INTERNATIONAL JOURNAL OF ACADEMIC RESEARCH IN ACCOUNTING, FINANCE AND MANAGEMENT SCIENCES

OPEN ACCESS JOURNAL

Vol 16, Issue 4, (2026) E-ISSN: 2225-8329

Equity Crowdfunding for Waqf Asset Development: Integrating Musyarakah Mutanaqisah and Donation-Based Crowdfunding

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DOI Link: http://dx.doi.org/10.6007/IJARAFMS/v16-i4/29346

Published Online: 26 November 2026

Abstract

Zakat institutions increasingly finance productive assets to empower the poor and needy (asnaf), yet annual distribution rules prevent zakat funds from being locked into long-term commercial ventures, while cash waqf collections remain small and irregular. This study develops a Shariah-compliant hybrid model that combines equity crowdfunding (ECF), Musyarakah Mutanaqisah (MMQ) and cash waqf to finance a rice mill project under the Kedah State Zakat Board (LZNK), Malaysia. Using a qualitative single-case design, data were gathered through interviews with LZNK officers and four crowdfunding platforms, followed by focus group discussions with LZNK, the Kedah State Islamic Religious Council (MAIK), the Securities Commission Malaysia, the Companies Commission of Malaysia, Islamic finance lawyers and Shariah academics. Thematic analysis produced five themes: tranche-based financial architecture, state jurisdiction and institutional credibility, operational separation, platform economics, and compliance risk management. The resulting model channels funds through a waqf special purpose vehicle owned by MAIK, from which LZNK buys back 10 percent of investor holdings each year while paying rent on the remainder. A Year-Two Waqf Trigger allows investors to convert their remaining holdings into perpetual waqf. The model offers zakat and waqf institutions a regulated pathway to mobilise retail capital for agro-industrial development. By moving beyond conceptual proposals to a stakeholder-validated structure with defined contracts, fund flows and exit mechanisms, the study contributes a replicable blueprint that bridges commercial investment and perpetual endowment.

Keywords: Equity Crowdfunding, Musyarakah Mutanaqisah, Cash Waqf, Islamic Social Finance, Zakat Institution

Introduction

Islamic social finance in Malaysia is moving from consumption support towards the creation of productive assets. Zakat institutions, in particular, are no longer satisfied with recurring cash assistance that keeps recipients dependent; many now invest in enterprises that create jobs, stabilise incomes and protect vulnerable producers (Saad, Farouk, & Kadir, 2017). This shift, however, exposes a structural mismatch. Zakat funds are bound to annual distribution to the eight categories of recipients and cannot be immobilised in long-gestation commercial assets (Wahab & Rahim Abdul Rahman, 2011). Cash waqf, which is perpetual by nature, depends on irregular voluntary giving, while debt financing imposes fixed repayment obligations that do not match the slow cash-flow ramp-up of agro-industrial projects (Mahamood & Ab Rahman, 2015; Shirazi, 2014).

The rice mill project of the Kedah State Zakat Board (Lembaga Zakat Negeri Kedah, LZNK) illustrates this mismatch. Smallholder paddy farmers in Kedah, Malaysia's main rice-producing state, face arbitrary weight deductions for moisture content, unstable purchase prices and informal advances tied to buy-back agreements that trap them in recurring debt. LZNK established a rice mill under its Jelapang Ummah unit to provide fair weighing, transparent pricing and Shariah-compliant input financing. The capital requirement, estimated at RM8 million to RM10 million, far exceeds what passive collection channels such as static donation QR codes can raise. Finding a workable financing route for this project is the immediate motivation of the study, because the farmers it is meant to protect cannot wait for donations to accumulate.

At the same time, Malaysia's digital capital market has matured. Since the Securities Commission Malaysia (SC) introduced its ECF framework in 2015, ECF and peer-to-peer (P2P) financing have together channelled more than RM9 billion to over 20,000 businesses, with RM2.6 billion raised in 2024 alone; Shariah-compliant financing accounted for 30 percent of that year's total (Securities Commission Malaysia, 2025a). Yet agriculture remains among the least funded sectors, attracting only RM24.2 million in 2024, and Shariah-compliant equity offerings remain a small share of the market. Large community-owned agro-industrial assets have not yet been financed meaningfully through ECF. This contrast between a mature digital capital market and an underfunded social asset base suggests an untapped opportunity: if Islamic social finance institutions can offer retail investors a credible, Shariah-compliant equity product, they can mobilise capital on a scale that zakat and waqf collections alone cannot reach.

