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The Potential of Waqf-Blended Finance Using Crowdfunding in Indonesia

M. KABIR HASSAN*, NURUL MEIRAMA IRSYAN & AISHATH MUNEEZA[1]

ABSTRACT

Significant obstacles to the development of Islamic charitable endowment (waqf) in Indonesia include the lack of accountability, limited financing, and mismanagement. One way to remove these obstacles is implementing waqf-blended finance, a newly developed model (therefore unexplored) that integrates waqf and commercial finance. The current research aims to explore the potential of crowdfunding for waqf-blended finance. The underlying assumption is that crowdfunding can help boost waqf fundraising and resolve liquidity and transparency issues in fund collection and distribution. Therefore, exploring the application of crowdfunding in waqf blended finance is essential. Improving waqf-blended financing itself is necessary because it can ensure project profitability. This study applies a qualitative approach with three stages of analysis: desk research, semi-structured interviews, and data analysis. The semi-structured interviews aim to discover the current practices of the key stakeholders. The data collected from the literature review and interviews were analysed to assess the potential of waqf blended finance concept, build a waqf-blended finance model, and estimate the model's implementation challenges. The analysis covers both the external and internal challenges of waqf development in Indonesia, with the former being prioritized over the latter due to its more significant influences. The discussion encompasses the potential of two waqf-blended financing models, emphasising the critical role of crowdfunding and banks as waqf administrators (nazir). Since this study is the first to investigate the feasibility of crowdfunding in waqf-blended finance development in Indonesia, it offers a novel contribution to the field. From the findings, we propose considerations in the implementation of a waqf-blended financing model in Indonesia.

Keywords: Crowdfunding, Potential, *Waqf*, *Waqf*-blended finance.

[1] **M. Kabir Hassan***, Ph. D. (Corresponding Author), Professor of Finance and Hibernia Professor of Economics and Finance and Bank One Professor in Business, Dept. of Economics and Finance, University of New Orleans, New Orleans, LA 70148, USA. Email: mhassan@uno.edu; **Nurul Meirama Irsya,** Master Candidate at Islamic Finance Practice, ICEIF University, International Centre for Education in Islamic Finance (INCEIF), Jalan Tun Ismail, 50480, Kuala Lumpur, MALAYSIA. Email: meirama91@gmail.com; **Aishath Muneeza**, Ph. D. Prof. at INCEIF University, International Centre for Education in Islamic Finance (INCEIF), Jalan Tun Ismail, 50480, Kuala Lumpur, MALAYSIA. Email: muneeza@inceif.org

Indonesia has been ranked number one among the world's most generous countries, as shown in the donating index reported by World Giving Index, reaching 84% in 2022 (CAF 2022). This index has increased consistently over the last five years. Various charity models are practiced in Indonesia, including *waqf* (fixed asset donation), which has seen significant growth nowadays. The rising trend of charity is also boosted by the emergence of digital donation crowdfunding platforms. They offer attractive methods of collection and have become Indonesia's most popular channel. Aside from collecting *sadaqah* (donations), the platforms also collect other types of Islamic social finance funds, such as *zakat* (alms) and *waqf* (fixed asset endowment).

Crowdfunding via online platforms enables the pooling of resources and fundraising (Agrawal, Catalini & Goldfarb 2014). The nature could be charitable, i.e., for social, philanthropic, artistic, or other causes, often referred to as donation crowdfunding Hapsari et. al. 2022). Numerous prior studies have highlighted at least five unique characteristics of crowdfunding platforms: (1) borderless (non-geographically constrained), (2) providing more access to information, (3) attracting more funders, (4) increasing the possibility of collecting more funding, and (5) requiring low-cost capital because it solves the agency issue (Agrawal, Catalini & Goldfarb 2014; Babich, Tsoukalas & Marines 2019)

The crowdfunding-*waqf* model (CWM) can maximise *waqf* fundraising. It can also solve the liquidity problems associated with developing *waqf* land. Therefore, Mohd Thas Thaker & Allah Pitchay (2018) recommended *waqf* collection through crowdfunding as a financing resource in Malaysia. The model has become one of the most popular methods to collect funds for *waqf* projects. Another area of improvement in the development of *waqf* is its sustainability and business stability. For example, efforts have been made to attract public participation or the involvement of commercial parties to fund *waqf* projects, but these have not been optimal. Therefore, new approaches and alternatives are needed, one of which is *waqf*-blended finance. Since research on blended finance has not been explored, this study aims to fill the gap by examining the existing practices.

Blended finance is a relatively new concept to mobilise additional funds for sustainable development in developing nations (Jung 2020). Essentially, it blends resources from the public sectors, such as governments and development financial institutions (DFIs) and philanthropic actors, with other sources of funding (public or private) (Development Initiatives 2016). Blended finance is acknowledged in the G20 discussion, but Islamic blended finance, particularly in Indonesia, has yet to be established. The model must be Sharia compliance in using Islamic philanthropic instrument such as *waqf*. Therefore, this study aims to elaborate on the blended finance that complies with Sharia. Recent research on Islamic blended finance by Khan & Badjie (2022) defines Islamic blended finance as 'an optimal combination of Islamic social funds such as *zakat*, *waqf*, *sadaqah*, and penalties from delinquency, with financial instruments for financing social and impactful businesses for SDGs'. Another key to Islamic blended finance is preventing the funds from being allocated to unproductive activities and high default risks.

A study on *waqf* and blended finance by Baharuddin & Possumah (2022) proposes the possibility of building a *waqf* bank as a model for developing *waqf* land and integrating investment from commercial and public philanthropic funds. In essence, this blended finance concept combines charitable and private funding through philanthropy-private partnerships. The research on *waqf*-blended finance in Indonesia has yet to be expanded and explored. This research's results and key findings attempt to pave the way to further research examining the potential of using *waqf*-bended finance through crowdfunding to overcome the existing challenges of *waqf* development in Indonesia.

According to Ascarya, Hosen & Rahmawati (2022), some significant obstacles in developing *waqf* are a lack of accountability, a shortage of financing, and mismanagement (Laallam et al. 2020). *Waqf*-blended financing and crowdfunding have the potential to solve overcome these obstacles. First, *waqf*-blended financing can ensure a project's profitability. Second, crowdfunding platforms can attract more donors and participants, show transparency, and streamline processes. Therefore, combining Islamic blended financing and crowdfunding can potentially open new avenues to success. Research in this area needs to formulate and test a new approach to solving *the waqf* development problem in Indonesia. However, issues on *waqf* blended finance in Indonesia are under-researched., especially research examining the possibility of combining it with crowdfunding. This research aims to fill the gap by exploring the potential concept and model for implementation in Indonesia. In doing so, it is critical to include the perspective of the relevant stakeholders to identify the crucial factors that drive the participation and create a feasible and promising model.

The objectives of this research are to: investigate the obstacles to developing *waqf* in Indonesia; explore the potential of *waqf* blended finance using crowdfunding in addressing the obstacles of developing *waqf* in Indonesia; and find out the potential challenges in implementing the proposed model in Indonesia. To achieve the stated objectives, this study focuses on answering the following research questions: What are the obstacles to developing *waqf* in Indonesia? What is the potential of *waqf* blended finance using crowdfunding in addressing the obstacles of developing *waqf* in Indonesia? and What are the potential challenges in implementing the proposed model in Indonesia?

It is anticipated that this research contributes to the literature on *waqf* innovation and Islamic blended finance in Indonesia and paves the way for other academics to investigate Islamic blended finance as a *waqf* innovation and the use of crowdfunding to resolve the problem in the *waqf* model. The proposed concept will also benefit crowdfunding platforms to elaborate on *waqf* as a profitable and sustainable product rather than only collecting donations (*sadaqah*). In the long run, this research will encourage people to contribute to innovative *waqf* products through crowdfunding. The combination can be beneficial in terms of building a profitable *waqf* project. The proposed model can show how crowdfunding (as a platform) works with a *waqf* institution (as a project initiator) and a bank (as a commercial fund provider) to implement the suggested approach. This proposed model will be applicable since it has been validated and evaluated from the perspective of the most important stakeholders. By addressing the potential challenge, this research will prepare stakeholders for the critical obstacle when implementing the model, so they can find mitigation solutions.

LITERATURE REVIEW

The Challenges of *Waqf* Development in Indonesia

Waqf refers to the donation of a fixed asset, i.e., property, for religious or charitable purposes. It has been recognised as an essential means of promoting the welfare of society. For example, a study by Çizakça (1998) shows that *waqf* can help distribute public goods, employment, free education, and shelter. *Waqf fiqh*, the Islamic jurisprudence regarding *waqf*, has undergone substantial changes in recent years. Modern *waqf* has evolved into a flexible instrument that can be utilised as a financial instrument, business, legal contract system, and investment (Abdullah 2018; 2015).

In the context of Indonesia, Ascarya, Hosen & Rahmawati (2022) have detailed the evolution of *waqf*. Muslims have practised *waqf* since the introduction of Islam to the country before the colonization era began. However, *waqf* development as an institution was formalised through Act No. 41 in 2004 and Government Regulation 42/2006 about Cash *Waqf*. The law specifies that *waqf* assets may be fixed assets, such as land and buildings, and movable assets with productive economic contents, such as cash, stocks, bonds (*sukuk*), and other instruments. The law defines this type of waqf as cash *waqf* or *waqf al-nuqud*.

Since then, several *waqf* institutions, including Dhompet Dhuafa and Sinergi Foundation, have been established to foster the growth of productive *waqf*. Numerous *madrasahs*, or traditional Islamic boarding schools, have also developed productive *waqf* to become self-sufficient in providing affordable goods and services to their local communities (Ascarya, Hosen & Rahmawati 2022). In the past, the development of *waqf* in Indonesia was mainly related to constructing mosques, graveyards, and *madrasahs*. The allocation of *waqf* to meet the basic needs of the Muslim society in Indonesia did not receive much intervention from the government. However, this changed with the issuance of Act No. 41 in 2004, which positions the government in a more central role in the development of *waqf* (Ascarya, Hosen & Rahmawati 2022).

