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ETHIS ISLAMIC CROWDFUNDING REPORT



ETHIS CROWD

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EXECUTIVE SUMMARY

Crowdfunding is an emerging model that utilizes digital platforms to raise funds for specific companies, projects or campaigns, typically from the public, organisations or institutions. Islamic Crowdfunding is based on shariah principles and structures, or focused on Muslim needs and interests. Today, there is close to 10 active Islamic Crowdfunding platforms globally, with many more in the early setup stages.

Ethis is an early leader in Islamic Crowdfunding. We operate in 3 countries: Singapore, Indonesia and Malaysia. We are also concurrently setting up and processing regulatory approvals in 2 other countries.

The word Ethis is a fusion of Ethical and Islamic. We strive to operate guided by the highest levels of Ethics and transparency, based on the universal principles of Islam.

This report provides insights into our Real Estate Islamic Crowdfunding activities on our main platform EthisCrowd.com, the world's first Real Estate Islamic Crowdfunding platform and one of the first investment Islamic Crowdfunding platforms in the world. EthisCrowd.com matches our global crowd to Impact Investments to develop Social Housing estates in Indonesia. In addition to a snapshot of our crowd and campaigns, we also share case studies of 6 campaigns to illustrate different scenarios and outcomes. We believe this is essential to create deeper understanding of our role as a Crowdfunding platform, and to educate and align our crowd and stakeholders.

EXECUTIVE SUMMARY

Ethis recently expanded our scope into other areas. Ethis Ventures Malaysia is working on the setup of our ‘startup factory’ or ‘venture builder’ to develop and introduce new Fintech solutions for Islamic Finance. We recently launched GlobalSadaqah.com, focused on Islamic Social Finance. Global Sadaqah matches Sadaqah, Zakat and Waqf from the public and corporate donors to our network of credible charity partners.

As a pioneer Islamic Crowdfunding and Fintech company, we actively seek partnerships and collaboration with incumbent Islamic Economy stakeholders as well as startups. The challenges and needs of the Ummah and humanity today are huge, and we cannot do it in isolation. As a first-mover, we believe that we have an important role to play to unite and synergise the various Islamic Economy players and the general public to uplift the Ummah and bring benefit to humanity.

FOUNDER'S NOTE

Salam (Peace),

This is the first report we've published since our beginnings in Singapore in 2014. What began as a private investment club for Islamic Finance enthusiasts has evolved in 2016 into the world's first Real Estate Islamic Crowdfunding platform EthisCrowd.com.

Like every startup journey, ours was not without its challenges. Recognised as a first-mover in Islamic Crowdfunding, we were building the industry as we built our business. Our perseverance to the cause was rooted in a deep conviction that we were on to something significant that would have a huge positive impact on society.

In our journey, we faced and overcame various obstacles, from understanding and aligning with various parties including stakeholders, regulators, project owners etc. Another critical point for us was also educating and managing expectations of our crowd.

For a crowdfunding platform at a nascent stage, we strive to match our crowd and their hard-earned monies to the campaigns that we feature. We embrace this huge Amanah (responsibility) with full sincerity and hope. As much as we are unable to fully determine the final performance and outcome of campaigns, the moral responsibility and reputational risk for us is immense, and always will be. There is a long way to go and a lot of work to be done before we can reach the standards of experience and service that we aim for.

FOUNDER'S NOTE

This report is a compilation of our experiences and lessons from the past 3 years of intense efforts in building up the world's first Real Estate Islamic Crowdfunding platform.

In order to better illustrate the differing scenarios, we will share with you case studies of 6 campaigns with 5 different outcomes, Successful, Ongoing, Refunded, Delayed and Failed.

We want to show the world both good and under-performing projects and campaigns. Although this detailing of our experience is not ideal for us, we feel strongly that this is necessary in embodying the virtues of Islamic Crowdfunding that we preach - transparency and accountability. We also believe that other Islamic Finance and Crowdfunding Investments efforts in emerging countries will benefit from our pioneering experiences, as well as the solutions and enhancements we have implemented.

Crowdfunding and Fintech has brought the world an unprecedented opportunity to recreate financial ecosystems outside of banking. This is an especially important opportunity for Ethical and Islamic Investors to adopt and embrace true risk-sharing financing models that can create a more grounded and sustainable economy.

EthisCrowd.com has come a long way, and will keep pushing to provide the world an avenue to invest directly in Social Housing projects in Indonesia. We believe that impact investing through Crowdfunding is the future.

FOUNDER'S NOTE

Join us and help us to create even more impact than we have had so far. You, the crowd, is why we exist and your active role is critical for our success together.

Lastly, I'd like to sincerely thank all our investors and supporters, especially the early ones who invested at the start of our journey, and to those who are patiently waiting for their payouts. To those who have received your payouts and profits, we trust you had a good and fulfilling experience. Together, lets make money, have social impact, and #CirculateGood.