Prior studies have proposed crowdfunding-waqf models for land development (Mohd Thas Thaker, Mohd Thas Thaker, & Pitchay, 2020), cooperative-waqf structures (Pitchay, Thaker, Azhar, & Mydin, 2018) and integrated waqf-ECF schemes based on mudharabah (Ishak, Aderemi, Kamaruzaman, & Mahyudin, 2025). These models establish conceptual feasibility but seldom specify how ownership is transferred to the waqf institution, how investor returns are distributed over time, or how state religious authorities, capital market regulators and platforms interact in practice. They also rarely confront the behavioural gap between investors who expect financial returns and donors who seek spiritual reward.

The motivation for this study is therefore both practical and scholarly. Practically, LZNK faces a live financing decision: without a structure that can attract private capital while preserving the legal character of zakat and waqf funds, the expansion of the mill, and the protection it offers smallholder farmers, will depend on slow and uncertain donations. The problem is not unique to Kedah. Zakat institutions and State Islamic Religious Councils across Malaysia hold productive and idle assets that face the same constraint, and national policy, including the Financial Sector Blueprint 2022–2026, calls for Islamic social finance to play a larger developmental role (Bank Negara Malaysia, 2022). From a scholarly perspective, the literature still lacks an empirically grounded account of how such a structure would work when Shariah requirements, state waqf law and federal securities regulation must all be satisfied at the same time.

This study addresses these gaps by developing a hybrid model that integrates ECF, Musyarakah Mutanaqisah (MMQ) and cash waqf for the LZNK rice mill. It pursues three objectives: to evaluate the operational, systemic and Shariah compliance challenges LZNK faces in financing large-scale asnaf empowerment projects; to identify institutional requirements, regulatory boundaries and market expectations through focus group discussions with LZNK, the Kedah State Islamic Religious Council (Majlis Agama Islam dan Adat Istiadat Melayu Kedah, MAIK), the Companies Commission of Malaysia (SSM), the SC and platform operators; and to develop a financing model that balances contributor expectations with the long-term sustainability of the waqf asset.

The study makes three contributions. First, it moves crowdfunding-waqf research from conceptual proposals to a stakeholder-validated model, examined with the regulators, religious authorities and platform operators who would implement it. Second, it specifies the mechanics that earlier models leave open: the entity that holds legal title, the sequence of MMQ contracts through which ownership passes to the waqf trustee, a quantified buy-back and rental schedule, and the compliance controls required by the capital market regulator. Third, it introduces the Year-Two Waqf Trigger, which addresses the behavioural divide between investors and donors by sequencing financial and endowment motives rather than merging them. The model is therefore relevant not only to LZNK but also to zakat institutions, State Islamic Religious Councils, ECF platforms and regulators seeking to finance large community-owned assets without breaching the distinct rules that govern each fund.

Literature Review

Equity Crowdfunding and Islamic Social Finance

Crowdfunding allows ventures to raise small contributions from large numbers of individuals through online platforms, bypassing traditional intermediaries (Belleflamme, Lambert, & Schwienbacher, 2014; Schwienbacher & Larralde, 2012). Among its four main forms, namely donation, reward, P2P lending and equity, ECF offers investors shares in the issuing company and therefore shares both risk and reward. This feature makes ECF structurally compatible with the Islamic preference for profit-and-loss sharing over interest-bearing debt.

Islamic social finance scholars view financial technology as a means to revitalise the redistributive and developmental role of zakat and waqf (Saiti, Bengü, & Çapa, 2021; Shaikh, Ismail, & Mohd Nor, 2017). Digital platforms reduce transaction costs, widen the contributor base and improve transparency through real-time reporting. In Malaysia, the regulatory

infrastructure already exists: ECF platforms operate as Recognized Market Operators under SC supervision, and several focus explicitly on Shariah-compliant offerings. In September 2025, the SC also issued guidelines for social exchange platforms that require non-profit fundraisers to report the use of funds and outcomes to donors (Securities Commission Malaysia, 2025b).

Zakat and Waqf Institutions in Malaysia

Zakat and waqf are the two pillars of Islamic social finance, but they operate under very different rules. Zakat is an obligatory levy whose proceeds must reach the eight categories of eligible recipients, usually within the same fiscal year. Malaysian zakat institutions have nonetheless expanded beyond cash transfers into capacity building and enterprise development, recognising that sustainable income generation reduces long-term dependency (Saad et al., 2017). Their effectiveness depends heavily on governance, efficiency and the ability to deploy funds productively without violating distribution requirements (Wahab & Rahim Abdul Rahman, 2011).

Waqf, by contrast, is a voluntary endowment whose principal must be preserved in perpetuity while its usufruct is spent on designated purposes. Historically, waqf financed a wide range of public goods across Muslim societies and acted as a parallel channel for infrastructure provision (Cizakca, 1998). In contemporary Malaysia, waqf assets are vested in the State Islamic Religious Councils, which often lack the capital and commercial expertise to develop them; as a result, a significant share of waqf land and property remains underutilised (Mahamood & Ab Rahman, 2015). Cash waqf has emerged as a way to pool small endowments, but collections tend to be modest and irregular, making it difficult to finance large assets from waqf alone.