The Challenges of *Waqf* in Indonesia

Laallam et al. (2020) have identified several obstacles in managing *waqf*, including the lack of accountability, insufficient funding, mismanagement, and the need for more skilled labour. Aside from removing these obstacles, we argue that intellectual capital is a crucial determinant of the efficacy and efficiency of *waqf* institutions. Meanwhile, Osman and Agyemang (2020) underscored the importance of beneficiary and public participation in managing *waqf* and ensuring the effective delivery of benefits to beneficiaries. Ascarya, Hosen & Rahmawati (2022) have identified several major obstacles to advancing *waqf* in Indonesia:

1. The utilisation of *waqf* assets as collateral was prohibited due to the Indonesian government's commitment to safeguarding *waqf* assets in compliance with Islamic law and Agrarian Law No. 5/1960.
2. As per the government directive no. 42/2006, a financial institution, such as an Islamic bank, is prohibited from acting as a *waqf* administrator (*nazir* or *mutawalli*).
3. There is a shortage of professionals or experts in a commercial enterprise in *waqf* organisations.

Donation Crowdfunding Platforms

Crowdfunding has been a growing phenomenon for online fundraising (Sidiq et al. 2021) in the last decade. Crowdfunding enables individuals to partake in fundraising from anywhere. Funding can be collected for various purposes through a technology-based platform, especially during times of natural disaster, when donors' intention to give donations is high. In Indonesia, donation crowdfunding for the relief of major disasters has been conducted since the tsunami in Aceh (2008) until the COVID-19 pandemic (2020). Another purpose of collecting funds is to collaborate to achieve a common goal; for example, more than USD 600,000 was raised through the crowdfunding platform Kitabisa.com (campaign link: https://kitabisa.com/campaign/38661) to pay for the construction of the first Indonesian aircraft, R80, designed the former Indonesian president, BJ Habibie.

Prior research has established the definitions of crowdfunding. Ordanini et al. (2011) define it as a collective effort facilitated by the Internet to connect and pool funds to support the goals of other individuals or organisations. According to Kocer (2014), crowdfunding is an alternative financing model outside the conventional financial system. Likewise, Agrawal, Catalini & Goldfarb (2014) define a crowdfunding platform as a web-based fund collection that acts as an intermediary between the project owner (campaigner) and the funders (donors), where a small amount of money is gathered from a lot of donors. Gleasure & Feller (2016) believe that donation-based crowdfunding has transformed charity practices by combining traditional philanthropic giving and IT-enabled crowdfunding.

In a broad sense, crowdfunding can support two types of projects: business projects that are built upon reward, equity, or lending and social projects built upon donation (Hapsari et al. 2022). This study focuses exclusively on donation-based crowdfunding. Sirisawat et al. (2022) emphasised that donation-based crowdfunding is a technological intermediary between fundraisers and donors' non-financial, psychological goals. This crowdfunding type does not involve exchanging tangible value between donors and project owners. The money donation is mostly altruistic and based on generosity (Hapsari et al. 2022)

The Benefits of Donation-Crowdfunding Platform

Several studies have documented crowdfunding's unique characteristics and advantages. It applies crowdsourced innovation and decision-making in funding a project (Mohd Thas Thaker, Mohd Thas Thaker & Allah Pitchay 2018). Instead of seeking large sums from a small group of wealthy donors, crowdfunding collects small sums from large crowds (Lu et al. 2014). Since crowdfunding operates on a digital platform, it is not constrained by geographical boundaries

(Agrawal et al. 2014). Therefore, crowdfunding can increase the number of potential funders and the amount of funding collected (Babich, Tsoukalas & Marines 2017). It can collect funds at any time and from any location. These advantages make it a viable alternative to a conventional funding method (Agrawal, Catalini & Goldfarb 2014). Supporters can simply share the campaign with their networks, frequently with the click of a button (Gleasure & Feller 2016). With the assistance of social network sites (SNS), donation crowdfunding initiators can directly broadcast their campaigns to highly potential donors and establish social bonds with these crowds (Liang and Turban, 2011).

Meanwhile, Agrawal et al. (2014) highlighted the access to information that crowdfunding provides. It streamlines charitable fundraising processes by combining information collection, donation transactions, and interactive communication into a single standardised procedure (Belleflamme, Lambert & Schwienbacher 2013). Crowdfunding follows a project-based structure outlined in the project description, which includes a category (international aid, healthcare, or culture), project objectives, goal amount requested (the minimum amount that must be raised), and possible rewards (Teunenbroek & Chiesa 2022). The simplicity makes it possible for anyone to start a crowdfunding campaign. The platforms or websites are designed for project owners to do promotional campaigns using images or videos. Campaigners can describe the plan and the causes to be supported with the collected funds to attract more potential donors (Kirby & Worner 2014). They can launch online solicitation campaigns for charitable donations within specified time frames (Shneor & Vik 2020; Mollick 2014; Belleflamme et al. 2014; Gerber, et al. 2011) .

The use of advanced information and communication technology (ICT) tools (e.g., real-time online interactions, digital and mobile payment systems, etc.) is important in crowdfunding. ICT helps to adhere to specific, well-defined guidelines to keep donors informed and updated (Wash 2013) and demonstrate transparency in real-time. Another benefit of using ICT tools is to significantly reduce coordination and transaction costs compared to traditional fundraising (Choy & Schlagwein 2016).

Donation crowdfunding has been used in contexts other than charitable causes (Gleasure & Feller 2016), such as to support independent journalism, cultural heritage projects (Oomen & Aroyo 2011), educational work (Meer 2014) and scientific research (Wheat et al. 2013). In other words, donation crowdfunding can also support a *waqf* productivity campaign.

Crowdfunding-*Waqf* Model (CWM)

The innovation of *the* crowdfunding-*waqf* model (CWM) is that it combines waqf and crowdfunding. A crowdfunding platform dictates the process and workflow and provides all the advantages, resolving critical issues that may arise, such as the transparency in collection and distribution (Abid 2017) and the liquidity of *waqf* land (Mohd Thas Thaker et al. 2018). Therefore, CWM can be used as a modern *waqf* tool (Suhaili & Palil 2017). The CWM procedure is especially relevant in cash *waqf* management (Hapsari et al. 2022). Traditionally, the *waqf* administrator (*nazir*) collects cash immediately or transfers it to a bank. A crowdfunding platform changes this and streamlines the payment processes.

In the context of Malaysia, Mohd Thas Thaker et al. (2018) recommended the CWM model as a financial resource to address liquidity issues in *waqf* land in Malaysia. Figure 1 depicts the proposed conceptual model by Mohd Thas Thaker et. al. (2018). Based on their findings, the CWM will substantially impact the *waqf* institutions, society, the economy, academia, and theory.

1. This concept attracts more donors to contribute to the fundraising, allowing *waqf* institutions to meet liquidity needs without relying entirely on government funding.
2. *Waqf* benefits society and the economy by creating an environment that stimulates social and economic development. The invested *waqf* projects could increase employment opportunities and income and alleviate poverty. In addition, crowdfunding could help redistribute wealth and achieve resource allocation efficiency.
3. This model can extend the literature on crowdfunding and *waqf* potential.

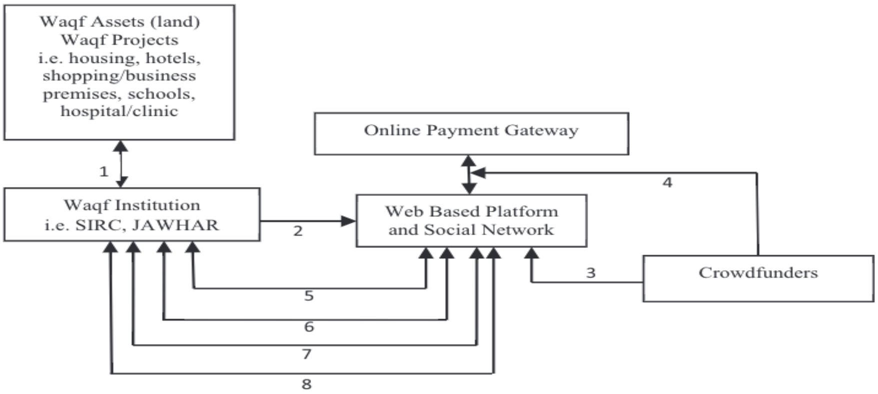

Figure 1. The CWM model by Mohd Thas Thaker & Allah Pitchay (2018)

Other studies also indicate that experts support the applicability of CWM as a financing resource for the development of *waqf* lands. However, they also note that donors, intriguing projects, promotion, and regulation are crucial variables affecting CWM's sustainability (Hapsari, Mohd et al. 2022). Empirical research has been conducted to evaluate the variables influencing the *waqf* property's acceptability, applicability, and market potential. Alma'amun et al. (2018) studied the practical model of CWM initiated by Waqfworld.org. However, this study does not use the existing model. Instead, the cash *waqf* collected from donors through crowdfunding is channelled in three forms:

1. Remain in cash, with the gains from investments being distributed to the beneficiaries and the principal being reinvested.
2. Converted into a tangible asset that provides revenue to garner more support.
3. Used to own immovable assets such as land or buildings.

Regardless of the format adopted by *waqf* projects, the *waqf* assets should remain unaffected.

The CWM model is varied and dynamic, yet the form of *waqf* assets remains intact in the three forms above. Figure 2 depicts the fundamental framework of the CWM implemented on Waqfworld.org. Figure 3 illustrates an example of using *waqf* cash as a productive investment by offering fishermen a new boat and sonar technology. This social business initiative is promoted on waqfworld.org.