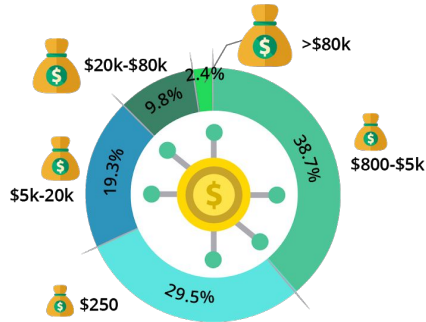


Umar Munshi
Co-founder & Managing Director
Ethis Group of Companies

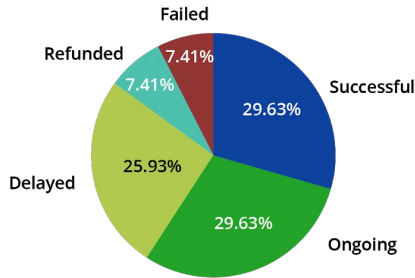


Statistics and Infographics

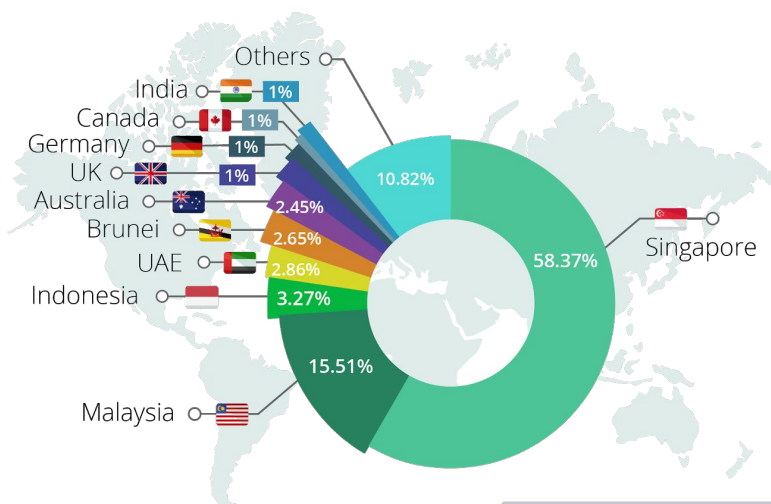
Percentage of investors by investment amounts



Percentage of investors in each of the 5 campaign status types



Investors' country of residence

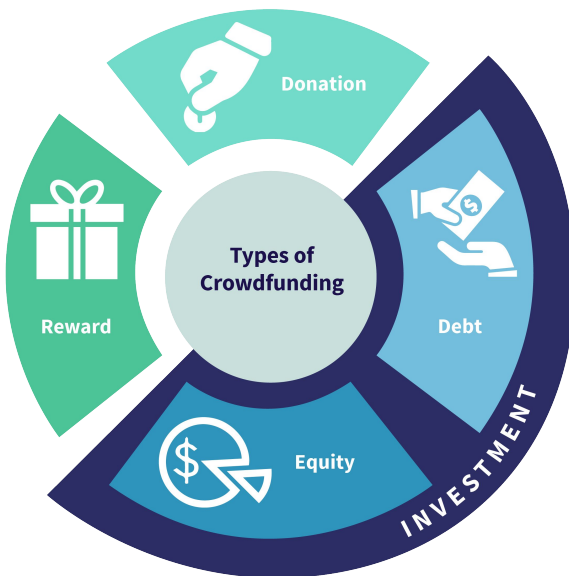




8 Things To Know about Ethis Islamic Crowdfunding for Social Housing

8 Things To Know About Ethis Islamic Crowdfunding For Social Housing

1. Conventional Crowdfunding (CF) Types



CF is an emerging fintech model with vast applications, ranging from Rewards (non-cash incentives for the crowd), to Charity and of course Investment.

Investment CF includes Equity CF where the crowd can buy shares in private companies, P2P or peer-to-peer financing. The most common form of Investment financing in the mature CF markets of the US,

China and Europe is P2P, where the crowd earns interest or profit from providing loans to businesses, projects or individuals. There are other variations and hybrid financing models emerging such as revenue-based CF and 'loan-auctions' where the crowd bids to finance projects. Real Estate Crowdfunding is one of the fastest growing verticals* in CF.

*source: [Massolution](#)

8 Things To Know About Ethis Islamic Crowdfunding For Social Housing

2. Islamic Crowdfunding Marketplace for Investment

Ethis is one of few platforms globally that have actively implemented Islamic Finance models and structures for CF. We match our crowd to invest directly in real estate development and construction projects, focused on social housing in Indonesia. We have also on two occasions ran campaigns investing in construction and infrastructure.

Our crowd has invested in risk-sharing financing in the form of Mudarabah (non-equity) profit-sharing, where investors and project owners take up performance and default risk together and share project profits. We also use Murabaha, which is a direct sale and purchase of real estate assets or construction materials.

Over the past year, we have moved towards a refined variation of Murabahah which is the Istisna' + Murabahah model, where the crowd orders houses and assets from the developer and make progressive payments to contractors as these houses are built before selling them to Islamic Banks at a profit.

8 Things To Know About **Ethis Islamic Crowdfunding For Social Housing**

3. Our Role as a Crowdfunding Marketplace

We are essentially a matchmaker or agent, where we bring parties seeking funding to those interested to collectively provide their capital. Agreements and legal relationships are established directly between project owners and investors. We set project screening standards, formulate the investment model and organise the legal arrangements and transaction as agents of crowd-investors.

Our role at the start is focused on ensuring that we receive accurate and reliable information, which we then curate and feature on our platform for our crowd to understand and make informed investment decisions. Post-investment, we collect and verify information from our Indonesian team and partners, and provide updates to investors. A common challenge for us is to verify the information we receive, which can take a few physical visits and meetings with the project owner as well as other parties, thus requiring a few weeks before we can be confident of sharing the report with investors.

Having mainly served online retail investors over the past two years, we have recently setup a Corporate Investment team in Singapore to allow us to move towards a wider marketplace where we can serve and deal with various types of funds, from high networth investors and family groups to governments and institutions.



8 Things To Know About **Ethis Islamic Crowdfunding For Social Housing**

4. Additional Role in Indonesian Projects

In 2015, the founders of Ethis setup PT Ethis Indo Asia (PT Ethis), a fully-licensed entity for real estate development, construction and agency services in Indonesia. This company was setup as a special vehicle to represent and protect the rights of EthisCrowd investors in our projects. Among other roles, PT Ethis may take up ownership of assets and collateral as security for investors and own equity in our local development partners and project SPVs. PT Ethis also visits projects for physical checks and collection of data to provide updates to EthisCrowd investors. The role of PT Ethis to safeguard the interest of investors has proven to be critical. A few case studies are highlighted in this report.

PT Ethis was instrumental in ensuring that investors' capital and assets are protected. Importantly, PT Ethis also manages relationships and collaborations with stakeholders, government bodies, industry groups, banks and real estate agencies.

8 Things To Know About **Ethis Islamic Crowdfunding For Social Housing**

5. Ethics and Social Impact

Ethis believes that our projects should be technically Shariah-compliant in its form, ethical in its substance and always seek to create maximum positive social impact. We believe that ethics in Islam is congruent with



universal good, and is acceptable to both Muslims and non-Muslims. We embody this in our slogan: ‘Make money, have social impact, circulate good.’

