

## **Waqf-Based Crowdfunding: Proposed Framework for Entrepreneur Development**

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### **ABSTRACT**

Entrepreneurs are basis and essential to economic development. Since entrepreneurial activity is self-employed and creates jobs opportunity, it can stimulate economic in many ways. However, lack of financial support for entrepreneurs threatens their growth. Additionally, Muslim entrepreneur has its own features and guiding principles based on al-Quran and al-Hadis. They conducting a business consistent with the moral and ethical standards of Islamic practices, and also accounted for all-inclusive Islamic goals benefitting society as a whole. Therefore, only financial support that adhere to moral and term of Islamic practice will become their preference. The objective of this paper therefore, to explore the solution of Islamic mechanism for entrepreneur development fundraising by utilizing crowdfunding and *waqf* as Islamic financial instrument or Shari'ah compliance crowdfunding. This study employs library based research methodology in order to provide theoretical foundation for the study. The aim of this approach is to reveal various experts and researchers opinions in the field pertaining to the issue at hand and deduces the most acceptable solution to fulfill the objectives of the study. This study proposes framework of a new hybrid product of Islamic crowdfunding in providing solutions to entrepreneurs. The mechanism is featuring a more secure and Islamic way in online fundraising for entrepreneur which use Quran, Sunnah and Islamic scholars opinion as guidance.

Keywords: *Waqf*, Crowdfunding, Entrepreneur, *Shari'ah*

### **1. INTRODUCTION**

An entrepreneur is believed as a driving force of the economy. However, lack of financial support threatens the growth spirit of the entrepreneur. One of the biggest hurdles or constraints for the potential entrepreneur is the lack of access to get fund, capital and source of fund to starting or growing a new business (Kerr & Nanda 2009, Andersen & Nielsen 2012). Generally, entrepreneur relies on financial intermediaries or bank loan as a source of fund (Abdullah 2016). However, financial intermediaries have their own standard on deciding which project to fund. Also, reluctant of banks to support young entrepreneurs and their start-ups due to their perceived risk profile and non-existence of collaterals triggered the requirement evolvement of new innovative product or mechanism to address the funding gap for a new entrepreneur (Asutay & Marzban 2015). Hence, the potential entrepreneur needs other sources of fund or external financing to gain capital such as crowdfunding.

Crowdfunding has recently gained world attention as an alternative financing for entrepreneur. Crowdfunding is the subset of crowdsourcing on the internet which collects fund to help start-up business, charity fund, or provide aid to the needy such as disaster aid (Kleeman et al. 2008). Based on

a report by the consultancy Massolution, funds raised via crowdfunding in Asia expanded by 167 percent in 2014 to reach \$16.2 billion, up from \$6.1 billion in 2013 (Massolution 2015). Besides, Asian become a second large market for crowdfunding after North America. Internet-based crowdfunding has seen extraordinary growth in the last few years in terms of total revenue, global spread, the number of platforms, and diversity of applications (Massolution 2013).

The existence of element such as interest and non Shari'ah compliance investment in crowdfunding have become hurdles for entrepreneur especially Muslim entrepreneur to utilize crowdfunding as their fundraising mechanism. However, along with the rapid growth of Islamic bank and Islamic financial, there is an advance requirement of Islamic mechanism for Shari'ah compliant crowdfunding. As for Malaysia, Guidelines on Regulation of Markets under Section 34 of the Capital Markets and Services Act 2007 was released on 2015 to introduce new requirements for the registration of equity crowdfunding (ECF) platforms and provide governance arrangement for the operation of such platforms. According to Abdullah (2015), since the provision of the guidelines is general, it is applicable for conventional equity and Islamic equity crowdfunding. What makes an equity crowdfunding is shariah-compliant according to the Part E of the guidelines is the appointment of the Shari'ah advisor (Security Commission Malaysia 2015).<sup>1</sup>

On 3<sup>rd</sup> August 2016, the former Prime Minister of Malaysia Tun Abdullah Ahmad Badawi has launched the *Waqf* crowdfunding platform or known as *WaqfWorld.org*. Described as the “world’s first” *waqf*-based crowdfunding, this new platform was announced at the 12<sup>th</sup> World Islamic Economic Foundation Forum (WIEF) held in Jakarta, Indonesia. This unique hybrid product of crowdfunding in the form of *waqf* represents a new mode of financing mechanism for the entrepreneur by using Islamic mechanism and regulation.