Combining the two instruments therefore requires care. Zakat institutions can act as operators and beneficiaries of productive assets, but the assets themselves are better financed by perpetual or long-term capital. Shirazi (2014) argues that integrating zakat and waqf into a coherent development strategy can close financing gaps that neither instrument can close on its own. The challenge is to find a structure that respects the distinct legal nature of each fund while mobilising additional private capital.

Crowdfunding-Waqf Models

Several models have attempted to bring crowdfunding into waqf development. Mohd Thas Thaker et al. (2020) proposed a crowdfunding-waqf model for developing private land, in which the public contributes cash waqf through an online platform to finance construction on endowed land. Pitchay et al. (2018) suggested a cooperative-waqf model in which cooperatives mobilise members' savings to develop idle waqf land. Ishak et al. (2025) proposed an integrated waqf-ECF model based on mudharabah for sustainable blended financing.

These models share three features. They recognise digital platforms as a channel for small contributions, they rely on the credibility of religious institutions, and they aim to transform idle or underused waqf assets into productive ones. However, they are largely conceptual. They seldom specify the entity that holds legal title, the sequence of contracts through which ownership changes hands, the timing and size of investor returns, or the controls required by

capital market regulators. Nor do they address how contributors with different motives, namely financial return and spiritual reward, can be accommodated within the same structure without confusing either group.

Musyarakah Mutanaqisah and Waqf Asset Development

MMQ, or diminishing partnership, is a contract in which two or more parties jointly own an asset while one partner gradually purchases the others' shares until it becomes the sole owner. In practice, MMQ combines three elements: a partnership (musyarakah) in the asset, a lease (ijarah) under which the acquiring partner pays rent for the portion it does not yet own, and periodic sales (bay') of ownership units (Meera & Abdul Razak, 2005; Smolo & Hassan, 2011). Because rent declines as the acquiring partner's stake grows, MMQ has been widely used in Islamic home financing.

Its application to waqf, however, remains limited. Waqf assets have historically financed public goods such as schools, hospitals and water systems on a perpetual basis (Cizakca, 1998; Sadeq, 2002). Modern waqf administration in Malaysia is constrained by inconsistent state laws, limited liquidity and a lack of commercial expertise within State Islamic Religious Councils (Mahamood & Ab Rahman, 2015). An MMQ structure that ends with the waqf institution as sole owner offers a route to develop productive waqf assets without the waqf body having to provide all the capital upfront.

Theoretical Underpinnings

Four theoretical lenses inform the model. First, Maqasid al-Shariah, particularly the preservation of wealth (hifz al-mal) and its circulation (tadawul al-mal), requires that financial structures mobilise idle wealth into productive and equitable uses (Chapra, 2008; Laldin & Furqani, 2013). The rice mill also serves public interest (maslahah) by protecting farmers from exploitative pricing. Second, crowdfunding embodies the principle of mutual assistance (ta'awun), and MMQ applies the legal maxim al-ghunm bil-ghurm, under which entitlement to profit is tied to bearing risk.

Third, Signaling Theory explains how information asymmetry between issuers and retail investors can be reduced by credible signals (Spence, 1973). In ECF, signals such as the involvement of reputable institutions increase funding success (Ahlers, Cumming, Günther, & Schweizer, 2015). The participation of a State Islamic Religious Council as trustee can therefore serve as a powerful signal. Fourth, Stakeholder Theory (Freeman, 1984) and the concept of hybrid organisations (Battilana & Dorado, 2010) frame the model as an entity that must reconcile the commercial logic of investors with the perpetual welfare mandate of waqf.

Research Gap

The literature establishes the conceptual compatibility of crowdfunding, MMQ and waqf, but three gaps remain. Existing models rarely detail the legal and operational flow of funds between state religious councils, capital market regulators, platforms and operators. They do not provide quantified mechanisms for distributing returns and transferring ownership over time. Finally, few studies validate their designs empirically with the regulators and institutions who would implement them. This study responds to these gaps through a stakeholder-validated case study.

Methodology

Research Design

The study adopted a qualitative single-case design. A case study is appropriate when the boundary between a phenomenon and its context is not clearly evident (Yin, 2018), as is the case when financial technology, capital market regulation and state waqf law intersect in a live project. The case is the LZNK rice mill, a strategic agro-industrial initiative operated under the Jelapang Ummah unit.