Our focus in Indonesia is mainly on providing funds to developers and contractors to construct social housing for low-income families. Most of our projects are part of the ‘1-million homes’ program by the Indonesian government*, where various forms of support and subsidies enable families with household incomes ranging from S\$400 to S\$700 a month to purchase their first home with a monthly payment of less than \$100. This is cheaper and much better than the typical situation for these families, where they are forced to rent and live in a room or even live in informal temporary housing.

*Source:

[http://www.setjen.kemenkeu.go.id/sites/default/files/\[tittle\]-2632014/download_materi_kpr_flp_p_pdf_20045.pdf](http://www.setjen.kemenkeu.go.id/sites/default/files/[tittle]-2632014/download_materi_kpr_flp_p_pdf_20045.pdf)

8 Things To Know About **Ethis Islamic Crowdfunding For Social Housing**

6. Philosophy on Wealth

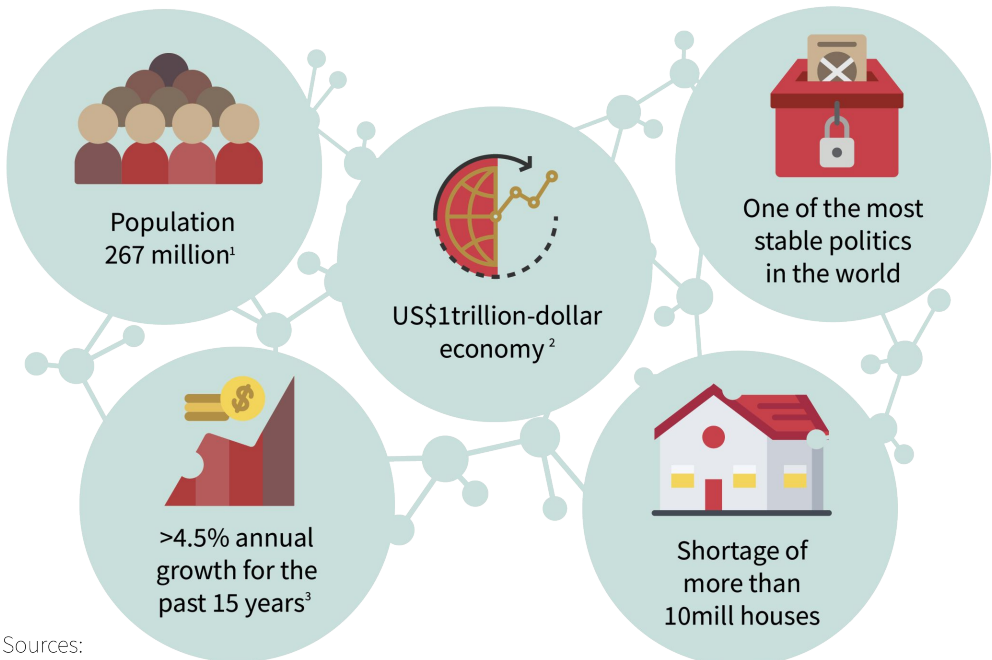
Islam allows for wealth to be privately owned. The accumulation of wealth is encouraged, as long as the principles of justice and fairness are observed, and Islamic Law is not compromised. At the same time, all the wealth of this world is temporary and entrusted to us by Allah swt as a blessing and a test for us. Islam emphasises on the circulation of wealth through business and trade and to do good with our wealth. Investment is an encouraged activity, as it generates economic and social growth through production and employment, and investing in an Islamic manner also keeps our attachment to wealth in check. We believe that the inherent participatory and risk-sharing elements of Investment Crowdfunding make it perfect for innovation and expansion of Islamic Finance..



8 Things To Know About Ethis Islamic Crowdfunding For Social Housing

7. Focus Country - Indonesia

Ethis focuses mainly on Indonesia, the largest emerging economy in the world after China and India. Foreign Investment into Indonesia has been growing strongly, at more than 8% a year over the past few years. It has also secured investment grade ratings last year from all three major debt-rating agencies, further attracting foreign capital. Even as the country becomes more investor-friendly, its real estate industry is still protected and largely dominated by domestic investments.



Sources:

¹United Nation

²Indonesian Finance Ministry

³World Bank

8 Things To Know About **Ethis Islamic Crowdfunding For Social Housing**


8. Social Housing in Indonesia

Indonesia faces a huge shortage of houses especially for its large and growing lower and lower-middle segment of society.

The government launched the ambitious ‘1 million homes’ a year program in 2015. This target has yet to be reached, with reports from the Housing Ministry stating that 1.5million houses were built in the 2 years up to the end of 2016. Only low-income families with stable monthly incomes of below IDR4mill (appx S\$400) to IDR7mill (S\$700), depending on the region, qualify for this program. A big part of this program is the ‘Fasilitas Likuiditas Pembiayaan Perumahan (FLPP)*’, loosely translated as ‘Home Financing Liquidity Facility’ provides subsidised home financing through selected banks. In addition, development projects that qualify for the FLPP program are given allowances and concessions to make it faster and easier to obtain permits and government approvals.

*<http://reg5.perumnas.co.id/flpp/>





Project Onboarding and Structure

Project Onboarding and Structure

Ethis Project Onboarding and Structuring

Ethis has developed its own project onboarding criteria and screening process. These are guidelines for our platform, and are not due diligence on behalf of investors. Based on the information provided to us by project owners, we help them to create their campaign and share this with our crowd for investors to make their own informed investment decisions.

Criteria

All Ethis projects have a social impact element. Ethis onboards projects in the following two areas:

- Affordable / subsidized housing projects
- Infrastructure projects

1

Applicants approach PT Ethis in Indonesia and fill a “Pre-onboarding” form. The form provides Ethis with a general overview about the nature of the project and the project developer.

2

Upon confirmation of alignment of the project to PT Ethis’ scope, the applicants are given an “Onboarding” form to fill and submit all the documents required. The onboarding form requires the project developer to:

- Submit all documents related to the project including; licenses, permits, project financials, site plans.
- Submit documents pertaining to the company including; company registration certificate, company profile, balance sheet and bank statements for the past 2 years, directors profile etc.

3

PT Ethis due diligence team reviews the submitted documents during the onboarding process and calls for a meeting with the project developer to go through the onboarding application together to better understand the project, identify any loopholes and request additional documents if needed.