*Waqf* based crowdfunding has a huge potential as fundraising mechanism for Muslims entrepreneurs in parallel to shariah compliant equity, P2P and reward based crowdfunding. Therefore, the aim of this study is to propose an Islamic mechanism for entrepreneur development fundraising by utilizing crowdfunding and *waqf* as Islamic financial instrument or Shari'ah compliant crowdfunding. It also provides the information on utilizing cash *waqf* with crowdfunding which the new fundraising mechanism that will be propose and utilize in order to solve the issues. The mechanism is featuring a more secure and Islamic way in online fundraising for entrepreneur which use Quran, Sunnah and Islamic scholars opinion as guidance.

The paper is organized as follows. In section 2, this paper will propose a survey of the current literature on *waqf* and Islamic crowdfunding. Section 3 will elaborate on the research methodology. Section 4 will elucidate fundamental process of crowdfunding and cash *waqf*. Section 5 will submit the idea and discussion of framework *waqf* based crowdfunding for the entrepreneur. Then, section 6 concludes the overall of paper.

## **2. LITERATURE REVIEW**

### **2.1. Entrepreneur in Islamic Perspective**

Gumusay (2015) elucidate entrepreneurship from an Islamic perspective as a composition of two individually contested concept namely Islam and entrepreneurship. According to al-Qaradhawi (2001), the philosophy of Islamic entrepreneurship is driven by the economic philosophy where business is based on *Rabbani* or God-oriented. Therefore, this phenomenon indirectly creates the influence or relationship between the element of spirituality in Islam and entrepreneurship. Adamu et. al. (2013) found that dimension of spirituality in Islam can positively influence the attitudes of entrepreneur and

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<sup>1</sup> Part E of the guidelines is the only provision that related on Shari'ah requirement which stipulated on the appointment of Shari'ah advisor.

serve as a motivational drive for going into business and also serve as a catalyst for positive energy, enhanced performance and increased commitment to social responsibility.

There is a big gap divergence between the Islamic perspective of entrepreneurship and western entrepreneurship. In the context of Islam, a Muslim business activity should strive to meet religious goals. There is no separation between Islamic religion and entrepreneurial activities. Entrepreneurship in Islam has its own features and guiding principles based on al-Quran and al-Hadis such as focused on the first place to pleasing Allah or to achieve *mardhatillah* (the blessing of Allah), conducting a business consistent with the moral and ethical standards of Islamic practices, and also accounted for all-inclusive Islamic goals benefitting society as a whole. Contrasting with western entrepreneurs, the success of entrepreneurship in Islam is evaluated not only by personal financial success, but also by how well religious goals are achieved, which may provide the entrepreneur with rewards in this world and an afterlife (Hassan & Hippler 2014).

## **2.2. Crowdfunding**

Crowdfunding in general is defined as an “open call for collective effort by people who network and pool their money together essentially through the Internet, for the provision of financial resources either in the form of a donation or in exchange for some form of reward or investment in order to support initiated by other people or organizations for specific purposes” (Lambert & Schwienbacher 2010; Ordanini et al. 2011). Whereas, crowdfunding particular in area entrepreneurship is explained as a process an entrepreneur raises external financing or to raise capital from a large audience (the ‘crowd’) or novel investor, in which each individual provides or willing to invest small amounts through internet based intermediaries (Belleflamme et al. 2013; Valaciene & Jegeleviciute 2013).

Historically crowdfunding was initially used to gain fund in the art, music, and movies industry (Lambert and Schwienbacher, 2010). For instance, the British rock band Marillion collected US \$ 60,000 from their fans via crowdfunding to finance their US concert tour (Horisch, 2015). After some number of period, and crowdfunding become more popular, business industry makes use of crowdfunding to get fund and finance the idea of their ventures project or as one of external financing rather than loan financing by bank (Lambert and Schwienbacher, 2010). Development of crowdfunding more apparent with the establishment of a various platform such as Kickstarter.com, IndieGoGo.com, RocketHub, GoFundMe and etc. were implemented (Pazowski & Witold 2014).

