

The Advantages and Challenges of Islamic Crowdfunding as an Alternative Funding Source

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Received on: 18/11/2022

Accepted on: 26/03/2023

Published on: 28/03/2023

Abstract :

In recent years, there has been an increase in interest in the business and microenterprise sectors. Several government initiatives aimed at promoting the sector have been launched, as well as intensified efforts to address the issues that entrepreneurs and small businesses confront. Despite all of these efforts, the lack of financial resources continues to be the most significant obstacle. Because banks control finance in Arab countries, new instruments must be designed in light of technological advancements. Because of its introduction and widespread use.

FinTech has changed lending and access to funds. This paper describes the idea, categories, and most significant shariah compliance laws of crowdfunding, which is one of the most important fundraising instruments. Also, suggest some ventures that might be appropriate for each type of fundraising.

Keywords : Crowdfunding, Islamic Crowdfunding, Shariah Compliance.

JEL Classification Codes : G3, L26, N25.

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Introduction

Islamic finance has been successful for over four decades. Financial inclusion of small and medium firms, as well as the easing of the impacts of poverty in the Islamic world, were among its top goals.

Islamic crowdfunding reflects these ideals and is primarily focused on the development of individuals and society as a whole in order to achieve Sharia's goals.

Despite significant attempts, Islamic financial institutions continue to face several challenges that prevent them from providing the essential credit to entrepreneurs and small and medium-sized businesses.

Whether it's because of the danger of default, the lack of a guarantee, the regulatory framework differences, or the legal side of financing activities.

The novel concept of a public-private collaboration known as "crowdfunding" was established to handle the problem of providing finance for small and medium-sized businesses and entrepreneurs as well as economic growth.

Despite the fact that the notion was not derived from Islamic financial literature, this new method of modern crowdfunding was not unfamiliar to the Islamic finance community. The current crowdfunding movement stems from the concept of microfinance, which aims to fight poverty and provide group assistance with little or no compensation for various reasons through the creation of so-called crowdfunding platforms, as the model is closely related to the concept of speculation.

Study problem:

The problem of this study can be formulated in the following main question:

How suitable is Islamic crowdfunding as a source of alternative funding?

The following sub-questions fall under this problem:

- ❖ Is crowdfunding compliant with Islamic Sharia?
- ❖ What is Shariah regulations for crowdfunding?
- ❖ What are the Islamic crowdfunding platforms Challenges?

Objectives of the study:

This research tries to define the term "crowdfunding," as well as its many sorts and goals. The research also tries to determine which sorts of crowdfunding are permissible under Islamic Sharia law. What are the Shariah laws that govern the use of crowdfunding

platforms? The study also aimed to identify the most significant issues that crowdfunding platforms confront.

Study Approach:

The study had to utilize the descriptive-analytical strategy to examine the difficult issue of our research and answer the questions given since it is the most suited for such studies in general and the nature of the subject of our research in particular.

Study Structure:

The study was divided into the following topics to address the problem:

- Basic concepts about Crowdfunding
- Islamic crowdfunding
- Islamic crowdfunding platforms Challenges

I. Basic concepts about Crowdfunding

1. The concept of crowdfunding

There are numerous definitions of Crowdfunding; however, there is no accepted or universal definition. It must be mentioned first that there are several terms used for Crowdfunding such as crowdfinancing and crowdinvesting. From this point forward, this study will use the term ‘crowdfunding’.

Before various definitions of crowdfunding can be given, one must first define the root word that crowdfunding originates from, which is ‘crowdsourcing’. **Wired** magazine writer originally coined the term crowdsourcing (Howe, 2010, p. 121). Howe defines it as the act of taking a job traditionally performed by a designated agent (usually an employee) and outsourcing it to an undefined, generally large group of people in the form of an open call (Unterberg, 2010, p. 122).

One can easily take Howe’s definition of crowdsourcing and replace the word ‘job’ with loan/funding to define crowdfunding, ‘the act of taking a loan/funding traditionally performed by a designated agent and outsourcing it to an undefined, generally large group of people in the form of an open call’. To begin to get a more well-rounded sense of what crowdfunding is, it is beneficial to look to literature for other definitions.

