Transitioning from Cash Waqf to Waqf-Equity Crowdfunding (ECF): Evaluating the Necessity and Commercial Viability of a New Financing Model

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DOI: https://dx.doi.org/10.47772/IJRISS.2025.907000417

Received: 09 April 2025; Accepted: 12 April 2025; Published: 20 August 2025

ABSTRACT

This paper introduces the Waqf-Equity Crowdfunding (ECF) paradigm as a Shariah-compliant substitute for Cash Waqf, which is moving from traditional endowments to digital crowdfunding. Although Cash Waqf has long backed economic and humanitarian projects, issues with accessibility and governance call for fintech-driven solutions. Waqf-ECF combines equity crowdfunding and Islamic endowments, giving startups and SMEs access to long-term capital through Islamic financing contracts and profit-loss sharing. Seven financial, academic, and business professionals evaluate its viability, moral implications, and legal difficulties using a qualitative methodology. The results show how Waqf-ECF may improve capital efficiency and financial inclusion while resolving issues with risk management and Shariah compliance. To ensure the model's viability within the Islamic charitable ecosystem, the report ends with recommendations to improve governance, investor protection, and regulatory frameworks.

Keywords: profit, financing, challenges, firms, SME, operational, hazards

INTRODUCTION

Cash Waqf and Waqf-Equity Crowdfunding

An innovative type of endowment, Cash Waqf depends on monetary contributions rather than conventional real estate-based assets (Noor, 2021). Asni (2023) stresses that these monetary donations might be wisely invested in actual assets that generate income to increase their impact. By supporting projects like microfinance and Small Medium Enterprises (SMEs), this strategy not only maintains charitable endeavors but also advances economic growth, which in turn fosters greater social and financial empowerment.

Alternatively, Haniff (2023) presented the Waqf-Equity Crowdfunding (ECF) In-tegrated Financing Model, a Shariah-compliant financial framework that supports SMEs and startups by combining equity crowdfunding and waqf endowments. It makes use of Islamic finance contracts, waqf assets, and investor involvement through profit-loss sharing to establish a long-term funding environment for social and economic advancement.

The article begins by outlining Cash Waqf's transition from conventional endowments to online crowdsourcing. Next, it contrasts the suggested Waqf-Equity Crowdfunding model with Cash Waqf. The study's conclusions are presented in Section 3, with an emphasis on the Shariah issues raised by this recently suggested financial model. The article's conclusion discusses the implementation's ethical and Shariah-compliant features and suggests potential fixes.

RESEARCH METHODOLOGY

The present study used the qualitative research approach to elicit the feasibility and obstacles of proposed models

(Cash Waqf and Waqf-ECF). The data were obtained using semi-structured or in-depth interviews with seven (7) key persons purposively selected from the academe, industry, and finance. They were selected on the basis of their professional background and knowledge of topics such as Islamic finance, Waqf development, or crowd-funding platforms. The sampling approach sought to capture a balanced perspective on applied, theoretical, and regulatory issues pertinent to the research questions.

The interview protocol revolved around the main themes of Cash Waqf operation models, regulatory issues, Shariah compliance, public confidence, and fintech adoption in Waqf fundraising. All interviews were recorded after informed consent was obtained and transcribed for analysis. The data analysis followed a thematic approach. Interview transcripts were manually coded, adopting open coding through the initial identification of codes using open coding, from which broader themes emerged from axial coding. For greater reliability of findings, cross-checking of coding was performed by two independent investigators to reduce biases and improve the consistency of inter-coder reliability. Validity was ensured by member-checking, which included asking some of the selected participants to verify the thematic summary for correctness and authenticity of their views. This intensive qualitative process was useful in developing a rich and nuanced insight into the practical challenges and the perceived possibilities of Waqf-ECF in the Malaysian setting

MODERNIZING WAQF: THE JOURNEY FROM CONVENTIONAL ENDOWMENTS TO FINTECH SOLUTIONS

An Islamic endowment known as cash waqf has historical significance, especially during the Ottoman era. It is still commonly used in Malaysia, but it is less common in Iran and the Gulf states (Yaacob, 2025). Cash Waqf has historically involved financial donations to charitable causes that are overseen by waqf institutions. According to Asni, Hasbulah, and Halim (2023), Cash Waqf can be used to maximise the benefits of waqf resources by funding economic development initiatives like microfinance and small business expansion or investing in material assets that bring in money for charitable causes.