4

With all documents on hand, the process of legal and financial structuring begins. In looking at the nature of the project, we determine the type of Islamic finance contracts that need to be used for the project. Structuring also involves determining and negotiating the ROI to the investors and the fund disbursement timeline with the project developers.

5

Upon completion of the due diligence and structuring, PT Ethis’s due diligence team will meet up with the project developer to explain the contractual agreement and the financial structure to ensure all the stakeholders involved in the project are clear about each parties’ liabilities and expectations.

6

After the second meeting with the applicant, the application is passed on to Growth and Content Development team to prepare the campaign for launch through the website.

7

The campaign is launched on our website - when fully funded, the first tranche of funds is disbursed to the project developer. Subsequent disbursements take place after milestones are reached, as determined during the structuring stage.

8

PT Ethis makes site visits every two months to collect data and validate progress.

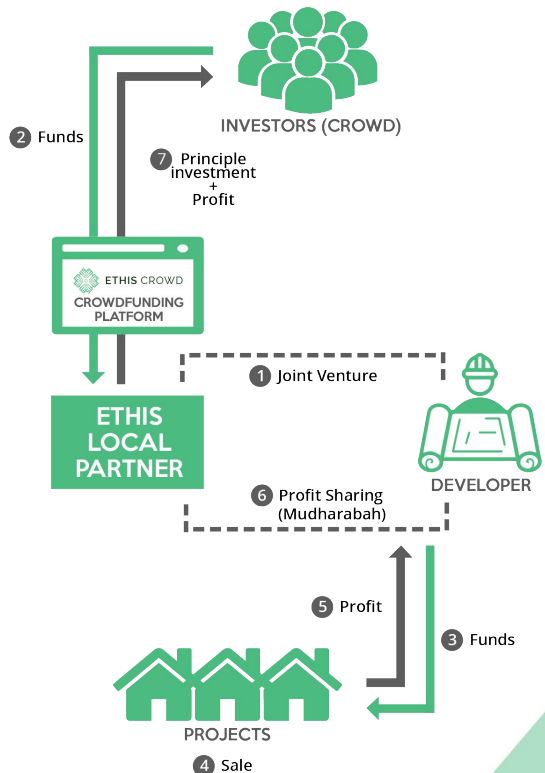
Brief explanation of Mudarabah & Istisna + Murabahah with diagrams

The two most common contracts used in EthisCrowd projects and campaigns are Mudarabah and Istisna' + Murabaha. Here are details of both contracts.

A. **Mudarabah:** According to the Central Bank of Malaysia's Mudarabah Policy document:

“Mudarabah is a contract between a capital provider (rabbul mal) and an entrepreneur (mudarib) under which the rabbul mal provides capital to be managed by the mudarib and any profit generated from the capital is shared between the rabbul mal and the mudarib according to a mutually agreed profit sharing ratio (PSR) whilst financial losses are borne by the rabbul mal provided that such losses are not due to the mudarib's misconduct (ta`addi), negligence (taqsir) or breach of specified terms (mukhalafah al-shurut).”

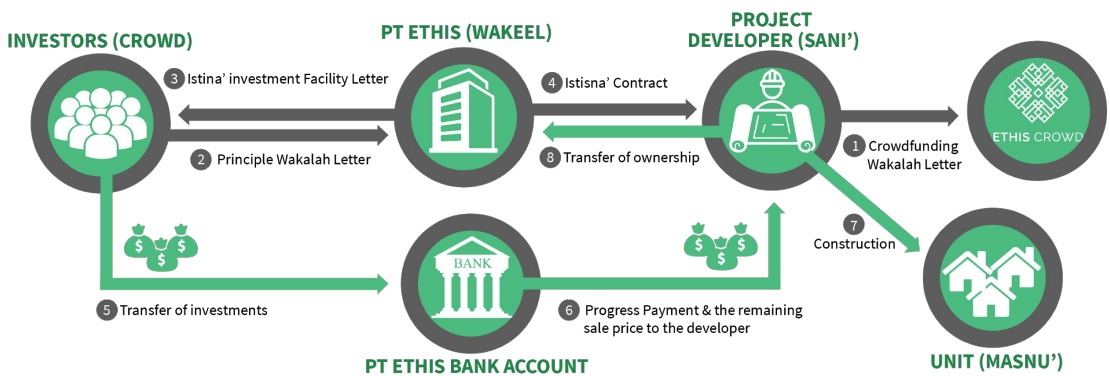
1. PT Ethis forms a Joint Venture company with the project developer.
2. Individual investors transfer their investments to the designated bank account for the project
3. Funds are then disbursed to the project in stages
4. The project is developed and completed
5. Upon completion of the project, profits are transferred to the Joint Venture company
6. Profits are shared between the project developer and PT Ethis based on the pre-agreed Profit Sharing Ratio (PSR).
7. PT Ethis then transfers the capital plus profit to crowd-investors.



Brief explanation of Mudarabah & Istisna + Murabahah with diagrams

B. Istisna' According to BNM Istisna' Policy documentation, an Istisna' is defined as follows:

"Istisna` refers to a contract in which a seller sells to a purchaser an asset which is yet to be constructed, built or manufactured according to agreed specifications and delivered on an agreed specified future date at an agreed pre-determined price."