Case Context

Preliminary interviews with LZNK project officers revealed three forms of economic vulnerability among smallholder paddy farmers that justify the mill. First, privately owned mills with local market power were reported to impose arbitrary deductions on harvest weight on the grounds of high moisture content or low grain quality, reducing farmers' net income. Second, farmers facing seasonal cash-flow deficits lack capital for ploughing, fertiliser and equipment in the following season; private mills fill this gap with cash advances tied to buy-back agreements, under which the next harvest is purchased at a low price to settle the advance. Third, there is an institutional gap between upstream and downstream support. The Muda Agricultural Development Authority provides price subsidies, input incentives and infrastructure maintenance, but it has neither the mandate nor the commercial capacity to intervene in mill pricing or informal credit networks.

By owning and operating its own mill, LZNK intervenes at the point in the supply chain where exploitation is most concentrated. The mill aims to provide fair and transparent weighing, standardised moisture deductions, stable market-indexed purchase prices and Shariah-compliant micro-inputs that replace exploitative advances. It also supplies rice to LZNK's food bank programmes across the state. The project therefore combines commercial operation with social protection, which is precisely the type of hybrid asset that the proposed model seeks to finance.

Informants and Data Collection

Purposive sampling was used to select elite informants representing each pillar of the ecosystem. Data were collected in two phases, summarised in Table 1. In the first phase, in-depth interviews were held with LZNK project officers to understand field-level problems and financing needs, and with four platform operators representing different crowdfunding archetypes. In the second phase, focus group discussions (FGDs) brought together institutional, regulatory and legal stakeholders.

Table 1
Informant matrix by data collection phase

Phase	Method	Informants	Purpose
Phase 1	In-depth interviews	LZNK project management officers	Field-level problems of farmers and financing needs of the mill
Phase 1	Operational interviews	KitaFund (donation), SEEDKIND (reward and institutional trust), pitchIN and AMB Connect (Shariah-compliant ECF)	Technical capability, fee structures, marketing costs and instrument feasibility
Phase 2	Focus group discussions	LZNK, MAIK, SC, SSM, a federal territory religious authority, Islamic finance lawyers and Shariah academics	Alignment of commercial logic with legal, Shariah and institutional requirements

The FGDs were structured around three pillars that simulated the project life cycle. The first examined Shariah and institutional governance, including the legality of transferring waqf property under a diminishing partnership. The second addressed legal and capital market regulation, including the formation of a special purpose vehicle (SPV) under the Companies Act 2016, equity limits for statutory non-profit bodies and investor exit routes. The third assessed digital implementation, covering the display of dual financial and social returns, automated equity redemption and secondary-market liquidity.

Data Analysis and Trustworthiness

In reporting the findings, quotations are attributed using codes: P-PI (pitchIN), P-AMB (AMB Connect), P-KF (KitaFund), P-SK (SEEDKIND) and FGD-MAIK (focus group with MAIK participants).

All sessions were recorded, transcribed verbatim and analysed using the six phases of thematic analysis proposed by Braun and Clarke (2006). Inductive open coding identified institutional friction points, operational bottlenecks and platform mechanics, which were then synthesised into higher-order themes through axial coding. Trustworthiness was ensured through data triangulation with secondary documents, including the Financial Sector Blueprint 2022–2026 (Bank Negara Malaysia, 2022), SC guidelines and state waqf enactments; methodological triangulation between platform interviews and FGD findings (Denzin, 2012; Patton, 2015); and member checking with institutional informants.

Ethical Considerations

Permission was obtained from the relevant institutions before data collection. All informants participated voluntarily after being informed of the study's purpose and their right to withdraw. Confidentiality was maintained throughout data collection, analysis and reporting.

Findings

Thematic analysis produced five themes that together define the requirements for a viable hybrid model.

Theme 1: Tranche-Based Financial Architecture and the Equity-to-Waqf Transition
Platform operators advised against a single campaign of RM8 million to RM10 million. Instead, they recommended dividing the target into tranches of RM500,000 to RM2 million per round, so that operational milestones could build investor confidence progressively and reduce the risk of stalled campaigns. Informants also preferred hybrid debt-equity instruments over ordinary shares. Redeemable or convertible preference shares offer a structured exit and predictable annual dividends of about 10 percent over an initial maturity of two to five years, and they align naturally with MMQ because the mill's retained earnings can be used to redeem investor shares gradually.

Informants also stressed that ECF proceeds must create value for shareholders. When the possibility of using the proceeds to reimburse LZNK for its earlier expenditure on the mill was raised, the pitchIN representative cautioned: "If RM10 million is raised merely to repay LZNK, investors gain nothing" (P-PI). The model therefore requires that equity proceeds finance new productive capacity, such as machinery, upgrading or expansion, rather than refinance historical costs.