One notable Cash Waqf project that was funded with a RM2.5 million allocation from the 2010 budget is the Terengganu Culinary Academy, which was founded on land held by Islamic Religious Council and Malay Customs of Terengganu, in partnership with the Malaysia Waqaf Foundation (Ali & Markom, 2020). The same researchers however, point out several difficulties in putting Cash Waqf into practice in Malaysia. Among them are the absence of a thorough legal and regulatory framework, a lack of management experience among interested parties, insufficient procedures to guarantee full and transparent Cash Waqf collection, and a lack of openness in the allocation of funds to the designated recipients.

Thankfully, crowdfunding has emerged as a substitute fundraising strategy thanks to contemporary financial technology, enabling increased public involvement (Yaacob, 2025). Malaysian academic institutions, particularly "University Technology Malaysia," have already started using crowdfunding to pay for funeral transportation services, medical supplies, and religious schools.

Waqf crowdfunding functions differently by allocating gathered funds either instantly or over a brief period of time to particular purposes, whereas Cash Waqf guarantees that donated funds be retained and their advantages are dispersed over time (Halim, 2025). While the goal of both approaches is to direct funds towards socially beneficial endeavors, crowdfunding offers an additional layer of focused fundraising for specific projects (Halim, 2025).

One significant difference is in the way funds are collected and disbursed. While waqf crowdfunding uses Fintech platforms to collect small contributions from a broad pool of contributors, cash waqf is usually run by a central waqf institution that invests the funds and uses the returns for charitable purposes (Baharudin, 2025). Crowdfunding's decentralised structure makes it more transparent and enables more community participation in waqf-based philanthropy.

Furthermore, waqf crowdfunding eliminates limitations on donation amounts, allowing anybody to make any size contribution towards a shared financial objective (Arif, 2025). By improving financial accessibility, this framework makes Islamic charity more inclusive and flexible enough to meet modern funding requirements.

Waqf crowdfunding, as seen from an industrial perspective, uses digital fundraising platforms to gather donations from a wide range of individuals, modernising the conventional Cash Waqf system (Shamsuddin, 2025). Crowdfunding uses online accessibility to improve donor involvement and financial inclusivity, in contrast to traditional Cash Waqf collections, which depend on donations from mosques or direct payments to waqf institutions. Using a structured investing approach, Cash Waqf invests contributed monies to produce long-term profits that are subsequently distributed to charity causes (Ahmad, 2025).

Cash Waqf, on the other hand, enables more rapid financial support since money can be allocated directly to active projects or invested by Shariah rules to yield profits (Ahmad, 2025). Waqf crowdfunding may adjust to both short-term and long-term financing demands because of its dual flexibility.

Additionally, waqf crowdfunding decentralises fundraising through modest contributions from a wide range of donors, marking a revolutionary change in Islamic generosity (Wahab, 2025). This methodology improves accessibility, efficiency, and transparency by incorporating financial technology, which makes waqf financing more flexible in response to contemporary economic issues (Yusoff, 2024). Compared to traditional Cash Waqf, which depends on institutional oversight, crowdfunding allows for greater public involvement and a greater variety of monetary contributions. This guarantees the sustainability of Islamic endowments in the era of digitalization.

Azlan (2019) suggests another type of crowdfunding which is Waqf-Equity Crowdfunding. This idea combines modern crowdfunding with waqf endowments to promote SMEs and startups in vital industries like health, agriculture, and education. Under this model, specialized service firms (ServCos) offer consulting and rental services, while SMEs or startups (OpCos) run their enterprises using waqf-endowed assets, such as buildings and equipment contributed by philanthropists.

These companies can raise money to deal with their financial difficulties by using ECF platforms that have been approved by national authorities. These platforms draw investors who take part according to the profit-loss sharing model. Shariah compliance is guaranteed by Islamic finance contracts such as Mudarabah and Musharakah, and investments are protected by takaful insurance (Azlan, 2019). By utilizing Islamic financial concepts and contemporary funding mechanisms, the partnership of waqf institutions, SMEs, and ServCos establishes a sustainable ecosystem that encourages innovation and social impact.

