved in the business run by the entrepreneur, because he is the one who owns the business. Unlike with this waqf microfinancing product, we will be dealing with people we are not familiar with. We are not familiar, and we do not know each other. In addition to tightening procedures and so on, we need to build our level of identification and trust in them first so that it does not happen later. Why did I say that? Because this is waqf money, if it is not waqf money, maybe it is okay. I have no problem with any contract. This is because the waqf project/product is waqf-based. If the money is not a waqf, I might be okay. Whatever is not a waqf, I don't care.*
IV 9	*Mudharabah can be utilized, but there are significant considerations, particularly from the perspective of cash waqf, which requires permanence. This is a critical issue, especially given the high risks associated with micro-entrepreneurs, who are often vulnerable. The situation is further complicated if the institution managing or leading the microfinance initiative has limited experience. For instance, if SIRC were to manage this. The risk of loss becomes a major concern, as the funds involved are waqf funds. Who would be responsible for guaranteeing these funds?*

Likewise, most practitioners and experts in waqf argue that *mudharabah* is not the preferred instrument for waqf-based financing. Nevertheless, unlike previous findings, since the waqf fund is based on a philanthropic concept, thus the risk of utilizing it is not the main concern, as in the current practice, the waqf fund is given without expecting any return. Nevertheless, *mudharabah* is unfavourable because its practice looks complicated, unlike *qard* and *tawarruq*.

Theme III: Empowering Mudharabah

Table 4. Theme 3

Interviewee	Remark
IV2	*Since mudharabah provides a return and is Shariah-compliant, it should be an attractive investment.*
IV3	*Trust must be built through the platform.*

IV3	*To empower mudharabah, we need collaboration. It would benefit every party.*
IV3	*Even though rab al-Mal cannot interfere, they still can monitor. For example, they can require the cash flow of a company or business.*
IV2	*The progress of the project can be easily monitored by rab al-Mal through data or online platforms.*
IV9	*If a guarantee exists, the risk may be mitigated; however, mudharabah inherently carries the risk of potential loss. In the event of a loss, the question arises: how would these funds be replenished? This requires careful consideration.*
IV8	*In fact, mudharabah is not complicated. It is just riskier (than other instruments). If there is a platform to connect with each other, it can create trust."*
IV 7	*A real-time report on the development of specific investments, such as a plantation or even a house development, is now available. You can lessen the mudharib's negligence in specific places. Despite being a capital supplier, you are always in control of the project's advancement."*
IV9	*Suppose we have the intention to be together with the mudharib, like us at Yayasan Waqaf Malaysia with our subsidiary (hotel). We use the mudharabah contract, because we have an interest in that. Even though we only have rabbul mal (capital provider), the subsidiary is mudharib, and we are still responsible. We monitor because we have an interest there.*

As the final part of the interview, all interviewees were asked how to empower *mudharabah* as a financing and investment instrument. In general, since *mudharabah* provides profit based on the project performance, it should be attractive to investors rather than a fixed return or just a loan without interest. Since the risk is the main issue of *mudharabah*, interviewees believe that there is a need to monitor the project closely. This includes monitoring through digital platforms to ensure that the money is used based on the agreement.

4.2 *Discussion*

Many interviewees prefer other contracts than *mudharabah* since they are less risky. The most popular answers are *tawarruq* and *qard*. Both *tawarruq* and *qard* can secure the capital regardless of the situation of borrowers. The difference between both is that tawarruq is designed to create a fixed profit through a special arrangement, while qard is not allowed to charge more than the loan's original amount. This situation is different for *mudharabah*, in which the capital provided must not be guaranteed. Meanwhile, *mudharabah* is claimed to be riskier than both contracts. It is less controversial in terms of Shariah. *Qard,* for example, in practice, it is difficult to provide a pure loan without additional charge. Usually, financiers would charge so-called administrative fees to cover the operation. This would lead to the issue of *qard jar naf'an* (a loan that is associated with benefit), which is part of *riba.*

As for *tawarruq*, even though its original status is accepted by classical Muslim jurists, modern *tawarruq* has been criticized by a significant number of scholars. For example, the International Islamic Fiqh Academy (IIFA) prohibits this instrument due to the use of spoiled commodities in transactions, the lack of genuine possession and delivery, and the appointment of banks as the customers' agents. Consequently, *tawarruq* is viewed as a deceptive practice of *riba* (IIFA, 2009). Meanwhile, Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), another body, imposes strict conditions for tawarruq as it must avoid so-called dual agencies when the financier sells the commodity to customers. It sells the commodity on behalf of the customer to others to obtain money (AAOIFI, 2015). Even though the SAC of the Central Bank of Malaysia has taken a different stance by allowing *tawarruq* in the Islamic banking industry, now it has become overused. Thus, the Central Bank of Malaysia has encouraged Islamic banking institutions to diversify their products instead of relying on *tawarruq* (BNM, 2022). In fact, even though debt-based contracts like *tawarruq* and *qard* are designed for secure repayment, the default risk can still occur when borrowers are not capable of repaying their debt.