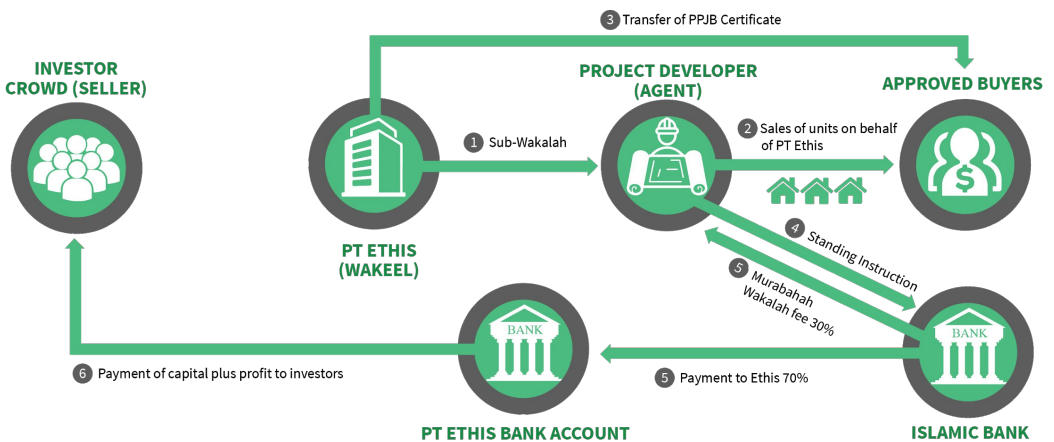


1. Project developer appoints Ethis Pte Ltd (Singapore) as the CF agent.
2. Investors appoint PT Ethis as the wakeel (agent) through a Wakalah Letter, to execute an Istisna' with the developer for a specified number of units.
3. Investors sign an Istisna' investment facility letter appointing PT Ethis as the agent to execute the contract on the investor's behalf.
4. PT Ethis enters into an Istisna' Contract with the project developer to construct the specified number of units. The agreement is governed by the Indonesian law allowing PT Ethis to take legal actions in cases of any misconduct by the project developer
5. Investors transfer their investments to PT Ethis's Singapore-dollar bank account in Indonesia
6. Payments will be made to the project developer based on construction progress milestones
7. Project developer constructs the units in the project
8. Upon the initiation of construction, the project developer transfers the conditional ownership of the units to PT Ethis through sale certificates (PPJB). Upon the successful completion of construction, PT Ethis disburses the remaining sale price to the developer and the Istisna' contract is concluded.

Brief explanation of **Mudrabah** & **Istisna + Murabahah** with diagrams

Murabahah According to BNM Murabahah Policy documentation, Murabahah is defined as:

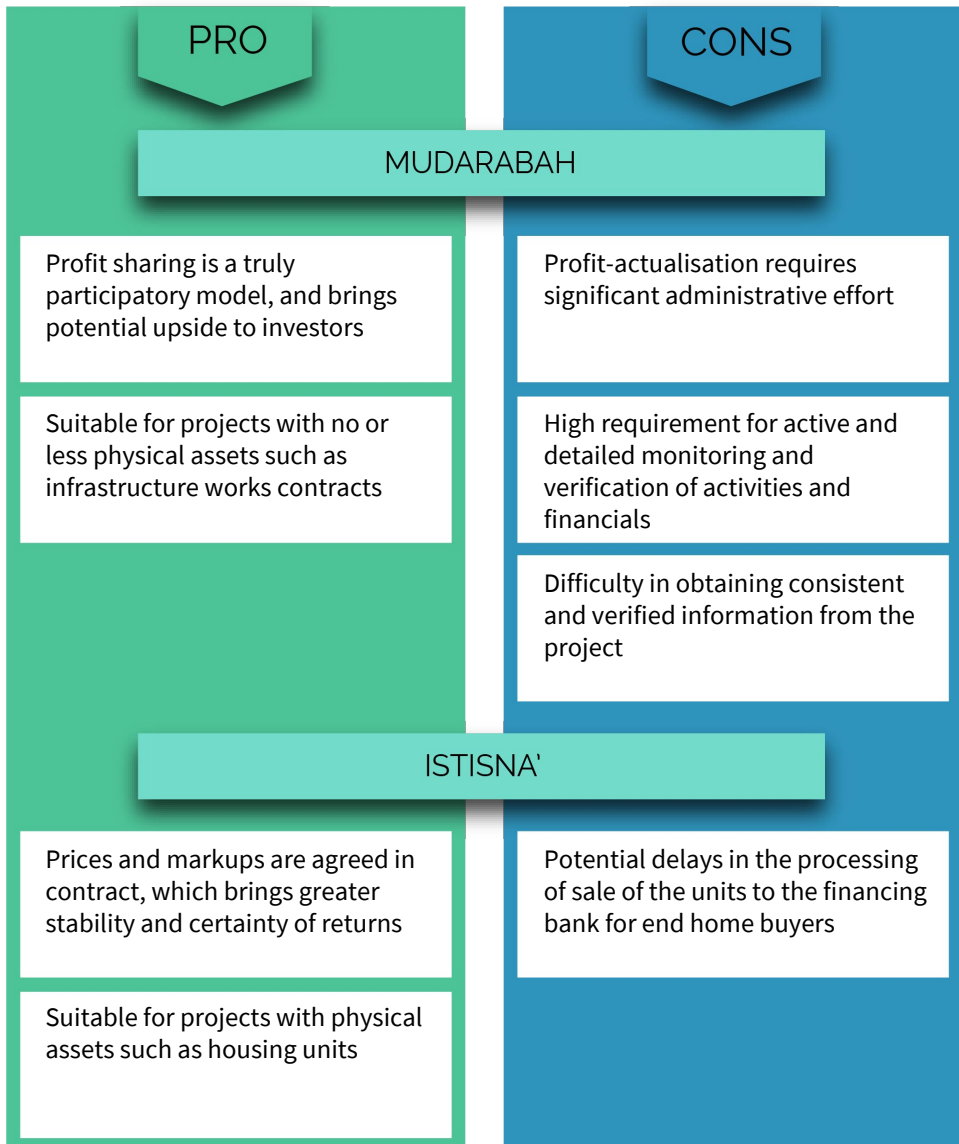
“Murabahah refers to a sale and purchase of an asset where the acquisition cost and the mark - up are disclosed to the purchaser.”



1. PT Ethis appoints the project developer as an agent through a Sub-Wakalah Letter, with a fee, to find buyers and sell the units based on this Murabahah arrangement.
2. The project developer sells the units to the end buyers approved by Bank Indonesia and the financing bank, commonly Bank Syariah BTN.
3. PT Ethis transfers the sale certificate (PPJB) of the units to the end home buyers.
4. Through a Standing Instruction on the bank account of the project developer, the proceeds from the sale of the units are shared between PT Ethis and the project developer.
5. The financing bank makes both transfers e.g. 70% to PT Ethis and 30% to the Project Developer as a Wakalah fee from PT Ethis
6. PT Ethis transfers the investment amounts plus the profit to the investors

A brief comparison of the pros and cons of both structures

A brief comparison of the pros and cons of both structures





6 Case Studies

Case Study 1: Successful Campaign Affordable Housing Development Greater Jakarta, Indonesia



Type of project:

Construction Of
Affordable
Housing Units



Project period:

Start: October
2017
End: April 2018



Total Raised (in SGD):

\$86,250

Returns (annualised):

9.2%



Oversight:

PT Ethis



Supporting agency/ program:

National Housing
Loan Liquidity
Facility from Bank
BTN Syariah

Objective & Social Impact

Low-income families can qualify for and afford to own their own home instead of renting it. This will give them a better chance to break out of the poverty cycle.