Most researchers agree that there are basically four different types of crowdfunding: donation-based, reward-based, equity-based, and lending or debt- based (Hemer 2011; De Buysere 2012; Massolution 2013; Kuti & Madarasz 2014; Marzban & Asutay 2015). Crowdfunding based donation is a donor contract without expected any compensation. While crowdfunding based reward is a purchase contract for some type of product or service. Whereas, crowdfunding lending- based or sometimes referred to as peer to peer (P2P) lending involve credit contract, credit is being repaid plus interest. Finally, in equity crowdfunding, it is a shareholding contract, shares, equity-like instruments or revenue sharing in the project or business (De Buysere 2012).

## **2.3. Crowdfunding from Islamic Perspectives**

Islamic crowdfunding has become a new demanding product for entrepreneurial development. Oukil (2013) affirmed that the current growth of Islamic bank, Islamic financing, and market across the world, enhances the development of Islamic entrepreneurship. Crowdfunding can be conceptualized as Islamic if the product and project being offered are complying according to Shari’ah parameters such as the investment made only in socially responsible product, share the risk of investment and free-interest-rate agreed prior to investment. Therefore, all crowdfunding types or model should be fit into

these norms and would need to be adapted to be considered as Shari'ah compliant crowdfunding (Wahjono et al. 2015; Taha & Macias 2014).

With respect to development and smoothness of Islamic Crowdfunding practices, Wahjono et al. (2015) highlight the uniqueness and important actor in Islamic crowdfunding other than project initiator, platform and funder, namely Shari'ah Supervisory Board or Shari'ah Advisors. This research supported by Hasan (2015) which state the role of Shari'ah advisor is important in order to derive solutions for any Shari'ah related issues in Islamic crowdfunding such as Shari'ah-compliant monitoring issue, equity structure, repurchase price of equity, moral hazard issue and other operational issues. Biancone and Secinaro (2016) also introduce the existence of Shari'ah board, whom could monitor the investment in every phase, provides specific Shari'ah screening and legal formalities as among some aspect that could turn equity crowdfunding in Italy to Shari'ah compliance model.

In an effort to the enhancement of entrepreneurial sector in Islamic countries, Marzban and Asutay (2014), study about a Shari'ah compliant crowdfunding framework with address the current issue in entrepreneurial, cultural and religious factor. In order to ensure fair distribution among capital providers in the case of liquidation as well as to overcome the Shari'ah concern regarding preference shares, the framework employs for start-ups structured contracts based on both *Musharakah* (capital venture) and interest-free loans. Whilst, Abdullah (2015) discuss Islamic crowdfunding on Shari'ah governance aspect and the issuance of Shari'ah parameter with special reference made to the Malaysian regulatory framework.

*Waqf*-based crowdfunding has huge potential as Islamic alternative financing for the entrepreneurs. Therefore, the following section explains the conceptual of *waqf* and previous studies in relation to *waqf*-based crowdfunding.

#### **2.4. *Waqf*: An Overview**

*Waqf* is a kind of charity with a special characteristic, make it unique than other kind of voluntary act. The beneficiary will get benefit from *waqf* as long as the benefit of *waqf* still running, possibility for years, century or decade. The word *waqf* is derived from the Arabic root verb *waqafa*, which means 'causing a thing to stop and standstill'. It also takes the meanings of 'detention', 'holding' or 'keeping' (al-Sarakhsi 1986; Osman 2002; Siti Mashitoh 2006; Chowdury et al. 2011). *Waqf* (pl. *Awaqaf*) is called *Boniyad* in Iran and *Habs* (pl. *Ahbs*) in North and West Africa. However, by taking its different meanings into consideration *waqf* can be applied to non-perishable property whose benefit is extracted without consuming the property itself (Chowdury et al. 2011; Hasan 2013).

With exception of Hanafis, all jurists agree that four elements constitute a valid and effective *waqf* donation there are: the declaration (*sighah*), the donor (*waqif*), the beneficiary (*mawquf alaihi*) and the subject matter (*mawquf*) (Iman and Mohammad 2014; Ahmad 2015; Miftahul Huda 2015; Suhadi 2002). Besides, some basic rule of *waqf* fund that should be pay attention such as *waqf* property cannot be sold, gifted or cannot be distributed and the usufruct of *waqf* fund must be defined and must be followed (Abdullah 2014).