The most important finding in this theme was a "mental silo" among Malaysian contributors. Retail contributors traditionally separate pure philanthropy, such as zakat and charity, from pure investment, such as shares and unit trusts. An instrument that promises both financial dividends and spiritual reward therefore requires clear market segmentation. As the SEEDKIND representative put it, "There are investors who want returns and donors who want spiritual reward, not ROI" (P-SK). High-net-worth individuals and corporate impact investors were seen as receptive to equity redemption, whereas retail contributors were better approached through micro-units and charitable tiers.

Theme 2: State Jurisdiction, Cross-Border Collection and Institutional Credibility
Under the Federal Constitution, Islamic matters including waqf fall under state jurisdiction, and each State Islamic Religious Council is the sole trustee of waqf property. The FGDs confirmed that MAIK had amended its enactment to validate and regulate cash waqf instruments, giving digital waqf collections a clear statutory basis. Because digital platforms naturally cross state borders, informants noted that zakat collection is strictly territorial, whereas waqf collection is more flexible. To avoid jurisdictional friction, cross-state marketing and collection can be routed through Yayasan Wakaf Malaysia, which holds a national mandate.

The FGD with MAIK also clarified the delegation of authority within the state. As one participant explained, "LZNK was appointed as mutawalli to manage the collection and implementation" (FGD-MAIK). Participants further agreed that "for the next phase, the collection will use MAIK's official QR and flow directly to MAIK" (FGD-MAIK). These statements show that the technical ability of a platform to collect funds does not replace the approval of the state religious authority; the collection account is as important as the digital interface.

Informants also observed that large infrastructure projects in mainstream capital markets usually require government guarantees to attract institutional investors. In this case, MAIK's direct involvement as the ultimate custodian of the asset functions as an implicit guarantee.

The council's statutory standing and long history reduce perceived default risk among investors, consistent with Signaling Theory.

Theme 3: Operational Separation and Conflict-of-Interest Mitigation

The data revealed a risk of circular conflicts of interest. In the original concept, LZNK would act simultaneously as the main fundraiser, the corporate manager of the mill and the principal buyer of rice for its state-wide food bank. All platform operators recommended a strict separation between the regulatory or philanthropic arm and the commercial arm. The Jelapang Ummah unit should be spun off into a private limited company or SPV so that commercial liabilities are isolated from the public funds of LZNK and MAIK. This entity must operate at arm's length: paddy purchases from farmers and rice sales to LZNK's food bank must reflect market prices rather than subsidised internal transfers.

Informants further stressed that a resilient waqf enterprise must not depend on continuous donations. The mill must maintain healthy margins, with retained earnings divided between reinvestment in automation, maintenance and logistics, and a surplus channelled back to waqf or zakat funds for community distribution.

Theme 4: Platform Economics and Cost Efficiency

The three platform archetypes involved in the study presented different trade-offs between cost, trust and marketing reach (Table 2).

Table 2
Comparison of crowdfunding platform archetypes

Platform	Archetype	Fee structure	Main advantage
AMB Connect	Institutionalised Shariah-compliant ECF	Due diligence fee of about RM5,000 and success fee of 6–8%	Access to a regulated capital market and institutional investor networks
KitaFund	Donation-based	Platform fee of 5% and gateway fee of 1%, charged on top of contributions	Core project funds remain intact
SEEDKIND	Technology and marketing enabler (reward-based)	About 6% through an institutional trust account	Transparent tracking and a trustee layer

A consensus emerged that digital platforms only facilitate transactions; they do not generate capital by themselves. The SEEDKIND representative stated that "crowdfunding is only a transaction facilitator; the campaign itself is what must be discussed" and that "the main issue is not the platform, but marketing" (P-SK). The donation platform likewise warned that "if only the LZNK QR is used, it is merely an ordinary collection without the platform's added value" (P-KF). The success of a multi-million ringgit campaign depends on the depth and activation of the project owner's database. LZNK holds a highly valuable asset in this respect: a verified database of zakat payers, corporate partners and mosque congregation networks across the state. As the AMB Connect representative observed, "the key to promotion is LZNK's database and the community's trust" (P-AMB).

Informants also recommended that large targets be broken into visible milestones. "If the target is too large, divide it into phases and show the progress," advised the SEEDKIND representative, adding that "before Phase 2, the trustee will request the Phase 1 report" (P-SK). Milestone-based release of funds thus serves both as a marketing device and as a governance control.

Theme 5: Financial Compliance and Risk Management

To protect the project from financial crime and reputational damage, informants required a strict compliance protocol. Platforms must integrate with a regulated third-party trustee, such as an Islamic bank or licensed trust company, to host escrow and operating accounts. For high-value transactions above RM20,000, automated source-of-funds declarations and anti-money laundering screening were considered essential.