Project History

The project developer approached Ethis to crowdfund the construction of 5 units out of a total of 33 units. An Istisna-based investment was structured, where payments would be made based on the progress of construction of the specified units. When completed, the developer will sell these units on behalf of PT Ethis to the financing bank. Upon this sale, this campaign will conclude and payouts will be made, concluding this crowdfunding campaign. The bank then sells their units to home-owners.


Crowdfunding Background

This campaign was launched in late 2017 with a total of S\$86,250 raised and fully utilized. All five targeted units which were financed under the contract of Istisna' were successfully constructed as projected and sold to the financing bank. The full payout has been successfully disbursed to investors with an annualised return of 9.2%.

Project Challenges

Over the course of the project and campaign, these were some of the main challenges faced:

- Unpredictable weather
- IDR depreciation, which was covered by the project's internal currency buffer



Learning Points

- Obtain confirmation of project licensing & land title from local government authorities prior to execution of funding
- Implement staggered fund disbursement based on pre-agreed milestones
- Adoption of enhanced project risk assessment process
- A more robust currency hedging mechanism is needed

Conclusion

EthisCrowd provided the funds for working capital to commence the construction of the remaining units. In addition to creating social impact by providing housing for those in need, investors earned a healthy profit.

Case Study 2: Successful Campaign Subsidised Housing Development West Java, Indonesia



Type of project:

Development Of
Subsidised
Housing Estate



Project period:

Start: July 2016
End: December
2017



Total Raised (in SGD):

\$90,000

Returns (annualised):

15%



Oversight:

PT Ethis



Supporting agency/ program:

None

Objective & Social Impact

Low-income families can qualify for and afford to own their own home instead of renting it. This will give them a better chance to break out of the poverty cycle.

Project History

The project developer approached PT Ethis to co-develop this estate. A Mudharabah-based investment was structured, where the crowd's investment goes to finance part of the project, for a share of profits from the sale of units to the financing bank. Upon this sale, this campaign will conclude and payouts will be made, concluding this crowdfunding campaign. The bank then sells their units to home-owners.

Crowdfunding Background

This campaign was launched in mid 2016 with a total of S\$90,000 raised and fully utilised. The project progressed well with construction moving healthily.



In early 2018, the project developer made the full payout to PT Ethis, with the projected profit of 15%. As part of our project exit procedures, PT Ethis carried out a post-project audit, and found that the source of funds for this payout had come from the developer's other project, not from the sale of units of this project. This was a Shariah issue, as the profit-share must come from the project that is crowdfunded, not other sources.

Based on the Shariah pronouncement from Ethis Shariah advisors, the investors were paid their capital plus a hibah or gift amount that equates to the projected 15% returns. The outcome and payment to the crowd remained the same, but the nature of the additional amount paid is fundamentally changed. PT Ethis also had some income from this deal, which was deemed not permissible and donated to charity.

Project Challenges

Over the course of the project and campaign, these were some of the main challenges faced:

- Ineffective communication between Ethis the project developer
- Misunderstanding of the Shariah basis of the contract by the project developer
- Unauthorised use of Mudarabah funds for other projects and needs
- Insufficient access to and tracking of fund utilisation
- Slow and inconsistent reporting of progress and updates

Learning Points

- Hold a Shariah briefing as part of onboarding procedures to ensure all stakeholders understand the Shariah principles of the investment contract
- Implement staggered fund disbursement based on pre-agreed milestones
- Adoption of enhanced project risk assessment process
- Enforce frequent meetings with the stakeholders of the project.
- Ensure that local agreements between the project developer and PT Ethis have clearer parameters for fund usage

Conclusion

EthisCrowd provided the funds for working capital to commence the construction of the remaining units. In addition to creating social impact by providing housing for those in need, investors earned a profit in the form of Hibah (Gift).

Case Study 3: Delayed Campaign Affordable Housing Development Greater Jakarta, Indonesia



Type of project:

Development And
Construction Of
Affordable
Housing Estate



Project period:

Start: May 2015
End: Ongoing



Total Raised (in SGD):

\$941,722



Oversight:

PT Ethis



Supporting agency/ program:

A portion of units
qualify for National
Housing Loan
Liquidity Facility
from Bank BTN
Syariah

Objective & Social Impact

Low-income families can qualify for and afford to own their own home instead of renting it. This will give them a better chance to break out of the poverty cycle.

Project History

Prior to this campaign, EthisCrowd investors had successfully funded and received their payouts for a small construction campaign in this project. From that success, PT Ethis came onboard as the development partner to crowdfund the construction of units and the estate's infrastructure based on a Mudharabah investment. When completed, the developer will sell the units on behalf of PT Ethis to the financing bank. Upon this sale, this campaign will conclude and payouts will be made, concluding this crowdfunding campaign. The bank then sells their units to home-owners.

Crowdfunding Background

A series of 3 campaigns was funded for this project in late 2015 and early 2016, totaling S\$941,722. Some payouts were made in mid 2016 before the project started to run into problems and delays.

Project Challenges

- About one year into the project, there were lengthy delays in the processing of permits and licenses due to misunderstandings between the project developer and the regional government office
- These delays resulted in a large portion of confirmed buyers becoming upset with the project developer and cancelling their home purchase

Due to these problems, the project developer ran into cashflow problems and was under a lot of pressure from the resident community. The project developer became desperate, not fulfilling his obligations to contractors, suppliers and breaking promises to homeowners. The project developer also hid information from PT Ethis, and gave inaccurate reports.