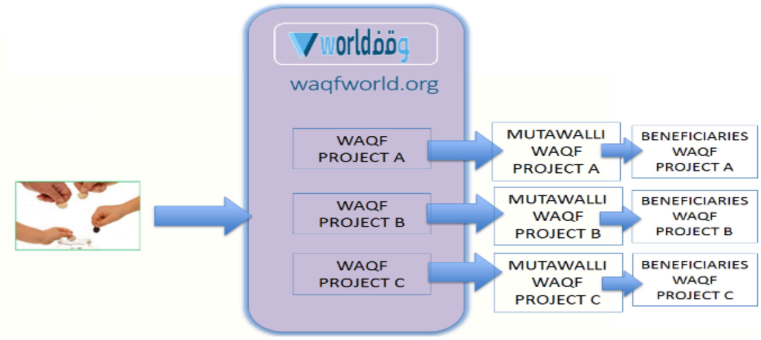

Figure 2. The basic structure of CWM by Waqfworld.org

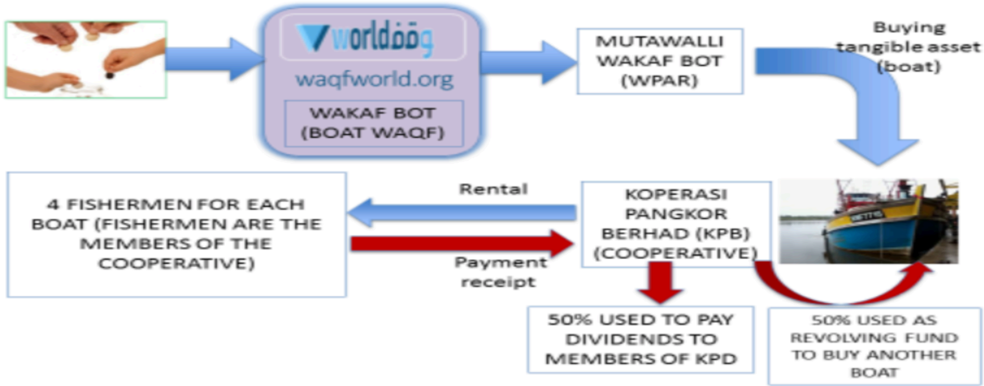

Figure 3. The Model of Boat Waqf by Waqfworld.org Implementing the CWM Model

Meanwhile, Bank Islam, Sadaqah House, demonstrates the utilisation of perpetual *waqf* funds with crowdfunding. Bank Islam aims to establish an independent crowdfunding platform to gather funds from the general public. Sadaqa House will receive funds from the bank's non-sharia-compliant income, which will be channelled as many charity and assistance programmes. Future fund distribution will also include microfinancing for those in need (Sadaqa House 2020). This programme utilises numerous public and private (bank) funding sources to bridge the economic wealth in society. The structure model of Sadaqah House is shown in Figure 10. The gathered funds are divided into three types: perpetual, direct, and general. This model is similar to the CWM model on waqfworld.org.

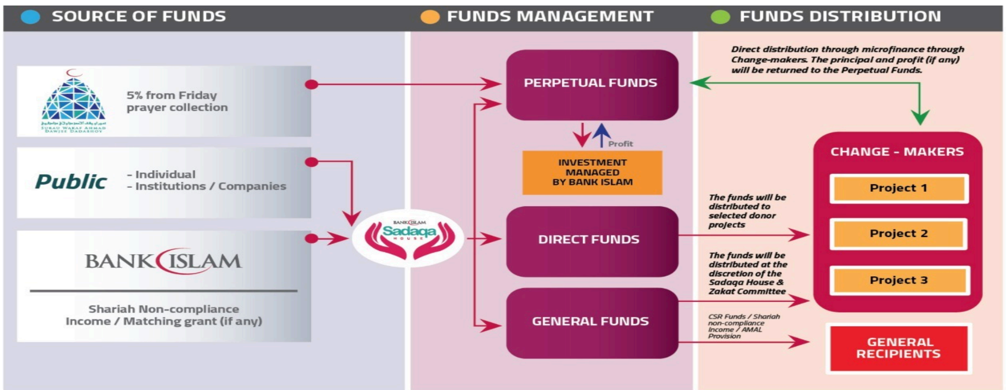

Figure 4. Sadaqah House Structure Model
Source: Sadaqah House Website (Accsessed:12th Jan 2023)

Suggested CWM Model for Indonesia.

The latest research from Ascarya et al. (2022) comprehensively explores the CWM model applicable in Indonesia. This study uses the Analytic Network Process (ANP) method consisting of three processes: (1) model construction based on data from the literature review and focus group dscussion (FGD), (2) model qualification, and (3) request analysis. They promoted five models to be tested in Indonesia.

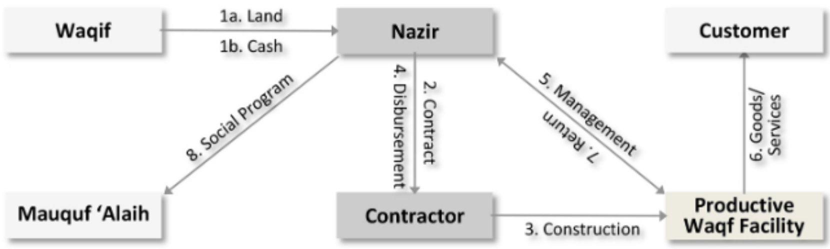

Figure 5. *Model 1: Cash Waqf and Self-managed by Waqf Institution*

Ascarya et al. (2022) have determined that cash *waqf* and self-managed Model 1 is the simplest and most productive *waqf* model. This model can achieve the optimum wealth, compliance (including Sharia compliance as a sub-law of Tawhid), and other socioeconomic variables. An example of this model is the Wakaf Al-Azhar, which maintains rental properties at Bella Cassa Residence, whereas TWI-DD manages rental properties at Rumah Sewa Griya Sakinah.

Islamic Blended Finance

Blended finance is a novel approach to reducing capital shortfall and achieving sustainable development goals (SDGs). Academic research on this topic has not provided much evidence, but policymakers have recently shown interest in the development of this funding approach, which combines public and private resources and expertise . Definitions of blended finance vary, but the common ground is that it unites the public and private sectors. The Organisation for Economic Co-operation and Development (OECD) describes it as "*the strategic use of development finance for the mobilisation of additional finance towards sustainable development in developing countries.*" The United Nations (2015) defines blended finance as combining concessional public finance and non-concessional private finance, as well as public and private sector expertise. The Development Initiatives (2016) defines it as blending resources from the public sector, such as governments and development financial institutions (DFIs), and other philanthropic stakeholders with resources from the public or private sectors. The advantage of blended finance is that it can involve philanthropic instruments to attract commercial investments and draft new structures or intermediate instruments for the same objective. The three characteristics defining the principal attributes of blended finance are:

1. **Leverage:** The systematic and purposeful use of development finance and philanthropic funding to mobilise and engage private capital on a massive scale.
2. **Impact:** Investments that produce quantifiable social, environmental, and economic impact.
3. **Return:** Market-based, risk-adjusted returns for private investors that satisfy corporate objectives and fiduciary responsibilities.

Blended finance also refers to using a combination of financial instruments, including social finance, to fund development projects or programmes (Jung 2020), particularly in financing SDGs. These instruments are specifically designed to generate social and environmental impact in addition to a financial return. Examples include social impact bonds, development impact bonds, and social venture capital.

The advantage of using social finance instruments in blended finance is that they can attract private sector investment to development projects. The financial return offered by social finance instruments can minimise project risks and make them more attractive to private investors, increase capital flows to development projects, and help to meet funding needs.

The Key Principles of Blended Finance

The following five main principles explain the blended finance approach. The OECD developed this principle in 2018 as a guideline for any blended finance initiative.

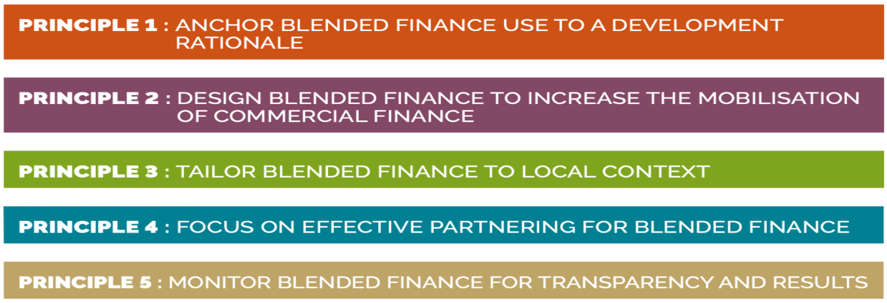

Figure 6. The Five Fundamental Principles of Blended Finance (Source: OECD 2018)

1. *Principle 1: Anchor blended finance used for a development rationale.*This principle ensures that development objectives are at the forefront of blended finance initiatives. From the outset, development objectives must be outlined clearly and agreed upon to ensure that the project outcomes contribute to sustainable development. This principle anchors blended finance initiatives so that they can achieve their intended goals effectively.

2. *Principle 2: Design blended finance to increase the mobilisation of commercial finance.* Blended finance aims to attract investment from the private sector to raise more funding to achieve development goals. This is important because public funding is often insufficient to address development issues on a large scale. Blended finance overcomes this by mobilising funds from the private sector for the public good.

3. *Principle 3: Tailor blended finance to the local context.* This principle emphasises the importance of tailoring blended finance initiatives to local needs, priorities, and capacities. It should support local development needs while contributing to the local economy. This principle also recognises that challenges in different countries and regions are different so the solutions should be tailored to address these specific challenges.

4. *Principle 4: Focus on effective partnering for blended finance.* This principle recognises that blended finance requires effective partnerships to achieve the development and financial objectives, with appropriate allocation and risk sharing between parties. The private and public sectors have different strengths and motivations. Partnerships should aim to leverage this uniqueness to achieve shared goals. Stakeholders should collaborate through standardisation and harmonisation, including in programme approaches where possible, to encourage scale and scalability.

5. *Principle 5: Monitor blended finance for transparency and results.* This principle emphasises the importance of monitoring blended finance initiatives to ensure transparency and accountability. The operations should be monitored using clear result frameworks that measure and report on financial flows, commercial returns, and development results. This helps ensure that blended finance initiatives achieve their intended goals effectively and that public resources are used efficiently.