A COMPARISON BETWEEN CASH WAQF AND WAQF-EQUITY CROWDFUNDING (ECF):

Using Innovation to Advance Islamic Philanthropy

Cash Waqf remains a significant instrument in Islamic finance, contributing to economic growth, social welfare, and education. Its ability to generate long-term developmental impact through sustainable investment aligns with Islamic principles of perpetual charity (Baharudin, 2025). Although not an immediate funding mechanism, its model ensures steady income over time, benefiting community-driven initiatives and inclusive finance efforts (Ahmad, 2025).

However, despite its strengths, Cash Waqf faces structural limitations. These include low public awareness, fragmented governance, and limited cross-border applicability due to differing legal interpretations (Yaacob, 2025). The traditional model also suffers from inefficiencies in fund utilisation, particularly in responding to urgent needs, as returns must be generated before funds are disbursed (Baharudin, 2025).

Administrative weaknesses—such as inadequate fund management, lack of digital integration, and absence of robust legal frameworks—further constrain its scalability. While digital platforms have improved donor accessibility, challenges such as cybersecurity threats and regulatory loopholes persist, potentially undermining donor confidence (Ahmad, 2025).

In contrast, the Waqf-Equity Crowdfunding (Waqf-ECF) model addresses these inefficiencies by integrating Shariah-compliant fintech, equity investment principles, and community fundraising mechanisms. It combines

Islamic contracts like Mudarabah and Musharakah with digital crowdfunding platforms, enabling both charitable giving and investor participation in profit-and-loss sharing structures (Haniff, 2025).

The decentralised nature of Waqf-ECF enhances transparency and inclusivity, allowing wider participation and quicker fund deployment. Startups, SMEs, and social enterprises can access funds directly, making the model suitable for both urgent humanitarian needs and sustainable enterprise development (Halim, 2025).

Technologically, Waqf-ECF can leverage smart contracts on blockchain platforms (e.g., Ethereum) to automate fund disbursement, reduce fraud risk, and enhance traceability (Antova & Tayachi, 2019). Real-time auditing and programmable compliance mechanisms allow for efficient governance and enforce waqf-specific terms transparently. The inclusion of Takaful-based risk mitigation further strengthens investor and donor protection (Shamsuddin, 2025).

Empirical precedents reinforce the model's feasibility. Malaysia's Bank Negara Regulatory Sandbox and MDEC's Fintech Booster have tested blockchain in Islamic finance contexts. The Finterra Waqf Chain, for instance, has demonstrated how blockchain can digitise waqf asset management while maintaining Shariah integrity and increasing stakeholder trust (Al Saudi, 2024).

Unlike traditional Cash Waqf, which relies heavily on voluntary donations, Waqf-ECF allows integration of waqf assets into income-generating activities. Buildings, tools, or land endowed as waqf can be leveraged by recipient SMEs, turning passive assets into productive instruments for social impact (Ahmad, 2025).

In essence, Waqf-ECF modernises Islamic philanthropy by aligning waqf principles with financial technology, Islamic venture finance, and regulatory innovation. It represents a hybrid model that balances spiritual obligations with socio-economic sustainability, ensuring the continued relevance of waqf in a digitally driven Islamic finance landscape.

ETHICAL AND SHARIAH COMPLIANCE CONSIDERATIONS

Although the Waqf-ECF Integrated Financing Model provides a promising framework for supporting SMEs and startups in sectors including health, agriculture, and education, a number of potential defects and disadvantages could lessen its effectiveness.

5.1 Challenges with Regulation and Compliance

The strategy mainly relies on several financial procedures, including waqf governance, equity crowdfunding (ECF) regulations, and Islamic finance contracts (Mudarabah and Musharakah) (Haniff, 2025). Legal disparities brought on by a lack of a consistent regulatory framework across jurisdictions may make implementation difficult. Additionally, requiring national authorities to accredit ECF platforms may impede the fundraising process and limit the participation of international investors (Haniff, 2019).