The data also revealed a "database trap". Empirical data from the donation platform showed that aggressive digital marketing can push donor acquisition costs to 30.8 percent of funds raised. For an institution backed by a religious council, such deductions would be unacceptable and could trigger public criticism of fund mismanagement. Organic database activation and state media channels were therefore recommended to keep marketing costs within 5 to 7 percent.

Transparency emerged as the counterpart to cost control. The donation platform highlighted that its tracker "displays the collection every minute and every hour" (P-KF), allowing contributors to see progress in real time. Informants agreed that such visibility must continue after the campaign closes, through reports on the use of funds, assets acquired, production volumes, farmers served and beneficiaries reached.

Proposed Hybrid Model

Structure and Flow of Funds

Figure 1 presents the model derived from the five themes. Cash waqf donors and ECF investors contribute through an SC-registered platform, either as micro-units from RM50 or as premium units of up to RM110,000. Funds collected digitally, including from outside the state, are routed first to MAIK as the lawful statutory trustee. MAIK establishes a wholly owned Waqf SPV, injects the waqf capital into it, and appoints LZNK as its MMQ partner. The Waqf SPV holds legal title to the mill; LZNK operates it, pays rent (ijarah) on the portion it does not yet own and buys back ownership units according to a fixed schedule. The Waqf SPV collects rent, unit payments and other income and distributes them to investors, the perpetual waqf fund and asnaf programmes.

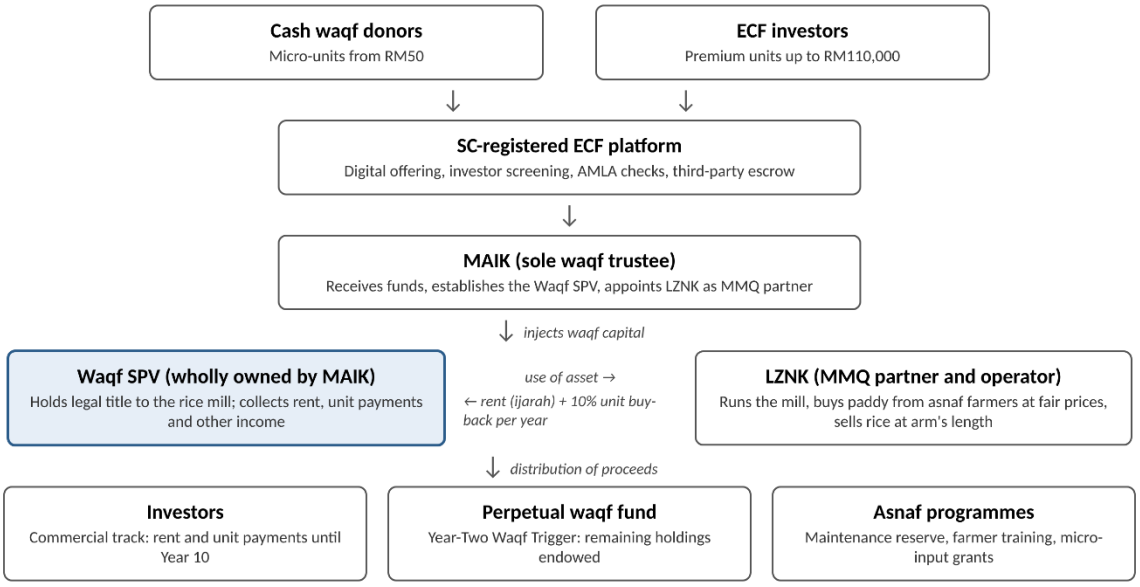

Figure 1. Structure and flow of funds in the hybrid ECF-MMQ-waqf model

Stakeholder Roles

Table 3 summarises the role of each party. The separation of roles addresses the circular conflict of interest identified in Theme 3 and reflects the stakeholder configuration required of hybrid organisations.

Table 3
Stakeholder roles in the hybrid model

Party	Main role
Cash waqf donors	Contribute cash waqf to develop an asset that yields continuing benefits
ECF investors	Provide commercial capital, receive rent and unit payments, and may opt to endow their holdings
MAIK	Sole waqf trustee; receives funds, establishes the Waqf SPV and appoints LZNK as MMQ partner
Waqf SPV	Holds title to the asset, executes the MMQ contract, collects cash flows and monitors compliance
LZNK	MMQ partner and operator; pays rent and buys back ownership units progressively
ECF platform	Runs the digital offering, due diligence, investor screening and automated distributions
Third-party trustee	Holds funds in escrow and maintains the audit trail
Farmers and asnaf	Supply paddy at fair prices and benefit from waqf proceeds

Return Distribution and the Year-Two Waqf Trigger

Return distribution is illustrated through a 10-year simulation for one investment unit of RM110,000 in a mill priced at RM10 million. The simulation rests on three assumptions. First, the mill generates RM11,000 a year in rent and profit per unit, of which RM10,000 is paid to

the investor as ijarah rent. Second, LZNK buys back 10 percent of the holding (RM11,000) each year through a separate sale contract, financed from retained earnings or a dedicated redemption reserve. Third, unit payments represent the return of capital, not profit, and are recorded separately from rent.