There are three main characteristics of *waqf* fund namely perpetuity, permanence of stipulation of *waqf* founder and irrevocability (Mohammad 2006; Kerr 2011, Ahmad Zamri 2012). Perpetuity means that once a property or asset is dedicated as *waqf* it remains *waqf* forever. Then, permanence of stipulation of *waqf* founder means conditions specified by the founder must be fulfilled to their letter as long as they do not contradict or violate any of the Shari'ah rulings. If a *waqf* purpose becomes infeasible, the revenue of *waqf* should be spent on closest purpose available (Kahf 2011). While, irrevocability means the lack of power of the settlor (*waqif*) to terminate his donation at any time. The

declaration or undertaking by the donor is binding, which mean that that the donated asset could not be taken back by its owner (Iman & Mohammad 2014; Ahmad Zamri 2012).

In recent years, there are few number of studies emphasize of utilization of *waqf* particular on cash *waqf* for financing purpose. Some researcher sees potential of *waqf* as an external financing source for entrepreneur or start-up business (Lahsasna 2010; Chowdury et al. 2011; Mohd Thas Thaker et al. 2016). Lahsasna (2010) recommended financial approach by using cash *waqf* model in financing micro and medium-sized enterprise (MMEs). According to him, cash *waqf* is a reliable source for micro credit and micro financing, it is strong source for the medium size enterprise and entrepreneurship to create more project, business opportunities, and more employment. More advanced, Mohd Thas Thaker et al. (2016) has developed Integrated Cash *Waqf* Micro Enterprise Investment (ICWME-I) model as a source of funding for micro enterprises. This model is expected to provide financial services by using cash *waqf* fund and involved the participatory between non-profit organization and micro enterprises. Different with the financing by existing financial conventional institution, the proposed model do not need collateral requirement, interest rate and any stringent requirement.

*Waqf*-based crowdfunding is the unique hybrid product of crowdfunding in the form of *waqf* represents a new mode of financing mechanism for the entrepreneur by using Islamic mechanism and regulation. According to Syaukani (2015), *waqf* is one of redistributed wealth mechanism that very effective, while crowdfunding is known as an efficient system to collect fund, thus crowdfunding is fit to act as fundraiser *waqf* medium to finance social development purpose such as the cost of disaster management in Malaysia. The combination between this two mechanisms known as *Waqf*-based crowdfunding. Wan Shamila et al. (2016) stated that *waqf* based crowdfunding is similar to the *waqf*-businesses, in which the profits from the businesses will be distributed to the beneficiaries (*Mawquf 'alaih*). The business is expected to project continuous profits that could ensure the continuity of fund to the beneficiaries.

The first *waqf*-based crowdfunding platform known as *WaqfWorld.org*. It is a collaboration between three parties namely Tun Abdullah's Ahmad Badawi as a founding patron, research team from the Research Center for Islamic Economic and Finance (EKONIS) Universiti Kebangsaan Malaysia (UKM) and Ethis Ventures as technology partner. However, the intention of *Waqfworld.org* is to transform the three parties into a new institution that binds all parties legally. Since it is still a newborn, *Waqfworld* also still working on preparing a standard operating procedure (SOP) which involves the appointment of the Sharia'h Advisors and other improvement to make it the best platform (Suhaili et.al 2016).

### **3. METHODOLOGY**

This paper adopts qualitative research approach through document analysis of relevance references pertaining cash *waqf* and crowdfunding. This study conducts through investigation of the existing literature from multiple sources and work from multiple writers and investigators. Among secondary sources used are journals, proceeding papers, internet, bulletins, magazines and others. This study use qualitative content analysis approach to analysis of documents. It comprises a searching-out of underlying themes in the materials being analysed and can be discerned in several of the studies referred to earlier (Bryman 2012).

#### 4. FUNDAMENTAL PROCESS OF CROWDFUNDING AND WAQF

In order to combine both crowdfunding and *waqf*, there is important to understand how these two mechanisms work. In hence, this part will explore the fundamental process of crowdfunding and *waqf* to get more picture how possible both mechanism to be combined and finally identified the some aspect that both have in common.