    These five principles provide a valuable framework for designing and implementing initiatives that maximise development impacts. By following these principles, blended finance can help to mobilise additional resources to address development challenges and achieve SDGs.

Islamic Blended Finance and Its Development in Indonesia

Khan & Badjie (2022) define Islamic blended finance as an optimal combination of Islamic social funds—such as *zakat*, *waqf*, *sadaqah*, and penalties from delinquency—and conventional financial instruments to finance socially impactful businesses to achieve SDGs. This approach differs from traditional models as it utilises Islamic principles to avoid the diversion of funds to unproductive and high-risk activities and provide safety nets, skill training, and start-up capital to economically active, low-income entrepreneurs.

Islamic social finance instruments in blended finance structures benefit the community by supporting responsible businesses and initiatives to improve societal services, protect the environment, and promote sustainable development (Khan 2019). The Islamic microfinance concept can be utilised to attract private capital into the blended finance structure and support active but low-income entrepreneurs to create socially responsible businesses. Overall, blended Islamic finance presents a unique opportunity to enhance the impact of development finance by combining Islamic and conventional financial instruments to support sustainable and socially responsible businesses.

In Indonesia, the growth of blended finance has been driven by at least three factors (EGSA 2021). The first is the growing recognition of the importance of private sector investment in promoting sustainable development. Blended finance's prominence is increasing, especially after being included in the agenda at the G20 2022 in Bali. Second, the government has implemented various policies and initiatives to encourage blended finance, such as establishing the Indonesia Infrastructure Guarantee Fund (IIGF). Third, there has been an increase in the number of impact investors and philanthropic organisations operating in Indonesia, which has led to greater availability of funding for development projects.

There are two main challenges to the development of blended finance in Indonesia, as stated in Indonesia's Blended Finance report (EGSA 2021). The first is the absence of feasible projects or programs ready for financing. The second is the lack of platforms or channels that can attract and facilitate funding from private sectors or others. Overall, the growth of blended finance in Indonesia reflects a shift toward a more inclusive and sustainable model of development financing, which seeks to harness the strengths of different funding sources to achieve a greater impact. However, the blended finance concept in the EGSA (2021) report has not yet discussed the role of Islamic social finance.

***Waqf* Blended Finance Model**

Studies on Islamic blended finance with the social finance instrument are scarce. Among the few is a study by Baharuddin & Possumah (2022), which explores the function of *waqf* bank in blended finance and proposes a model for mobilising public resources for long-term initiatives.

Waqf bank-based blended financing is equivalent to a public-private partnership, i.e., between the government and the business sector. It is also known as a combination of charitable and private funding (philanthropy-private partnership). Fundamentally, this *waqf* method comprises four components. The first is the sinking funds for institutions to be used in a programme. The second is the endowment funds for institutions administered in perpetuity for eternal needs, often in the form of long-term investments. The third is revolving funds for ongoing programmes, typically utilised for loans and company financing, with fund channels receiving a portion of the money distributed. The last component is a combination of the three funds, i.e., mixed funds.

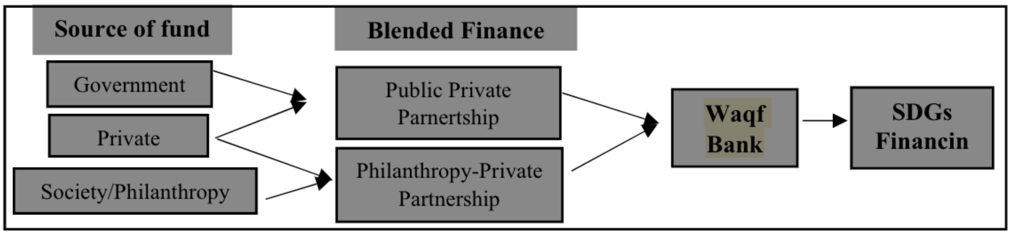

Figure 7. Waqf Bank-based Blended Finance. Source: Baharuddin & Possimah (2022)

Baharuddin & Possumah (2022) believed that the initial application of *waqf* bank-based blended finance in Indonesia prioritised social funding sources that reduce income disparity and stimulate economic growth. The *waqf* bank-based blended finance aims to cover the funding needs for the social infrastructure, particularly for educational and health facilities, such as schools and hospitals. The government can also create *waqf* bank-based blended finance schemes and other philanthropic funds to support cluster-based SME projects (the industrial sector, plantation, fisheries, etc.) and groom new entrepreneurs and develop businesses.

METHODOLOGY

This part discusses the research methodology employed for the study, consisting of research methods, sample selection, data collection, and data analysis.

Research Methodology

The qualitative methodology is employed to achieve the research objective, consisting of three phases: desk research, semi-structured interviews, and data analysis. The desk research aims to review the existing literature on *waqf* blended finance and crowdfunding. The semi-structured interviews aim to gain insights into the current practices of Islamic blended finance and the potential of crowdfunding to increase *waqf* productivity in Indonesia. The data collected from the literature review and interviews are analysed to assess the potential. This becomes the basis for building a *waqf* blended finance model using crowdfunding. The next step is to consider the potential challenges in the implementation. Figure 8 summarises the research phrases.

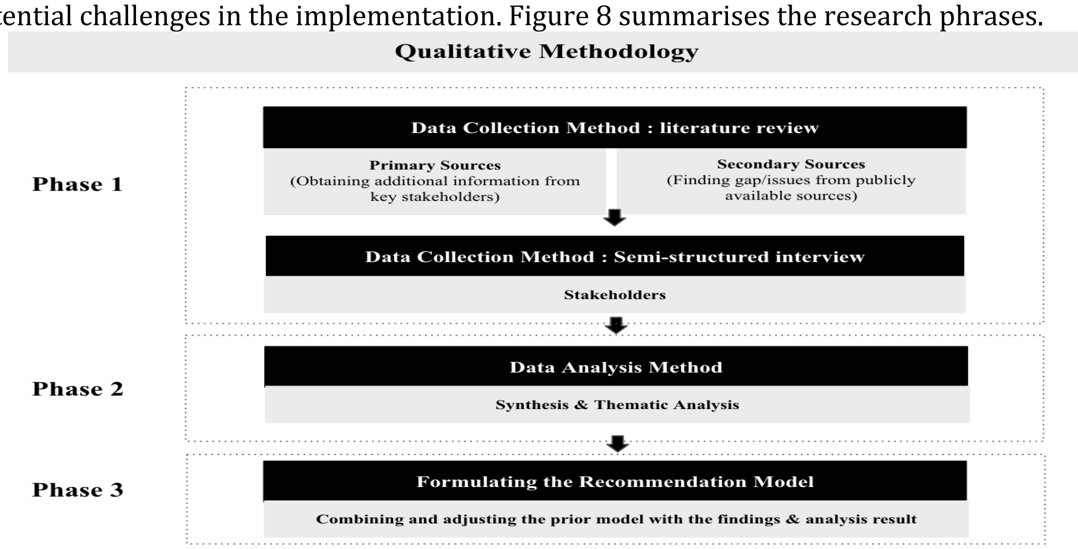

Figure 8. The Three Phases of Qualitative Methodology Implemented in This Research. Source: Author's Own

Data Collection

Since Islamic blended finance is a relatively new field, the available literature and empirical evidence are limited. Therefore, in addition to desk research, semi-structured interviews were conducted with experts from various sectors and institutions, such as regulators, practitioners, Islamic scholars, and academics, to gather information on the current practices and the potential of using crowdfunding in *waqf* blended finance.

Semi-structured interviews were employed to collect data to allow for discussions to take place. The interview guidelines were pre-prepared, covering the themes to be discussed with practitioners and scholars. The guidelines focus the discourse on the issue and offer potential solutions in the interviews. The closed- and open-ended questions were followed by why or how questions. As such, the conversation could develop into unanticipated areas and not rigidly following pre-prepared questions verbatim as in a standardised interview (Adams 2015). A semi-structured interview is often used to obtain and establish participants' viewpoints to confirm, rectify, or uncover new information about the topic under investigation. The data analysis often results in a thorough and accurate descriptive overview of participants' opinions (McIntosh & Morse 2015).

Sample Selection & Interview Question

Purposive sampling is one of the most prevalent sampling techniques, in which a group of interviewees is pre-selected based on a research question. This technique was used to select the experts in this study (expert sampling with a subset of purposive sampling). The specialists were chosen based on their credentials, areas of expertise, and professional experience. The selection of the number of participants follows Morse (1994), who advised six participants for qualitative investigations. This number is determined by the concept of saturation (the point at which no new information or themes are observed from the participants). This number of respondents has been in previous studies, including Hapsari et al. (2022). A modest sample size allows for an in-depth investigation of a topic, which is suitable for achieving this study's aims. The results of the interview in this study can be used to benchmark the current practices in other countries, which suggests a direction for future study.

Table 1 lists the stakeholders interviewed in this study.

No	Stakeholder	Respective Stakeholder	Company/Organization	Designation
1	Platform Provider	Donation Crowdfunding	Kitabisa.com	Co-founder, as well as Chief Product Officer
2	Commercial fund provider	Islamic Bank	Bank Syariah Indonesia	Relationship manager - Islamic ecosystem solution group, (included the Ziswaf)
3	Commercial fund provider	Islamic Bank	Bank Mega Syariah	Social Charity Relationship Manager & Hajj institutional Department Head
4	Campaigner	*Waqf* Organization	Badan Waqaf Indonesia	Head of Nazir Department
5	Academician	Active Researcher	Senior Lecturer & Researcher (8+ years) Tazkia University College of Islamic Economic Indonesia·	Active Researcher for *Waqf* productivity Concept

Table 1. List of Stakeholders to be Interviewed.
Source: Author's Own

The questions for the interview were formulated to address all the research questions, as follows.