- PT Ethis formed a task force to investigate the problems and actual status of this project, and found that the project developer had committed acts of fraud including:
 - Manipulation of legal documents to reduce tax charges
 - Sale payments that were to be deposited into the designated account was collected in cash and used for other purposes
 - Houses that were already sold before were sold again to other buyers on cash terms

Learning Points

Obtain confirmation of project licensing & land title from local government authorities prior to execution of funding

Implement staggered fund disbursement based on pre-agreed milestones

Adoption of enhanced project risk assessment process

PT Ethis to communicate and engage with important stakeholders, especially the financing bank before the disbursement of funds

Increased oversight of project financials and accounting

The need for quick intervention upon identifying any red flags

Placing a Standing Instruction backed by a Deed on the developer's bank account to secure payouts

Conclusion

As a result of the continuous poor management and lack of clear commitments from the project developer, PT Ethis proposed directly to external stakeholders to take-over the project.

In early 2018, PT Ethis signed an agreement with the project developer to confirm the takeover. PT Ethis holds the full rights to manage the project and owns all assets as well as ongoing sales payments of the project. The liabilities of the project was also determined and formalised.

PT Ethis held a series of meetings with the resident community of the project to assure them that the takeover will help to solve their problems and bring the project to a proper completion.

18 matters were identified that needed to be resolved before sales of units can continue. Significant issues include, disconnected water supply, clogged drainage, the proper laying of internal roads, and general maintenance of units that were already built. PT Ethis has engaged a proven real estate contractor to handle the construction and technical aspects of project.

PT Ethis also re-engaged the community's religious leader, who had previously brought his followers to settle in this estate, and who had left with many buyers when the problems with the old project developer started.

With the completion of the identified works and repairs, and the support of the religious leader, PT Ethis is confident that sales will resume in the third quarter of 2018, and that payouts will be made at the end of 2018 with all payout targeted to be cleared by early 2019, inshaAllah (God Willing).

Case Study 4: Refunded Campaign Subsidised Housing Development West Java, Indonesia



Type of project:

Development Of
Subsidised
Housing Units



Project period:

Start: Feb 2016
End: April 2016



Total Raised (in SGD):

\$491, 000



Oversight:

PT Ethis



Supporting agency/ program:

National Housing
Loan Liquidity
Facility

Objective & Social Impact

Low-income families working in a large factory nearby can qualify for and afford to own their own home instead of renting it. This will give them a better chance to break out of the poverty cycle. The closeness to their workplace helps save travel costs and time, allowing in more time at home with the family.

Project History

TA community leader, together with officials from the factory, approached the project developer to build houses for workers and their families. The project developer then engaged PT Ethis to assist with project management and financing. A Mudarabah-based investment was structured, where the crowd invests to provide bridging finance to kick start the project, and construct the first batch of 100 houses. When completed, the developer will sell these units on behalf of PT Ethis to the financing bank, which as already screened and given in-principle approval to the home buyers. Upon this sale, this campaign will conclude and payouts will be made, concluding this crowdfunding campaign.

Crowdfunding Background

This campaign was launched in early 2016 with a total of S\$491,000 raised in just one week - a new weekly record for Ethis. Monies were held by PT Ethis, to be disbursed to the project developer based on milestones. The first payment was to be made after receiving documents to confirm the status of land ownership and details of approved buyers. Unfortunately, after 2 months of meetings and followups, the documents were not produced mainly due to one of the landowners wanting to re-negotiate for a higher price.

After a few deadlines were missed, PT Ethis decided to cancel this campaign. All monies were refunded back to investors, with most of the investors choosing to channel their funds to another campaign.

Project Challenges

Over the course of the project and campaign, these were some of the main challenges faced:

- The land for the project site is owned by a few individuals, and one of them wanted to increase his land price to be much higher than the price agreed upon initially
- Due to the delay in land purchase, the factory's workers' union started to lose confidence in the project and became less supportive

Learning Points

Take up projects where the project developer already has clear ownership of the land, or a formalised joint-venture with the land owner

Conclusion

This project was highly promising based on the representations and milestones the project developer was confident to accomplish. However, changes on the ground delayed the start of the project. Due to the uncertainty of if and when this would be resolved, PT Ethis decided to withdraw from the project. The structure where PT Ethis held on to monies to be released in stages was key to safeguard investors and to give the full refund.



Case Study 5: Delayed Campaign Logistics Infrastructure Greater Jakarta, Indonesia



Type of project:

Logistic
Infrastructure
Facility



Project period:

Start: February
2017
End: On-going



Total Raised (in SGD):

\$332,855



Oversight:

PT Ethis



Supporting agency/ program:

None

Objective & Social Impact

Port logistics infrastructure in Indonesia is important for the country's development, as it ensures that the supply of imported consumer and capital goods is sufficient for the huge and growing needs of the large population.

This facility also provides jobs to the loyal staff of the previous operators, who had been working for a year without pay.

Project History

As part of enhancing the country's infrastructure, the government aims to increase the main port's holding capacity from 5 million to 14 million containers by 2023. To achieve this, President Joko Widodo's cabinet has approved a new regulation that lowers the dwelling/ holding time of containers at the port by half.

Companies that want to keep their containers at the port area for a longer time will have to park their containers in Temporary Container Terminals (TCTs), resulting in a sudden surge in the demand for TCTs.

EthisCrowd investors financed the operator to take over this TCT on a 6-year operating contract directly from the main port authority.

This takeover comes after the previous operator, a large company operating for more than a decade, closed down due to problems with its parent company.

A Mudharabah-based investment was structured, where the crowd's investment goes to finance the setup and initial operations of the project, for a share of profits from service contract payments. Capital is to be re-paid monthly over the agreed term for each campaign, with profits to be calculated and disbursed at the end of the campaign.

Crowdfunding Background

Ethiscrowd crowdfunded two campaigns for 2 phases with different timelines with a total of S\$332,855. Funds were utilized to cover initial setup expenses such as renovation to the terminal, equipment and obtaining permits as well for operations including staff salaries, equipment rental and other overheads.