5.2 Investment volatility and exposure

Additionally, investors are exposed to greater risk than with traditional investing options because the strategy is built on profit-loss sharing. Because there is no assurance of profitability, unlike fixed-return investments, it is challenging to draw in risk-averse investors. Additionally, the model's attraction is diminished by the fact that startups and SMEs sometimes have unpredictable revenue sources and that investors may lose money if they don't perform well financially (Haniff, 2020).

5.3 Governance and administrative complexities

The success of the concept depends on the efficient cooperation of various players, including waqf institutions, SMEs (OpCos), service firms (ServCos), and investors, with regard to managerial and operational difficulties. However, ineffective resource distribution may be the consequence of poor management, a lack of transparency, or poor governance. Furthermore, the supply of waqf-endowed assets is constrained by the model's primary reliance on voluntary philanthropic contributions, which can be erratic and unpredictable (Haniff, 2025).

5.4 Capital constraints and financial accessibility challenges

Although ECF platforms offer a means of raising money, donor and investor participation is essential to crowd-funding projects' success. A startup or SME's business plan may fail before it becomes viable if they are unable to secure enough capital. Furthermore, the supply of waqf-endowed assets is constrained by the model's primary reliance on voluntary philanthropic contributions, which can be erratic and unpredictable (Haniff, 2025).

5.5 Ethical considerations and Shariah compliance risks

Concerns with Shariah compliance are raised by the combination of Islamic finance and contemporary financial technology. Shariah consultants must keep a close eye on all corporate operations, investment strategies, and transactions to make sure they adhere to Islamic standards. Investor confidence could be harmed and the model's credibility diminished by any non-compliance or ethical issues (such as inappropriate use of funds, poor administration of waqf assets, or conflicts of interest).

Strong governance, efficient risk management, and investor confidence are necessary for the Waqf-ECF Integrated Financing Model to succeed, even if it provides creative financial options for startups and SMEs. Resolving these operational, financial, and regulatory risks is essential to guaranteeing the model's long-term viability and scalability.

SUMMARY OF OUTCOMES AND PROPOSED ACTIONS

To ensure the successful implementation of the Waqf-ECF Integrated Financing Model, policymakers and financial regulators must establish a comprehensive legal framework that aligns Equity Crowdfunding regulations, waqf governance structures, and Islamic financial contracts. Given the varying legal systems across jurisdictions, a standardized approach would facilitate cross-border investments, enhance investor confidence, and ensure Shariah compliance.

A clear regulatory structure can also mitigate risks related to fraud, mismanagement, and financial instability while promoting transparency and accountability. Furthermore, expediting the ECF platform accreditation procedure and putting in place a digitalized regulatory approval system can cut down on administrative hold-ups and promote greater involvement from domestic and foreign investors.

In order to safeguard investors from significant financial losses, the approach should be backed by Takaful (Islamic insurance) schemes. Providing tools for risk assessment and financial literacy initiatives can also help investors decide which startups and SMEs to support. Furthermore, creating a tiered investment structure that offers options for low-, medium-, and high-risk investments can attract a wider range of investors, including those with a reduced tolerance for risk, may find this strategy appealing. Potential investment risks can be further reduced by ensuring that SMEs give clear business viability assessments prior to receiving Waqf-ECF funding and by bolstering due diligence procedures.

A centralized digital platform that provides transparency and real-time Waqf-ECF operations monitoring should be created to assist governance, operational effectiveness, and Shariah compliance. This platform can employ smart contracts to automate adherence to Islamic finance regulations and blockchain technology to guarantee secure, traceable transactions. Establishing independent Shariah advisory organisations to monitor financial transactions, curb unethical activity, and ensure conformity to Islamic principles will help boost investor confidence. For long-term, sustainable economic growth, ServCos, SMEs, and waqf managers should all take part in capacity-building initiatives to enhance their financial and managerial abilities and maximise the utilisation of waqf-endowed assets.

ACKNOWLEDGMENT

This paper was funded by the Geran Penyelidikan Bestari Fasa 1/2023, University Technology Mara Cawangan Johor, for the research titled "Modelling Framework to Optimise Under-Utilised Waqf Assets through Social Entrepreneurship" (600-UiTMCJ (PJIA.5/2)).

ISSN No. 2454-6186 | DOI: 10.47772/IJRISS | Volume IX Issue VII July 2025

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