	Research Questions	**Additional elaboration**
RO1	Investigate the obstacles to developing *waqf* in Indonesia	
1.	What are the perceived challenges to the development of *waqf* in Indonesia?	Is there a concern regarding accountability?
		Is there a concern pertaining to mismanagement?
		Is there a concern regarding insufficient financial resources or profitability?
		Is there a concern regarding public participation in *waqf* project?
		Do you think there is there a legal impediment? The regulations governing cash *waqf* prohibit its utilization as collateral.
		Is there any other critical issue that you believe warrants consideration?

RO2	Explore the potential of *waqf* blended finance using crowdfunding in addressing the obstacles to developing *waqf* in Indonesia	
2.0	Assess the candidate's proficiency in the subject topic of *waqf* blended finance	Are you familiar with the concept of *waqf* blended finance? *Briefly explain and show the Author's model of waqf-blended finance using crowdfunding.*
2.1	What is your perspective on the feasibility of utilizing crowdfunding as blended finance for *waqf* in Indonesia, with the aim of overcoming challenges in *waqf* development?	Is there potential for crowdfunding and *waqf* integration in blended finance?
		What are the potential advantages that may arise? *For each party involved in the matter at hand, including but not limited to those with a vested interest or influence, it is imperative to consider their perspective and potential impact on the situation.*
		In what ways do you this this model could be employed to address the *waqf* challenges previously referenced? Are there any necessary adjustments required?

RO3	Find out the potential challenges in implementing the model in the existing crowdfunding platforms in Indonesia.	
3	What are the potential obstacles that may arise in the implementation of the proposed model in the existing crowdfunding platforms in Indonesia?	Are there any obstacles arising from the regulation?
		Do you hold think this model offers benefits that can attract commercial entities such as banks?
		Do you think this model offers benefits that can attract contributions from individual benefactors?
		Does the lack of knowledge of this model pose a challenge for investors?
		Are there any potential risks associated with this model?
		Are there any measures can be taken to address or alleviate the issue?

Table 2. List of Interview Questions

Data Analysis Method

The interview data were transcribed into field notes and then analysed using thematic analysis. Thematic analysis is defined by Braun & Clarke (2006) as a method for detecting, interpreting, and reporting patterns (themes) in data. This study utilised thematic analysis as it can synthesise significant characteristics from large data, show similarities and contrasts within data, and is suitable for policy formation analysis (Braun & Clarke 2006). This research employs Miles & Huberman (1994) suggested procedures for thematic analysis, including the selection, simplification, and codification of acquired data into common themes. Then, they are organised concisely and discussed based on the relevant interview question.

FINDINGS AND DISCUSSION

Stakeholders have different perspectives about how *waqf* development in Indonesia should be improved. This study focuses on some critical problems that relevant parties could solve using *waqf* blended finance.

The Challenge of Developing *Waqf* in Indonesia: The Stakeholder's Perspective

The findings suggest that the obstacles to *waqf* development in Indonesia can be classified into two categories: (i) internal and (ii) external challenges. The internal challenge relates to the predicaments encountered by the *nazir* or *waqf* institution, which serves as the principal manager of the *waqf*. Meanwhile, the external challenge deals with the influence of extrinsic factors. The interview results show that prioritising external over internal barriers is crucial, as external factors can impact internal ones.

Internal Challenges

*a. Inadequate accountability of nazir and its impact on trust***:** The lack of information regarding *waqf*, due to the lack of transparency in productive *waqf* project management, leads to a lack of trust in *nazir*. The lower the public's access to easily accessible information, the lower the trust is. The academic member expressed their concern about this:

> "The trust level in nazir, both the private and the government bodies, is low. Currently, the most common waqf practice is giving waqf to individuals or mosques or directly to educational institutions. The problem is that not all of these institutions are recognised as nazir. Unfortunately, this misunderstanding is common in Indonesia. But why do people continue to do so? Because they put higher trust in other institutions than waqf institutions. Unfortunately, this practice is prevalent in our Muslim community."

The lack of trust can also stem from the lack of transparency in the fund allocation and utilization, which has led to a lack of clarity on the outcomes. Most reports generated by conventional *nazir* are published only annually on their website. If the mosque's systems are not digital, updates will be communicated solely through an announcement on the media board on-site. As such, *waqif* (donors) lacks the necessary access to monitor the progress. Donation platforms overcome this by providing the means to demonstrate transparency and provide regular reporting to the *waqif*.

Donation platforms enable access to real-time information regarding the amount of *waqf* collected, the project's objectives, and the party responsible for executing the initiative. Donors are kept informed through a monthly report or notification from the campaign page each time funds are disbursed. Donation platforms have also established a collaborative partnership with auditing firms to audit and enhance accountability. A high level of professionalism shown by donation platforms has contributed to their significant growth and establishment in Indonesia.

Badan Waqf Indonesia (BWI), or the Indonesian *Waqf* Body, recognizes the wide gap between the general public's trust in the *waqf* management institutions and donation platforms. BWI considers the *nazir* certification programme a viable solution to address this issue. The programme aims to equip a *nazir* with the necessary knowledge and skills to establish a well-functioning *waqf* institution and enhance the quality of the *nazir's* management. Nevertheless, this effort is criticised, as noted by an academic member, as follows:

> "Even though lots of progress has already been made, such as with the nazir certification programme, there is still a minimal supervisory function, a lack of a penal system, and a lack of clarity on the measurement system for checking the effectiveness of nazir's performance. Those are also important points for the BWI to focus on."

b. The insufficient ability of nazir to develop waqf products and services: BWI observes that *nazir's* knowledge and skills are limited in experimenting or creatively developing the *waqf* model. The limitation is not only in creating a *waqf* model but also in how the *waqf* management and administration do not yet have a high level of transparency. The study conducted by BWI also highlights that the management in most *nazir* institutions did not have sufficient business sense and skills. As such, they may not be able to find opportunities for *waqf* projects needed for the organization to be commercially sustainable.

> "Most nazir administrators come from the social/philanthropy field, not the finance or business field. This makes it hard to get Nazir to be able to plan productive waqf projects (business mindset)."

The Indonesia Sharia Bank also emphasises this strongly, stating that nazir's business skills and abilities are lacking.

> "To give you an example. When creating a waqf project, Nazir needs the ability to calculate the value of the assets, design a business plan, make forecasts, do risk scenario analysis for the business, etc. Those skill sets are difficult to acquire if Nazir is not an ex-banker or does not come from the finance industry. As a bank that gives financing, we are seriously considering the calculation, so it is hard if Nazir cannot meet our expectations.

Another shortcoming is the comprehensive understanding of cash *waqf*, which also hinders *waqf* development.

> "Of the 17 registered LKSPWUs (Sharia Financial Institutions Receiving money Waqf), only a few LKSPWUs have received cash waqf. This means that although many LKSPWUs were established, some are whose waqf collection is still zero. This condition indicates that Nazir has not been too confident in creating a cash waqf programme. The low confidence level is because they do not understand how to run cash-waqf-based programmes; there is no need to talk about making innovations."

The observations in the interviews show that the knowledge and skill gaps are vast. Therefore, training *nazir* to meet the industry standard will require a systematic approach. A rapid transformation is possible if more competent people join the *waqf* industry. Another possibility is that the crowdfunding platform industry, which has plenty of talents, starts adopting the role of *nazir*. With this 'new player' in the industry, significant changes are possible.

External Challenges

a. The literacy gap that mixes waqf with sadaqah (donations) and the model's complexity: The literacy gap is commonplace and demonstrates that *waqf* literacy is an area to improve. Most stakeholders prioritise literacy issues, although their observations come from different angles. The co-founder of Indonesia's largest digital donation crowdfunding platform conducted internal surveys with its users and found that people confuse charitable contributions (*sadaqah*) and *waqf*.

> "It remains a classic problem. If we talk about the retail (mass) market, the main challenge is still literacy, where the sigma of waqf is mainly related to assets such as what we know as 3M, mosques, maqom (graveyards), and madrasah (schools). So, the stigma about waqf appears to be an elite product only for wealthy people with unused property or assets. Or the stigma of waqf also relates to jariah or things that can be used multiple times for ibadah, such as the waqf Quran, waqf prayer robe, etc. So, it makes waqf similar to sadaqah jariah (charitable donations). This creates market confusion for those with limited knowledge of Islamic social instruments trying to differentiate between the two."

People are unfamiliar with the productive concept of *waqf*, as *waqf* is often associated with fixed assets. The cash *waqf* model remains alien and complex for them. BWI has identified the points. Even the most literate segment does not entirely understand *waqf*.

> "We continue to run educational programmes both online and offline. We first started with the campus segment because we thought it would be the most literate (the "lowest hanging fruit segment"). However, our finding shows that even lecturers and students don't understand the idea of waqf in the modern world, like cash waqf. Only a few people are still aware of the concept of productive waqf. This gives us the impression that the literacy gap is still quite substantial."

Digital crowdfunding platforms have the tremendous potential to provide a significant impact and overcome this shortcoming. It facilitates *waqf* easily with a simple customer journey that can attract the general public to participate.

> "Currently, our team is still experimenting with how users can easily understand the concept of waqf and have their own experience explaining the perpetual concept of waqf and, more importantly, showing immediate results to users, which is somewhat contradictory to the waqf product flow where the results can be viewed later (it takes a long time to show the real results in a productive waqf project). Our team is still experimenting with ways to show instant results, such as working with a well-known restaurant chain to transform one of its franchisees into a waqf restaurant so that people can see its physical form immediately (an instant result). Of course, this is still in the testing concept phase."

The existing *waqf* institutions have not shown any significant effort to address this literacy gap. As a result, the public is uninterested in participating in *waqf*. For example, the cash-*waqf* link sukuk (CWLS) could be considered a success story for *waqf* innovation as it successfully garnered IDR 50 billion. However, most subscribers are institutions, not the general public. The retail subscriber collection for CWLS is approximately hundreds of millions of rupiah out of the total IDR 50 billion. Although *waqf* institutions have numerous successful case studies, the 'traditional' marketing and communication have not disseminated the success stories optimally. As such, people remain unfamiliar with the product's complexity.

b. The regulatory barrier that limits the creation of waqf models: Regulatory support is critical for the development of *waqf*. In Indonesia, *waqf* is solely governed by UU No 41 2004, which can no longer accommodate the rapid changes in the finance industry, according to the stakeholders interviewed in this study. For example, BWI said the current regulations still require manual effort (manual administration) for *waqif* in paying cash *waqf*.