Mudharabah, in contrast, is less controversial from a Shariah perspective in terms of its implementation. The ruling of *mudharabah* is clear regarding capital, project, and return. At the same time, *mudharabah* is argued to be in line with *maqasid al-Shariah* since it empowers the spirit of collaboration between two parties who have different advantages (Lahsana, 2013). In addition, since *mudharabah* is based on profit and loss sharing, it is fairer for both parties. Meanwhile, *mudharabah* is among the instruments allowing capital providers to enjoy return, and it is not favorable due to the risk of loss when capital providers must bear all. Meanwhile, this is a general rule, and there is still room for minimizing the risk borne by r*ab al-Mal*. For example, by applying *mudharabah muqayyad*. As discussed by classical literature, this concept is applied by restricting a project under *mudharabah*. Any breach of the condition, if there is a loss, costs the project manager.

Another approach is to provide a guarantor, as suggested by the interview. In modern times, when *mudharabah* becomes an investment instrument, a special fund that aims to provide profit smoothing is established. In more detail, if the business yields a high return, some of the profit can be allocated to a special fund. When the return is low, it can be top-up with the money from the fund (Lahsasna, 2013). Even though this practice is prohibited in the banking sector, it is still allowed in the capital market, especially for sukuk *mudharabah*. Through financial technology, the risk of *mudharabah* can be systematically mitigated. All businesses can be screened, and the project's progress can be updated. In addition, risk can also be anticipated, especially with big data. Through a crowdfunding platform, the progress of a project can be closely monitored even by investors.

In this regard, blended financing should be proposed. This concept can be defined as utilizing two different forms of capital, philanthropic capital and risk capital, to create a source of funds for financing (Mutambatsere et al. 2020). Risk capital includes deposits and investments, while philanthropic capital can be donations or endowments. Since banking institutions utilize risk capital, they become risk averse. As a result, low-income individuals and small businesses have difficulty accessing their facilities. Combining both capitals would be a solution to provide inclusive financing. In general, waqf, zakat, and *infaq* are part of philanthropic capital. However, all of them have different rules that must be complied with. For example, even though zakat can be designed as financing, access to it is still limited for *asnaf* (zakat beneficiaries). Therefore, zakat funding is more suitable as microfinancing for the *asnaf* development program (Asni, 2024).

In contrast, waqf is more flexible in terms of beneficiaries. It can be used to support small and semi-medium businesses or start-ups that are not under the category of *asnaf*. However, the challenge of waqf is that the contribution asset must remain for cash waqf and must be placed under less risky investments like term deposits in Islamic banks. Making waqf funds a primary source of *mudharabah* may not be accepted by waqf institutions. To overcome this problem, the original waqf fund can be invested in less risky investment first, and the return would be created as *madharabah* financing.

To empower this financing, it can be integrated with equity-based crowdfunding. Based on the literature, one of the main challenges for offering financing based on waqf is the issue of liquidity and limited funds (Thaker et al. 2018). Through equity-based crowdfunding, new funds can be raised to combine with waqf funds for supporting businesses. In addition, crowdfunding can carry out the process of due diligence to minimize the risk. Moreover, some platforms provide training for them in terms of business management and pitching their project. On top that, equity crowdfunding is heavly regulated in comparison to other models (Yasar, 2021). From entrepreneurs' perspective, equity crowdfunding is preferable in comparison to mainstream financial credit facilities (Mochkabadi et al., 2020). Meawhile, since equity crowdfunding utilizes online platforms, it can attract young investors (Hapsari et al. 2022). Hybrid financing can be created by funding from investors under the concept of equity and waqf under the concept of *mudharabah*. This can reduce the risk of waqf funds and simultaneously enhance the amount of funding.

5. CONCLUSION

This study analyses the potential of integrating between waqf fund and equity crowdfunding to create a *mudharabah* blended financing for businesses. In fact, Shariah-compliant financings are limited for entrepreneurs in Malaysia, especially SMEs. Meanwhile, this sector has significantly contributed to the country's economic development. Ironically, most of them face difficulties in obtaining funds from mainstream financial institutions, including Islamic financial institutions. To reach the objective, this study applies qualitative research methodology. The data is based on semi-structured interviews with experts in crowdfunding, State Religious Islam Councils, and Islamic financial institutions and crowdfunding.

The findings reveal that *mudharabah* might be risky as the crowdfunding instrument and waqf-based financing. Nevertheless, both can be integrated as a blended instrument to enhance the efficiency of *mudharabah* and minimize its risks. Through this model, the waqf fund and investors can join to support potential business projects through an equity-based crowdfunding platform. Through the platform, business owners can convince investors and waqf fund managers about their projects, and their progress can be efficiently monitored to minimize the risk.

Since this study is exploratory, its findings may not be generalized into all aspects and areas. Nevertheless, a new practical blended financing combining *mudharabah* waqf financing and equity-based crowdfunding is proposed through the findings and discussion in this paper. This study provides both theoretical discussion and practical recommendations for proposing *mudharabah* waqf financing through a crowdfunding platform. Despite the fact that *mudharabah*, waqf, and crowdfunding are not new research topics, combining all these elements is an innovation.

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