From Year 2, investors choose between two tracks. Under the Commercial Track (Table 4), the investor continues to receive rent while the holding declines by 10 percent a year until it reaches zero in Year 10, receiving RM210,000 in total: RM100,000 in rent and RM110,000 in returned capital.

Table 4
Commercial Track simulation for one unit of RM110,000

Year	Rent and profit generated (RM)	Rent to investor (RM)	Unit buy-back by LZNK (RM)	Investor holding (RM)	Investor holding (%)	Waqf/LZNK holding (%)
0	0	0	0	110,000	100	0
1	11,000	10,000	11,000	99,000	90	10
2	11,000	10,000	11,000	88,000	80	20
3	11,000	10,000	11,000	77,000	70	30
4	11,000	10,000	11,000	66,000	60	40
5	11,000	10,000	11,000	55,000	50	50
6	11,000	10,000	11,000	44,000	40	60
7	11,000	10,000	11,000	33,000	30	70
8	11,000	10,000	11,000	22,000	20	80
9	11,000	10,000	11,000	11,000	10	90
10	11,000	10,000	11,000	0	0	100
Total	110,000	100,000	110,000			

Under the Waqf Trigger Track (Table 5), the investor receives the first year's rent and unit payment, totalling RM21,000, and in Year 2 endows the remaining 90 percent of the holding (RM99,000) through a new waqf contract. From that point, all yield from the unit, RM11,000 a year or RM99,000 over Years 2 to 10, flows to the perpetual waqf fund. The trigger creates a "psychographic window" that lets investors experience a tangible return before deciding to convert their stake into an act of perpetual charity, directly addressing the mental silo identified in Theme 1.

Table 5
Waqf Trigger Track simulation for one unit of RM110,000

Year	Rent and profit generated (RM)	Rent to investor (RM)	Unit buy-back by LZNK (RM)	Holding endowed (RM)	Investor holding (%)	Waqf/LZNK holding (%)
0	0	0	0	0	100	0
1	11,000	10,000	11,000	0	90	10
2	11,000 (to waqf fund)	0	0	99,000	0	100
3–10	11,000 a year (to waqf fund)	0	0	0	0	100
Total	110,000	10,000	11,000	99,000		

The simulation is illustrative and assumes a constant rent. In practice, rent should be adjusted to the investor's declining stake, and the unit price should refer to an independent asset valuation so that the structure does not create an implicit capital guarantee, which would be inconsistent with the principle of al-ghunm bil-ghurm.

Governance and Asset Lock-In

Once all investor holdings have been redeemed or endowed, the temporary partnership ends and the mill is locked in as inalienable waqf property owned through MAIK. All surplus is then channelled into two permanent social accounts: a capital maintenance fund to sustain the life of the machinery, and an asnaf development fund for agricultural training, micro-grants for paddy inputs and guaranteed buy-back of crops. Throughout the life of the model, funds are held in audited escrow accounts, marketing costs are capped, and impact reports covering the use of funds, production volumes, farmers served and beneficiaries reached are published to contributors.

Discussion

The findings extend existing crowdfunding-waqf models in three ways. First, unlike earlier conceptual models (Mohd Thas Thaker et al., 2020; Pitchay et al., 2018), the proposed model specifies the legal route through which funds pass from contributors to the waqf trustee, the role of an SPV in isolating commercial liabilities, and a quantified schedule for transferring ownership. Second, whereas the integrated waqf-ECF model of Ishak et al. (2025) relies on mudharabah, the use of MMQ in this study provides a clearer mechanism for the waqf institution to become the sole owner of the asset over a defined period.

Third, the study highlights the behavioural dimension of hybrid Islamic finance. The mental silo between philanthropy and investment suggests that blending financial and spiritual returns in a single undifferentiated product may confuse contributors. The Year-Two Waqf Trigger resolves this by sequencing the two motives instead of merging them: contributors first act as investors and then, with experience of the project's performance, may choose to act as endowers. This mechanism is consistent with Maqasid al-Shariah, because it circulates wealth productively while expanding the perpetual waqf base.

The findings also confirm the predictive value of Signaling Theory in an Islamic institutional context. Informants consistently viewed the involvement of MAIK as a substitute for state

guarantees, which suggests that religious institutional credibility can lower the cost of capital for social projects (Ahlers et al., 2015). At the same time, the database trap shows that credibility must be matched by disciplined campaign economics; technology alone does not mobilise capital.