> "Currently, several regulations are still considered burdensome for the development of waqf. For example, it must be signed physically to get a cash waqf certificate or make a cash waqf pledge. The current legal framework does not yet facilitate digital procedures. Making public participation in the cash waqf difficult as a result."

Meanwhile, Bank Shariah Indonesia has introduced a new practice that does not require going to the bank in person because the transaction can be completed digitally. The bank's rules and regulations state that e-signing is acceptable. Key stakeholders do not interpret regulations in the same way, so the viewpoints are divergent. Another regulatory concern is related to the financing of *waqf* initiatives. Currently, no financing model can be implemented because the bank requires a guarantee or collateral from the *nazir*. Meanwhile, BWI stated that the regulations prohibit using *waqf* funds as collateral.

> "Because the collateral concept is that when a payment fails, the collateral will be confiscated, while waqf funds cannot be confiscated/reduced in value, this makes waqf funds unable to be used as collateral to obtain financing from banks."

This condition affects *waqf* institutions in obtaining financial resources. Banks can provide financing, but their internal regulations exclude philanthropic institutions or non-profit organisations. This is because charitable organisations often lack a consistent source of income and sufficient financial resources. Hence, a *waqf* institution must provide collateral to secure the funding for its *waqf* project, which is contrary to *waqf* regulations, as highlighted by BWI. However, the policy is currently being reviewed by various *waqf* institutions, including the Financial Services Authority (OJK) and BWI.

The requirement of collateral by banks to finance *waqf* institutions is a significant impediment to the progress of *waqf* projects in Indonesia. Under this circumstance, *waqf* institutions continue to depend on public funds. In this regard, the involvement of banks as a commercial funder is gradually diminishing. In addition to the legal aspect, the academic expert raised an issue of regulatory barriers and suggested evaluating the regulation implementation, particularly in terms of impact assessment and penalty enforcement. The current *waqf* regulations are weak and require improvement.

The Potential of Crowdfunding in *Waqf* Blended Finance to Overcome the Challenges

From the interview with stakeholders, two *waqf* blended finance using crowdfunding models are proposed to tackle the *waqf* development challenge. These models are prepared and selected by considering the three main characteristics of blended finance: leverage, impact, and return.

1. **Leverage:** This combination model combines *waqf* (philanthropic funding) with commercial funds (bank financing) at scale (because it involves crowdfunding).
2. **Impact:** The main objective of this blended finance *waqf* model is to finance socioeconomic-based *waqf* projects designed to benefit the benefactors (*mauquf alaih)*.
3. **Returns:** The *waqf* project is a productive *waqf* programme. The cash *waqf* model makes *waqf* fund mobilisation more sustainable while providing a decent return from the standpoint of a commercial fund.

The potential models are examined to see if they meet the basic principles of the blended finance concept.

Model 1: *Waqf* Blended Finance using Crowdfunding (Guarantor-Collateral Model)

One of the goals of blended finance is to move commercial funds, i.e., bank financing, for the development of social projects. Model 1 aims to make to remove limitations faced by banks in funding the *waqf* programme and instil more confidence in *waqf* projects.

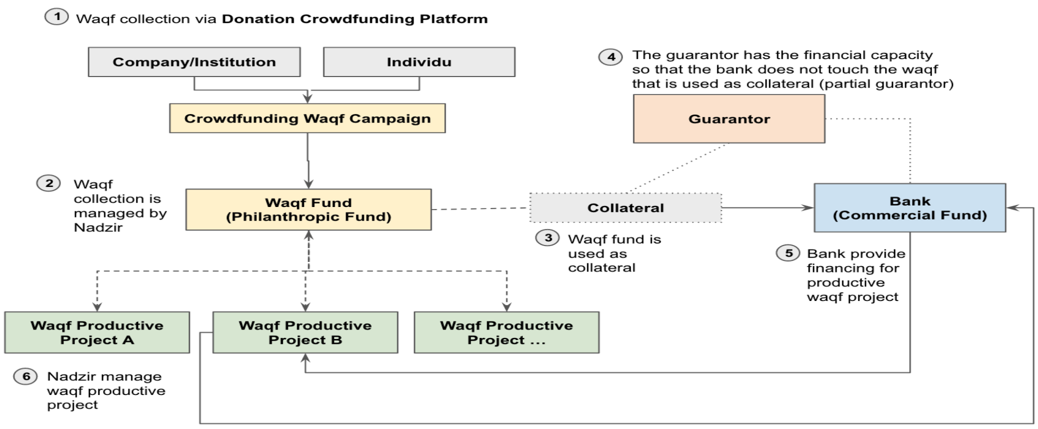

Figure 9. Model 1: Waqf Blended Finance using Crowdfunding (Guarantor-Collateral Model)
Source: Author's Interpretation of the Interview Results

Based on discussions with stakeholders, Model 1 optimise the potential for the development of *waqf*, including:

1. *An alternative financial solution for waqf projects and providing an extra layer of a guarantor.* This model emphasises the function of *waqf* collection as collateral to solve the problems with banks in financing *waqf* projects. The guarantor's role can provide an alternative solution to this limitation posed by the absence of collateral. Even though the collection of *waqf* acts as collateral, the role of the guarantor is more critical when there is a default. Instead of taking over, confiscating, or selling the collateral of *waqf* proceed, the guarantor will first be asked to pay for some of the defaults. Therefore, banks can first request a guarantor to help recover the default. The guarantor's role can be partial, not covering all defaults. Still, it can provide guarantees to the bank to buy time for the *waqf* project to recover from the default situation and pay the default to the bank. This model provides an extra layer before the bank takes action with the collateral. It also becomes an alternative risk mitigation for banks. Therefore, this model is considered an acceptable concept for Islamic banks.

   > "If there are parties who can become guarantors, there is a possibility of being able to do financing with the bank because, for banks, the essence of collateral is that it serves as mitigation in the event of a default; so, the bank has assets or alternatives that can be withdrawn or used to replace the default. Since waqf cannot be used as collateral, having a guarantor gives the bank more security. However, it needs further study to determine to what extent the partial guarantee will provide a replacement. Of course, further studies are needed, but there is a possibility that this model makes sense enough to be applied."

2. *Motivating nazir to improve to satisfy banking administrative and financial management standards:* This model places *nazir* in a 'swim or sink' situation to be more professional, especially in administrative matters. Securing finance from a bank requires neat, structured administration to meet bank administration standards. The bank will also ask for proper planning of the *waqf* fund management and strategy as the finance comes from the bank. This will motivate *nazir* to record finance and manage the business. Islamic banks are ready to assist *nazir* in this matter.

   > "Of course, the bank will demand that nazir provide very rigid and strict reporting as banks do with other clients. nazir needs to know how to provide financial reports, so they must understand how to make a business forecast when he has received financing from the bank."

3. *Motivating nazir to become a professional fund manager in managing multiple waqf initiatives and ensure commercial viability: Nazir* must be able to pay instalments to the bank to maintain the mandate of *waqf* funds, and this will put pressure to stay organised. This will motivate *nazir* to exert their potential to learn business management to manage various projects and businesses, produce positive financial results, and create more commercially sustainable *waqf* projects.

4. *A crowdfunding platform licenced as nazir will optimise accountability and transparency of waqf management:* The role of crowdfunding platforms can also be stretched further, not only as an extension of *nazir* to collect funds but also as an agent in the development of *waqf*. Licenced as a *nazir*, a crowdfunding platform can manage the *waqf* process end-to-end. This will make *waqf* management more credible and accountable because

donation crowdfunding platforms have the system and the talent to improve the quality of *waqf* management and monitoring.

In addition, BWI views the potential of the crowdfunding platform as a powerful solution considering its extensive digital infrastructure and exposure. If they become *nazir*, the public will be inclined to participate. Model 1 has fulfilled all principles of the blended finance concept, as observed in Table 3.

Principle	Principle of the Model	The Applicability of the Model's Principle
Principle 1: Anchor blended finance used for a development rationale	Fulfilled	The main objective of this model is to provide capital for productive *waqf* projects that have a social impact.
Principle 2: Design blended finance to increase the mobilization of commercial finance	Fulfilled	Provide an alternative so that banks as commercial funders can participate more in *waqf* projects.
Principle 3: Tailor blended finance to the local context	Fulfilled	The *waqf* project being funded is a medium-scale project that directly impacts the economy of the surrounding community and *maukuf alaih* in the region.
Principle 4: Focus on effective partnering for blended finance	Fulfilled	There is guarantor participation in giving confidence to banks to provide capital.
Principle 5: Monitor blended finance for transparency and results	Fulfilled	There are supervisory institutions such as the OJK and assistance from the BWI.

Table 3. Analysis Principle of Blended Finance Applied in Model 1
Source: Author's Own Based on Stakeholder's Information

Model 2: The Concept of *Waqf* Blended Finance as the '*Waqf* City' Model

The stakeholders are presently engaged in discussions with the OJK (Indonesia's Financial Services Authority) regarding the Kota Wakaf Umat or Ummah *Waqf* City model. The initiation of this model by the OJK aims to achieve the objectives of the newly enacted legislation, Law No. 4 of 2023, pertaining to the expansion and strengthening of the financial industry. The attainment of inclusivity within financial institutions is considered a primary goal of legal frameworks. The model presented highlights the increased involvement of banks as *'Lembaga Keuangan Shariah Penerima Wakaf Uang'* (LKSPWU) or Sharia Financial Cash *Waqf* Institutions.