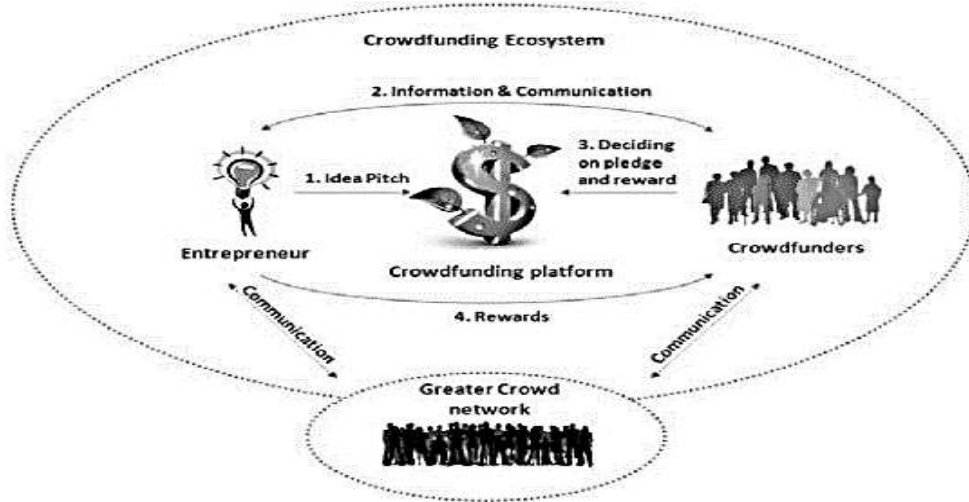


Figure 1: Fundamental Process of Crowdfunding

Source: Scholz (2015)

The flow of figure 1:

1. The Entrepreneurs present their project idea to the public through intermediary crowdfunding platform.
2. Platform will provide information to the public include type of project, capital amount needed, funding dateline and current accumulated funds. Entrepreneur tries to catch crowd attention through appealing webpages, promotional videos and photos of project.
3. Crowd who agrees to pledge will make an arrangement about the rewards or donation via platform. Crowd donates money to the platform via internet banking. Fund accumulated via the platform is used by entrepreneur to launch their project. Actually, when the project meets funding dateline, there are two ways. First, the project only gets the money pledged if they reach their target on time. If not, funding return to the public. Seconds, the project keep any money pledged by the dateline, even if the target not reached.
4. Crowd or donator will get the reward promise from entrepreneur. They also can get immaterial acknowledgment such as thank you emails, invitation to movie set, and exclusive merchandise like T-shirt.

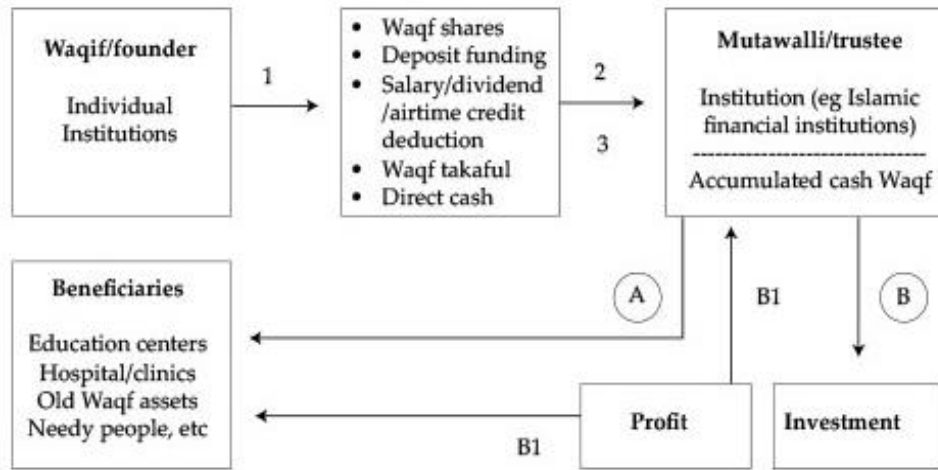


Figure 2: Fundamental process of cash *waqf*

Source: Ab Mumin (t.th)

The flow of figure 2:

1. Waqif give cash money to the beneficiary through various channel such as direct cash, salary deduction, *waqf* share or else.
2. The aggregate fund reaches *mutawalli*. *Mutawalli* plays an important role as trustee to distribute, monitor and manage cash *waqf*. The existence of *mutawalli* guarantees the perpetual of *waqf* fund, thus make it *waqf* is special from other donation.
3. An administration and management fee may be allocated to the *mutawalli*.
  - A. Direct model: the fund is used to service the maintenance of impaired *waqf* asset that can give revenue to its beneficiaries.
  - B. Indirect model: the *waqf* trustee invests the fund in Shari'ah-compliant investment (eg.via *Mudharabah* or *Musharakah*) at an agreed profit sharing ratio.
  - B1. In the event the investment generates the profit, the profit is duly disburse according to profit sharing ratio to its respective parties (e.g. beneficiaries and the trustee)