Project Challenges

Over the course of the project and campaign, these were some of the main challenges faced:, which caused delays, higher expenses, and lowered revenues:

- The required operating licenses took 6 months longer than projected
- This 6-month delay resulted in other problems and challenges and rendered the original project projections to be inaccurate and overly-optimistic.
- The overall financial performance of the project was poor and the first proper payouts came only in month 13 of operations
- PT Ethis had difficulty obtaining and verifying project accounts and was unable to provide effective oversight of the financial dealings of the project.
- Shariah issues due to a lack of responsible reporting and usage of funds
- On one occasion, an audit by Ethis discovered that some operational cashflow was used for non-approved expenses.
- Initially relying on one port operator as the only client.
- The port authority introduced a price cap for TCT Services, which caused revenue to fall by more than 30% due to lowered pricing

Learning Points

PT Ethis held numerous meetings, site visits and interventions to help the project operator implement the following solutions which resulted in better performance and solved a number of critical urgent issues:

- Better oversight through the appointment of an on-site officer to report directly to PT Ethis
- PT Ethis carries out monthly financial audits of bank statements to ensure accountability
- Weekly visit to the TCT site by PT Ethis
- Secured a new contract with a second port operator client

These additional learning points have been internalised within the Ethis project screening and selection process to ensure better performance of projects in general and specifically for this sector:

- Only finance infrastructure projects that have already the required permits and licenses to start operating
- Implement staggered fund disbursement based on pre-agreed milestones
- Implementation of quarterly Shariah audits to ensure compliance with the form and spirit of Shariah

Conclusion

The original Mudharabah contract with EthisCrowd investors needs to be extended to allow for profits to be realised. The project has showed positive recent progress, with higher revenues and small profits made in April-May 2018, leading to some small payouts. Should business activity continue to pick up, this project is projected to payout in 1 year for Phase 1 and in 2 years for Phase 2 investors.

While PT Ethis continues to assist and track this project, it is also exploring options for EthisCrowd investors to exit the project completely, due to the poor performance of the operator, by selling its rights to this project to another investor.

Case Study 6: Delayed Campaign Infrastructure Construction Greater Jakarta, Indonesia



Type of project:

Infrastructure
Construction for
Fiber Optics
Cables



Project period:

Start: February
2017
End: Ongoing



Total Raised (in SGD):

\$277,000



Oversight:

PT Ethis



Supporting agency/ program:

None

Objective & Social Impact

Contribute to the development of Indonesia's internet infrastructure, to provide millions of Indonesians access to the web. Internet availability can boost long-term socio-economic development by empowering individuals and businesses with greater reach and information.

Project History

The project contractor has a strong track record of timely fulfilments of close to 20 Fiber Optics installation contracts from main contractors over the past 5 years. The 2 new contracts for these campaigns are for trench digging and installation of Fiber Optic cables along public roads.

Fiber Optics installation contracts are tightly controlled and regulated by the government and national telco companies, with prices and timelines fixed for the industry.

A Mudharabah-based investment was structured, where the crowd's investment goes to finance the project, for a share of profits from the contract payment upon its completion. Capital and profits are to be paid at the end of the project.



Crowdfunding Background

Ethiscrowd crowdfunded two campaigns in early 2017 with a total of S\$227,000 raised and fully utilized for operational and manpower costs.

Unfortunately the first campaign faced a significant delay, which affected the performance of the second campaign.

Project Challenges

Over the course of the project and campaigns, these were some of the main challenges faced:, which caused delays, higher expenses, and lowered revenues:

- Rainy and unpredictable weather caused significant delays in work progress
- Lengthy delays when the route had to pass through private land. This was not anticipated, new approvals had to be processed to change the work route
- Local government policy allowing construction works to be done only at night.
- Poor reporting the project contractor
- When this project was delayed, funds and manpower for this project was used for other projects, resulting in a breach of the Mudharabah agreement.

Learning Points

PT Ethis held numerous meetings, site visits and interventions to help the project operator implement the following solutions which resulted in better performance and solved a number of critical urgent issues:

- Direct confirmation from the main contractor to ascertain the payment flow and stakeholders involved
- Direct confirmation of project licensing & land status from local government authorities
- Implement staggered fund disbursement based on pre-agreed milestones
- Quick termination of the project upon proven discovery of monies allocated to non-authorised uses

Some additional learning points have been internalised within our project screening and onboarding procedures to ensure better future project performance in general and specifically for this sector:

- For similar projects, request for additional collateral such as post-dated cheques, director's guarantee and a standing instruction for payment backed by a deed of payment confirmation
- Not accepting two campaigns at the same time from the same project owner
- Imposing penalties for late completion, to be given to charity

Conclusion

For both campaigns, EthisCrowd has cancelled the Mudharabah agreements due to the misuse of funds by the project contractor. Although the delays were caused by external factors such as the limited construction time (at night only), land ownership issues and poor weather, the contractor failed to provide accurate reports and decided to use the capital provided by investors for its other projects, which constitutes a breach.

PT Ethis has met up with the main contractor and telecommunications company, and reached an agreement with these parties for the project contractor to receive a payment from one of their related projects, to be used to refund the capital of crowd-investors of both projects.

The project contractor has given post-dated cheques to PT Ethis for this, while waiting for the agreed payment to be made.



Conclusion

Conclusion

We have accomplished strong proof-of-concept over the past 3 years, with successful campaigns as well as a few challenging ones. Real Estate development and construction has proven to be highly attractive, especially since our project-financing structure allows PT Ethis to secure physical assets on behalf of crowd-investors.

Moving forward, Ethis will focus on scaling up our Social Housing campaigns and projects in Indonesia. We have a large pipeline of quality projects with our local developer partners, and will also be embarking on projects with PT Ethis.

EthisCrowd has strengthened its leadership with proven Islamic Finance leaders joining over the past year. Alhamdulillah we also have institutional investors and high-networth individuals on board with us, which will allow us to take on larger projects. In Indonesia, PT Ethis has built a strong ground and technical team to manage this increased volume.

Ethis has also forged strong relationships and partnerships with financing banks and real estate industry stakeholders in Indonesia, including government bodies and developer organisations. This is expected to reduce delays, and provide a more open and supportive ecosystem for our expansion.

We look forward to your continued support and participation as we surge forward together to build houses for families striving for a better future, and in the process make a healthy and sustainable profit together, inshaAllah.

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Artist Impression of Casa Ethis Subsidised Housing Estate