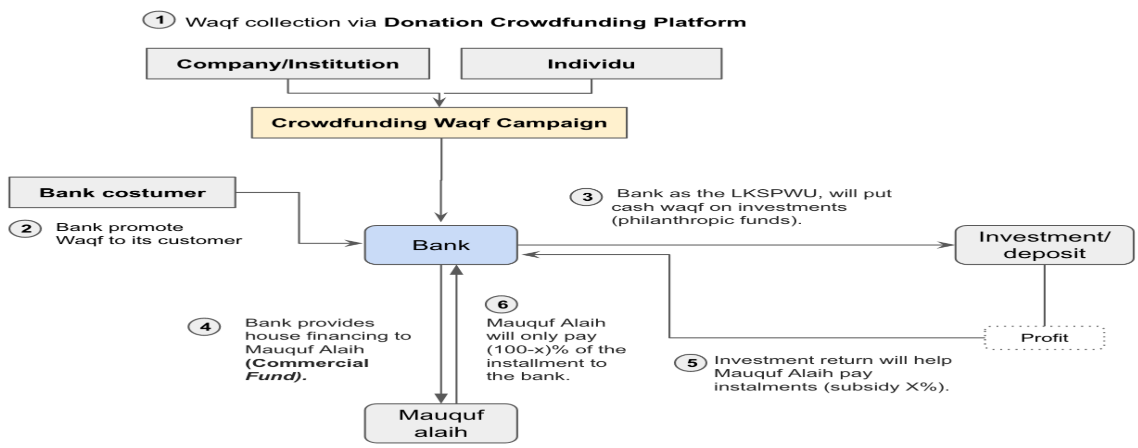

Figure 10. Model 2: Waqf Blended Finance Using Crowdfunding: Waqf-City Model.
Source: Author's Interpretation Based on Stakeholder's Information

According to Indonesian Islamic Bank (BSI), Islamic banks appointed by OJK are to be licenced as *nazir* and LKSPWU. The bank can collect, invest and manage the cash *waqf* fund and distribute the benefit to selected projects. The bank no longer needs to partner with other *waqf* institutions to manage *waqf*. However, banks must be able to develop creative *waqf* programmes that benefit the society (*mauquf `alaih*).

Bank Mega Shariah states that the model is under discussion, and no further action has been taken. However, it is fully supported by OJK since the objective aligns with the ratification of the new Law UU No. 4, aiming to enhance the role of Islamic finance institutions in promoting inclusivity and improving society.

This model allocates funds to the Waqf House financing projects, which aim to facilitate affordable housing for the *mauquf alaih*. In addition, crowdfunding is utilised to collect *waqf* from the general public, thereby extending the reach of the banking system. The following are some of the potentials of Model 2.

1. *The bank serves a dual role as a nazir and a financing provider, proving the implementation of blended finance principles:* The centrepiece in this model is the bank. Due to their dual role, banks could be more inclined to facilitate social development projects, including productive *waqf* projects. Moreover, since the bank will lead the social program, providing financing for the *waqf* programs will be more convenient. They are responsible for the entire process from planning to reporting. Integrating private and commercial funds within a single entity facilitates the implementation of blended finance strategies. Most often, Islamic banks will create a dedicated department to oversee the handling of *waqf* in practical settings. For example, in Indonesian Islamic Bank (BSI), all operations related to social Islamic finance fall under the responsibility of the 'Islamic ecosystem solution' division and Mega Syariah banks have a 'social charity relationship' department. Establishing a special division/department indicates the commitment and dedication of Islamic banking institutions to enhance the *waqf* initiative.

2. *The bank's role as nazir improves waqf projects' credibility, accountability and profitability:* Banks have the expertise in finance, business management, risk management, and other critical success factors that conventional *nazir* now lacks. Banks also have their standard for financial documentation, so it makes the *waqf* process more accountable. Moreover, *waqf* programmes handled directly by banks will be more commercially viable because they are created and managed by top talent. On top of that, as *nazir*, banks have a right to manage a *waqf* fund and build their *waqf* investment portfolio. Moreover, they have access to private securities and private financing. In the future, banks can even create *waqf* venture capital. Therefore, the future development of *waqf* requires banks to tap into that opportunity.

3. *Attracting bank customers to participate in the waqf programme:* Since the *waqf* project will become a bank's project, it will be relevant for the bank to invite their customers to participate. Moreover, banks can include customer participation in *waqf* in their employees' KPIs, so they can be more motivated and creative in promoting the *waqf* programme to the customers.

Model 2 satisfies all the principles of the blended finance concept, as evident in Table 4.

Principle	**Principles in the Model**	**Model's Principle Applicability**
Principle 1: Anchor blended finance used for a development rationale	Fulfilled	This model's primary objective is raising money to purchase *maukuf alaih* affordable housing.
Principle 2: Design blended finance to increase the mobilization of commercial finance	Fulfilled	Granting the bank, the ability to serve as both a lending source for commercial funds and a nazir to collect *waqf* (philanthropic fund)
Principle 3: Tailor blended finance to the local context	Fulfilled	The community in need of appropriate housing will benefit greatly from this *waqf* city project.
Principle 4: Focus on effective partnering for blended finance	Fulfilled	Collaboration between different LKSPWUs and crowdfunding can significantly increase *waqif* participation and *nazir* standards.
Principle 5: Monitor blended finance for transparency and results	Fulfilled	There are institutions that provide oversight, such as the OJK and support from BWI.

Table 4. Analysis Principle of Blended Finance Applied in Model 2

The Challenges to Implementing the Proposed Models

Implementing the proposed *waqf*-blended finance model has significant challenges. The following discussion observes the challenges in three parts. The first part examines the common challenges in both models. The second part focuses on the challenges specific to Model 1. The third part focuses on Model 2. In addition, challenges are observed from the ways stakeholders see problems so that the model's practicality can be checked.

The Possible Challenges in Both Models

1. *The conflict of priorities among stakeholders:* Multiple stakeholders will be involved directly in the operations or indirectly in a supervisory role. Every stakeholder has distinct priorities and objectives. If the *waqf* project is not one of the top priorities for the stakeholders, the collaboration will slow down. Therefore, achieving alignment on the objective level is crucial to establishing a shared commitment among all parties involved.

2. *The need for specific safeguard regulations for waqf deposit:* Banks acting as LKSPWUs collect cash *waqf* and place it in bank accounts. Similar to other deposit agreements, every bank account is safeguarded by *Lembaga Penjamin Simpanan* (LPS) or the Deposit Insurance Foundation. According to LPS regulations, effective 13 October 2008, the maximum deposit amount LPS safeguards is IDR 2 billion for each customer per account. This implies that a single LKSPWU account may be guaranteed a maximum of IDR 2 billion. Meanwhile, the *waqf's* pooled money can reach ten times more than the limits. This is crucial because the limit is so low. Although this carries a certain degree of risk regarding default or misuse from the bank, the *waqf* money can only be protected by not more than IDR 2 billion.

3. *A tax issue arising from nazir's private limited company (Ltd.) licence:* Indonesia offers various licencing alternatives for *nazir*, including a *waqf* foundation, a private limited company (Ltd.), a cooperative, and others. The problem arises from the current tax system's inability to differentiate a *waqf* and a private limited company. Accordingly, all regulations for limited companies also apply to *waqf* limited companies, one of which is taxation. In the context of *waqf* foundations, it is noteworthy that any investment returns accruing to them are exempt from taxation. However, if the investment returns are directed towards private limited companies, the relevant regulatory authorities will impose taxes on them. *Nazir*, on the other hand, needs to be registered as a private limited company for banks to finance them. Banking institutions prefer limited companies for

financing because of the regulation's requirements. To secure the bank's funding, *nazir* must earn an Ltd licence, which will result in taxation. Applying taxation will reduce the total amount of *waqf* that is supposed to be channelled to help *mauquf alaih*.

Challenges Facing Model 1 in the Development of *Waqf*

The development of *waqf* funds has shown remarkable progress through model innovations, but regulatory restrictions challenge the model's efficacy and the influence of a guarantor. This research highlights two main challenges faced by Model 1 in the development of *waqf* funds.

1. *Regulatory Restrictions on Waqf Funds as Collateral:* The current *waqf* regulations in Indonesia prohibit utilising *waqf* funds as collateral. Waqf must be permanent and cannot be sold, unlike assets used as collateral, which must be sold or replaced in the event of default. There are ongoing discussions among stakeholders to examine regulatory frameworks permitting using *waqf* as collateral.

2. *The financial capacity of the guarantor:* BWI supports the implementation of this model to enhance collateral protection (by including a guarantor), but BWI lacks the resources to assume the role of guarantor. BWI's inability to be a guarantor comes from its restricted non-*waqf* financial resources. An additional prospective solution, as BWI suggested, entails utilising the 'people's endowment fund' sourced from the pilgrimage fund. Alternatively, it may be feasible to engage global *waqf* foundations as guarantors, such as the Awqaf Properties Investment Fund (APIF) initiative offered by the Islamic Development Bank (ISDB) for *waqf* assets.

Obstacles Facing Model 2 in the Development of *Waqf*

1. *A substantial waqf collection amount shall be put on hold to contribute to house financing subsidies:* This model necessitates the substantial collection of cash *waqf*, such as IDR 1,500,000,000, to assist one *mauquf `alaih* in purchasing a house. The banks perform calculations by gathering the *waqf* values of specific amounts and investing them in financial instruments for five years. The financing subsidies are limited to a maximum amount of IDR 150,000,000 per house. To assist a group of 20 individuals, a minimum of IDR 30,000,000,000 must be gathered. Undoubtedly, this is a substantial figure.

2. *Cash waqf as deposits does not appeal to banks and waqif: P*resently, banks provide customers with cash *waqf* deposits. However, to use the investment/deposit profit as a subsidy for *mauquf `alaih*, the deposit must have a term of five years. Due to the previously mentioned requirement, the bank lacks confidence in its ability to attract customers. Moreover, provided that the funds remain in deposit, the customer or *waqif* has the right to withdraw the funds as a temporary *waqf*. If this occurs, the bank is unable to stop customers from doing so. Thus, to prevent a significant reduction of funds before the completion of the period, it is essential to implement risk mitigation strategies.