From the fundamental process provided, evidently both cash *waqf* and crowdfunding is similar in term of source of fund is come from the public and the involvement of cash money in transaction. The different between both are as follows. Firstly, the intention to give the money. In crowdfunding, the objective of donor is to get the rewards promise. While, in cash *waqf* the donor give money voluntary without expected any compensation other than a reward from God in hereafter life. Secondly, crowdfunding utilizes technology information or the internet to mobilize fund. The existence of web platform as intermediaries in crowdfunding shows the uniqueness of crowdfunding from other fundraising instrument.

## 5. PROPOSE FRAMEWORK

The following are propose framework of *Waqf*-based crowdfunding for entrepreneur development.

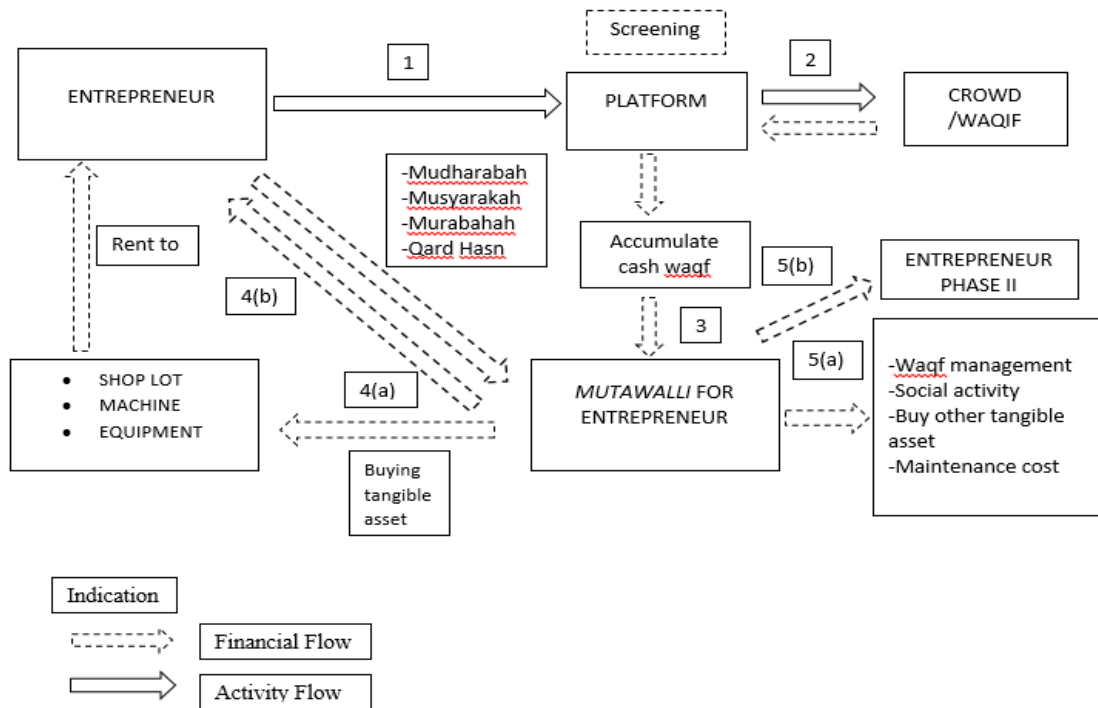


Figure 3: *Waqf*-based Crowdfunding for Entrepreneur Development

The flow of figure 3:

1. Entrepreneur present their project information to the public through the platform. Shari'ah advisor will make a screening process to make sure the project comply with shari'ah principles before the platform campaign or promote the project to the crowd.
2. Crowd who agree to perform *waqf*, will transfer some of the cash via the platform
3. Accumulated cash *waqf* will be given to *mutawalli* who is responsible for managing, monitor and distribute cash *waqf* to beneficiary.
- 4(a). Using the *waqf* fund, *mutawalli* buys tangible asset that needed by entrepreneurs such as shop lot, machine or any equipment asset needed according to their project or business information before. The tangible asset then will rent to entrepreneur under *Ijarah* contract with the amount agree by both parties.
- 4(b). *Mutawalli* will play a role to manage and distribute cash *waqf* to the beneficiary as stipulated by donor. There are two possible ways distribution made by *mutawalli* namely loan *riba* free (*qard hasn*) and investment through Islamic contracts such as *Mudharabah*, *Musharakah* and *Murabahah*.
- 5(a). Money from the rent of tangible asset will be reuse by *mutawalli* to buy other tangible asset needed or for maintenance cost of existing asset to increase their life expectancy, *waqf* management, and social activity.