The operational separation recommended in Theme 3 has implications beyond conflict-of-interest management. When a zakat institution is simultaneously fundraiser, operator and principal customer, internal transfer prices can conceal the true commercial performance of the asset. Arm's-length pricing makes performance measurable, which in turn makes the asset investable. In this sense, good governance is not merely a compliance requirement but a precondition for attracting capital, consistent with the stakeholder view that legitimacy with multiple constituencies underpins organisational survival (Freeman, 1984). It also reflects the challenge faced by hybrid organisations, which must protect their social mission while adopting the discipline of commercial logic (Battilana & Dorado, 2010).

The findings on platform economics qualify the optimism often associated with financial technology in Islamic social finance (Saiti et al., 2021). Platforms lower transaction costs and improve transparency, but they do not remove the need for trust, narrative and institutional networks. For zakat and waqf institutions, the most valuable assets in a crowdfunding campaign may be their contributor databases and public reputation rather than any particular technology. Capping marketing costs is therefore both an efficiency measure and a safeguard of the institution's religious legitimacy.

From a practical standpoint, the model depends on financial maturity. ECF investors expect dividends and redemption, and these obligations can only be met by an operation with stable, audited cash flows. Institutions adopting the model should therefore establish the Waqf SPV, escrow arrangements and pricing discipline first, and launch the equity offering once the mill demonstrates consistent profitability. Before that point, non-investment crowdfunding channels may be more suitable for raising early-stage capital without creating return obligations.

Conclusion

Malaysian zakat institutions face a practical dilemma: they need to finance long-term productive assets for the asnaf, yet zakat must be distributed annually and cash waqf collections are too small and irregular to fill the gap. This dilemma motivated the present research. This study developed a hybrid model that integrates equity crowdfunding, Musyarakah Mutanaqisah and cash waqf to finance a zakat-led rice mill in Kedah, Malaysia. Drawing on interviews and focus group discussions with institutions, regulators and platforms, it identified five requirements for viability: tranche-based fundraising with redeemable preference instruments, a clear legal pathway through the State Islamic Religious Council, operational separation through an SPV, disciplined platform economics, and robust compliance controls. The resulting model channels contributions through a Waqf SPV owned by MAIK, transfers ownership to the waqf institution through annual unit buy-backs, and offers investors a Year-Two Waqf Trigger to convert their holdings into perpetual waqf. The principal contribution of the study is that it turns earlier conceptual crowdfunding-waqf proposals into an implementable, stakeholder-validated structure, one that specifies who holds title, how ownership and returns move over time, and how investors can become

endowers. For readers in zakat and waqf administration, Islamic capital markets and regulation, the model offers a validated starting point for financing community-owned assets that neither zakat nor waqf could finance alone.

The study has several limitations. It is based on a single case in one state, and its transferability to states with different waqf enactments requires further testing. The financial simulation is illustrative and should be validated with the mill's actual cash-flow projections and sensitivity analysis on paddy prices, operating costs and capacity utilisation. Future research should also examine, through quantitative surveys or field experiments, how many investors would actually exercise the waqf trigger, and should seek formal Shariah rulings on unit pricing and the position of LZNK as both partner and buyer of units.

Theoretical and Contextual Contribution

Theoretically, the study extends the application of MMQ from private home financing to a multi-party development instrument that culminates in the formation of a waqf asset. It introduces the concept of a psychographic window, sequencing investment and endowment motives to bridge the mental silo between commercial and philanthropic giving. It also demonstrates how Signaling Theory, Stakeholder Theory and institutional hybridity can be integrated with Maqasid al-Shariah to explain the design of hybrid Islamic social finance organisations.

Contextually, the study provides zakat and waqf institutions in Malaysia with a stakeholder-validated operational blueprint covering entity structure, fund flows, return simulation, marketing cost limits and compliance controls. For regulators, it offers evidence on the interaction between federal capital market rules and state waqf enactments, informing possible measures such as a regulatory sandbox for waqf-based ECF offerings and joint Shariah guidance on MMQ-waqf structures.

More broadly, the study shows that the binding constraint on Islamic social finance is often institutional design rather than a shortage of willing capital. A model that clarifies ownership, returns and governance can therefore help other zakat and waqf institutions bring productive assets, such as food processing facilities, affordable housing and healthcare services, to the retail capital market.

Acknowledgement

This research was funded by the Institute of Shariah Governance and Islamic Finance (IPIZ), Universiti Utara Malaysia, and Lembaga Zakat Negeri Kedah through a specific research grant. The authors thank Majlis Agama Islam dan Adat Istiadat Melayu Kedah, the Securities Commission Malaysia, the Companies Commission of Malaysia and the participating platform operators for their contributions.

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