3. *Banks need to be adequately prepared to engage in direct field operations akin to the traditional practice of nazir.:* The ability to evaluate the circumstances and challenges at the grassroots level is a crucial competency that *nazir* must possess to allocate *waqf* resources to the appropriate beneficiaries effectively. This entails a thorough assessment of the *mauquf `alaih*. The possession of social sensitivity is deemed necessary to generate projects that precisely meet the requirements of the *mauquf `alaih*. The inherent characteristic of a philanthropic organisation is its social sensitivity. Commercial banks may not have the capacity or the social consciousness akin to conventional *nazir*. Thus, assistance and partnership between banks and *nazir* are still needed.

RECOMMENDATIONS

There is a clear need to refurbish and review some parts of the *waqf* system in Indonesia. Changes also need to be implemented to support the development of *waqf* in Indonesia. In summary, the critical success factors of *waqf* blended finance in Indonesia are as follows.

1. *The alliance between the key stakeholders in the experimenting model of waqf blended finance:* The *waqf* blended finance model in Indonesia is new and requires stakeholder participation to succeed, including Islamic banks, *waqf* organisations, and crowdfunding platforms. These stakeholders can share resources, skills, and networks to improve *waqf*-funded financial goods and services. In addition, the involvement of government institutions, such as banks and OJK, as the authority will have a crucial impact on the innovation progress. Aligning the aims is crucial to the new *waqf* development innovation, especially since banks and crowdfunding platforms will become more active as *nazir*. The involvement of authority is needed to make these institutions more engaged in *waqf* improvement.

   Strengthening stakeholder alliances can also help overcome problems with the *waqf* blended financing model by overcoming their financial and human resource shortages. Previous programmes like CWLS, which the government actively supports, have shown how stakeholders can unite. When the central bank actively engages with other parties and government bodies to support the idea. For example, the Hajj fund is willing to cover half of the required *waqf* collection to issue CWLS. Without the government's involvement, it would be hard for *waqf* institutions to attract Hajj fund bodies. The success of the Indonesian *waqf* blended financing model depends on critical stakeholders' cooperation, as it can create novel financial products and services for *waqf* funds, solve model obstacles, and raise public knowledge of *waqf's* potential benefits.

2. *The need for new waqf regulations*: Several issues must be resolved through regulatory and legal approaches to ensure the *waqf* blended financing model's viability and efficacy. One significant challenge is the lack of special legal protection for *waqf* deposit funds established by the Indonesian Deposit Insurance Corporation (IDIC), which does not cover more than IDR 2,000,000,000. The challenge is when the *waqf* collection is more than this limit. Therefore, policymakers and regulators should consider a new structure and regulation for *waqf* accounts' protection. This can help to increase *nazir's* confidence in collecting *waqf* to ensure that IDIC protects the money and as the risk mitigation when any default happens.

   Another challenge is the tax issue arising from *nazir's* authorisation to operate as a private limited business (Ltd.). To address this issue, new regulations should be implemented to provide a specific tax structure that considers the purposes of the account. *Waqf* revenue should not be taxed to maximise the benefit for *mauquf alaih*.. Indonesia's *waqf* blended finance model requires a new regulatory and legal framework to address several critical challenges. Addressing these challenges can help make the *waqf* blended finance model applicable in Indonesia.

3. *The potential partial guarantor for the waqf blended finance model:* Implementing the *waqf* blended finance model also requires collateral, but there is a legal restriction on making *waqf* as collateral. As such, the partial guarantor solution that has been discussed in Part 5 can be considered. Some suggestions for the partial guarantor are as follows. The first candidate to consider is the Global Waqf Fund, which has the financial resources, knowledge, and experience to provide partial guarantees for the *waqf* blended finance model. One example is the Awqaf Properties Investment Fund **(***APIF), one of the Islamic Development Bank (ISBD) programmes.* APIF has a significant presence in Indonesia and

has demonstrated its ability to support successful *waqf* projects. The limitation of APIF is that it only manages projects related to *waqf* property. However, if the *waqf* blended finance model is used to finance the property for productive *waqf* projects, then APIF can be involved.

The other potential guarantor is the *Dana Abadi Umat Fund* from *Badan Pengelolaan Keuangan Haji* (BPKH), an institution that manages Hajj funds in Indonesia, a reputable organisation with extensive experience operating Hajj funds for decades. BPKH has a programme to share the profit from managing hajj investments, not only for hajj-related uses but also for society-related purposes. As stated by BWI, BPKH previously helped BWI complete a successful project of Cash Waqf Link Sukuk. BPKH allocated almost 50% of the targeted sukuk subscription for CWLS, which contributed to the project's success. Hopefully, with the government's support, BPKH can be convinced to contribute to the *waqf* blended finance model as a partial guarantor. On top of that, the role of partial guarantor still needs to be rigorously analysed by the relevant stakeholder to ensure the clarity of the role itself and how far its involvement is in the structure.

4. *Assistance from traditional nazir is necessary for crowdfunding platforms and banks (as new nazir)* Different stakeholders have the potential to implement each model. The bank can implement Model 1 as a *nazir*, whereas crowdfunding can implement Model 2 as a *nazir*. The *nazir* in this context plays a vital role in ensuring that (1) public participation will be more massive, (2) the funds are utilised consistently with the donor's intentions, and (3) the returns generated are distributed to *mauquf `alaih* appropriately. Even though crowdfunding platforms and banks have the capabilities that qualify them to be *nazir*, they need more experience in the field and the ability to communicate directly with the *mauquf `alaih*.

   The ability to directly reach the *mauquf `alaih* is crucial for *nazir* to sense the needs of the *mauquf `alaih*, how to train them, and how to talk in 'their' languages. The *mauquf `alaih* are mostly illiterate or not highly educated, so communicating with them must be adjusted to their understanding level. Therefore, traditional *nazir's* wisdom should be transferred to crowdfunding platforms and banks to help them be more socially sensible in communicating with *mauquf `alaih*.

5. *Recommendation for future research*: The findings in this study suggest three areas to support the *waqf*-blended finance concept implementation in Indonesia. First, research should investigate consumer demand for the *waqf*-blended finance model. This follow-up research offers valuable insights into consumers' preferences, needs, and willingness to invest in *waqf*-blended finance projects. Understanding the consumer perspective is critical to the success of public participation in the *waqf*-blended finance programme.

   Secondly, examining the potential of blended finance from an authoritative perspective is necessary. This follow-up research should investigate the legal framework surrounding the implementation of the *waqf*-blended finance model, including the regulation of crowdfunding platforms and banks. The study can detect and analyse the legal complexities and obstacles and comprehensively propose potential solutions.

   Thirdly, research can investigate the correlation and importance of blended finance in light of Indonesian government's future policies, particularly in the context of the recent enactment of Law No. 4 of 2023. It will be beneficial to explore how the new policy can support the development of Sharia financial products in Indonesia, including social Islamic finance instruments, especially the *waqf* blended finance concept. The research can inform the direction of the policymaking and suggest how the *waqf* blended finance model can align with the government's goals.

To conclude, the primary premise of blended finance is centred on facilitating commercial finance to be channelled to development-related investments. Islamic blended finance is also expected to encourage banks to grant financing access for *waqf* initiatives. The findings of this study indicate that discussions among stakeholders have already commenced regarding the potential of *waqf* blended finance. The study suggests that multiple alternative models may serve as primary catalysts for further exploration of *waqf* blended finance by relevant stakeholders. Both models proposed in this study have already fulfilled the basic principle of blended finance. However, significant challenges at the regulatory level must be addressed to ensure proper implementation of the *waqf* blended finance model.

The involvement of banks in the advancement of *waqf* can address multiple key issues simultaneously, particularly in facilitating the acquisition of funding for *waqf* initiatives. In addition, the provision of funding will enable the implementation of additional *waqf* development initiatives with more promising commercial viability. The optimisation of the crowdfunding platform is also a crucial factor to consider. However, it is essential to take a closer look at the setting of this study, Indonesia, where digital crowdfunding platforms are widely utilised. Technology has emerged as a significant contributor to fostering a culture of mutual support among Indonesians, thereby enabling broader outreach and impact. For example, kitabisa.com has garnered more than eight million users through its crowdfunding platform, making it the top donation platform in 2023. The increased commitment from crowdfunding platforms in the future will serve as a critical factor in addressing the literacy gap and the issue of trust in *waqf* development.

In the joint international workshop entitled 'Revitalization of *Waqf* for Socioeconomic Development,' as documented in Book Volume 1, E. Yoshida referred to an analogy articulated by the second caliph, Umar, in the Hadith of Bukhari. The caliph expressed that if he had lived longer, he would have ensured that even a shepherd on Mount San'a received his fair share of wealth. In the present-day context, E. Yoshida believes that this means that if the caliph had lived long enough for smartphones to become ubiquitous and for donations to be easily made through them, a shepherd on Mount San'a could have received a donation from the caliph residing in Medina.

Technology enables us to extend our reach and gather many people. Hence, it is imperative to optimise the technology utilised by crowdfunding to address the issue of *waqf* development in Indonesia. This optimisation is anticipated to facilitate more efficient and accurate communication of *waqf* to the general public if the crowdfunding platform performs as *nazir*. As a result, it is possible to develop *waqf* products that cater to the mainstream market.

Another point to highlight is that blended finance can impact the management of *waqf* funds by motivating *nazir* to adhere to higher standards in programme management, administration, and financing from banks. The conventional *nazir* needs to learn from banks about the creation and supervision of administrative and financial reports for *waqf* and enhance their business skills to secure funding from banks. Lastly, there is a pressing need for collaboration between banks and traditional *nazir*, as both parties stand to receive the benefits. Banks, being relatively new *nazir*, must develop an understanding of grassroots issues rather than solely focusing on commercial opportunities.

In conclusion, the utilisation of *waqf* blended finance exhibits promising potential in addressing fundamental issues regarding the development of *waqf* in Indonesia. Therefore, further cross-stakeholder research should be conducted to facilitate the advancement of waqf in Indonesia.

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