5(b). Repayment of the loans is used to recharge the cash waqf pool and in turn become the source of funds for other needy entrepreneur.

## **6. DISCUSSION**

Previous part show proposed framework *waqf*-based crowdfunding for entrepreneur development. The framework give two ways on how *mutawalli* can manage the fund to help entrepreneurs at 4(a) an 4(b). 4(a) show *mutawalli* buy tangible asset on behalf the entrepreneur and rent it to the entrepreneur. While 4(b) show *mutawalli* give fund directly to entrepreneur through Islamic mechanism contracts.

In the case of cash *waqf*, fiat money is use as the instrument of transaction rather than gold and silver. The scholars argue about permissibility of fiat money as instrument of cash *waqf* cause of its features which is no intrinsic value, manage through legal tender and its value is define through market value. Therefore, an alternative is needed to avoid Shari'ah issue in cash *waqf*. The proposed framework in 4(a) is in line with Razali Othman (2015) which stated that one of alternative to avoid Shari'ah issue in cash *waqf* is by convert cash *waqf* fund in the form of tangible asset. The framework also more or less same with Baitul Maal Wa Tamwil (BMT) practice in Indonesia. According to Razali Othman(2015), there is four benefit by changing *waqf* fund to tangible asset. First, there is no argument among scholars in permissibly of tangible asset. Second, the tangible asset has a real physical. Third, the ownership of the tangible asset is hard to be transferred or made over to the possession of another person compare to cash money. Finally, the element of *riba* can be evaded.

While 4(b) in framework adopt *waqf*-based microfinance idea as a foundation of the framework. As suggested by Norma and Azizah (2010), Islamic microfinance institution (IMFI) or *mutawalli* in this case act as trustee of the accumulated cash fund. The IMFI will distribute cash *waqf* to needy entrepreneur. The loan is given to entrepreneur based on profit sharing (*mudharabah*), cost plus (*murabahah*), capital venture (*musharakah*). Through these contract, when the entrepreneur repays their loans, the money can be used to recharge the cash *waqf* pool and in turn become the source of funds for other needy entrepreneurs. IMFI suggests will not only disburse the loan for the entrepreneur but also monitor the entrepreneur performance periodically to avoid any default happen in the future.

## **7. CONCLUSION**

This paper aim to propose an Islamic mechanism for entrepreneur development fundraising by utilizing crowdfunding and *waqf* as Shari'ah compliant crowdfunding. This study successfully proposed a framework based on crowdfunding and *waqf* as a source of financing and development of entrepreneur. *Waqf*-based crowdfunding still in an infant stage of discussion among academia, thus, this study has made a contribution to knowledge particular in existing literature of *waqf* and Islamic crowdfunding. *Waqf* based Crowdfunding framework give a general idea to both *waqf* and entrepreneur institution to manage and gain fundraising efficiently. The framework mechanism does not just make the fundraising faster and efficient by using technology but also encourage people to do *waqf* easily which are in line with *waqf* institution role in nurturing the social development and sustainable economic. Since the study based on library research, the information acquired is a limit and the researcher tends to consider and rely on earlier research as main source of data. Therefore, the quality of data can't claim very authentic, then it remains as a shortcoming in this study. As the complement for a shortcoming in this study, the following recommendation can be made for further study to fill the gap that still left in blank. Since the framework only give a general idea the process of crowdfunding and *waqf* to help entrepreneur, the study about process of regulation and act should be discussed to enable the framework to be implemented. Besides, governance issue that could arise in framework should be

discussed further. To conclude, cash *waqf* and crowdfunding is believed as efficient mechanism in collecting funds from the crowd to meet the society need in this world and get rewards in hereafter life.

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**Acknowledgement**

This paper is support by Research Center for Islamic Economics and Finance (EKONIS) of Universiti Kebangsaan Malaysia under research university grant, GUP-2016-001.