In the basest sense, crowdfunding is raising funds by tapping a public (or the crowd). Lambert and Schwienbacher go one step further, defining it as an open call, essentially through the Internet, for the provision of financial resources either in form of donation or in exchange for some form of reward and/or voting rights in order to support initiatives for

specific purposes (Lamber & Schwienbacher, 2010). There must be some caution and clarification when referring to the open call utilizing the internet because making a general solicitation for equity offering is limited to publicly listed equity in the case of actual security being exchanged for money.

Voorbraak defines it as the process of one party requesting and receiving money and other resources from many individuals for financing a project, in exchange for a monetary or non-monetary return on investment (Voorbraak, 2011).

The consensus by most authors seems to be that crowdfunding is raising money from the public, or the ‘crowd’, via an intermediary platform that is typically web based. This study defines crowdfunding as the act of acquiring third party financing from the public via an intermediary, generally in the form of a web-based platform.

2. Crowdfunding Models

Several different models of crowdfunding are compliant with Islamic Sharia. Table (3) shows crowdfunding platforms that are compliant with the provisions and purposes of Islamic Sharia.

2.1. Donation-based Crowdfunding

Also known as Patronage this model is based on donors pledging small donations in return for minimum awards, benefits, or just to show support for a certain project. Typically, entrepreneurs show an initial prototype and ask for funds for further development or mass production. This model is usually associated with a very small risk from the entrepreneur’s side, but many times, it ends up raising a small capital. This form of financing is divided into:

- ❖ **Based on donation:** through this model, crowdfunding campaign funds are collected with the aim of participating in charitable projects, to support disaster relief efforts and participation in non-profit organizations, so that donations are accepted from a large number of individuals in small percentages, and they can share funds for social causes. Since this type of crowdfunding does not have a financial return for investors, the chance of losing the investment is zero (Usha, 2014, p. 51).
- ❖ **Based on reward:** In this type of crowdfunding, the investors get rewards for their investment, and they do not benefit from any financial return. The rewards may be in the form of a product or service provided by the company as a token gift. Companies offer different types of rewards and incentives in order to convince and attract

investors. This type of crowdfunding is more popular due to the intrinsic value of crowdfunding participation, social reputation and shared identity (Melissa, 2017, p. 24).

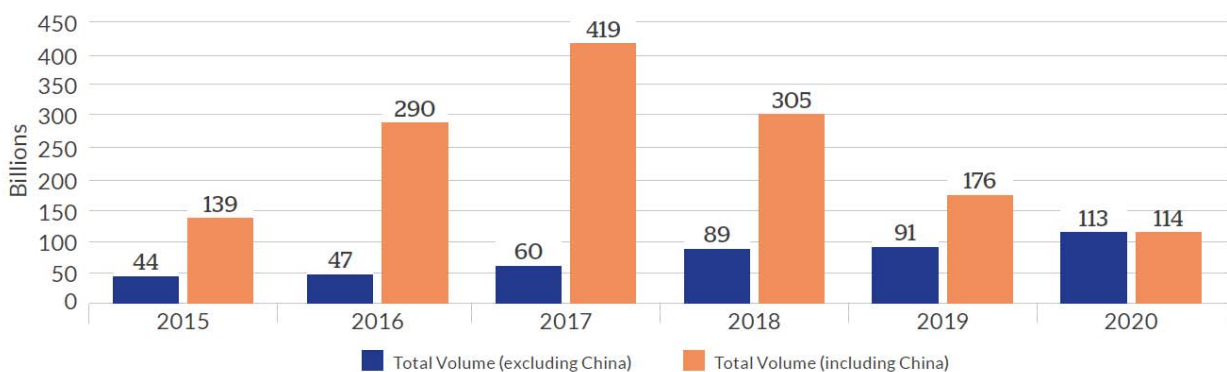
Table 01 : Shows the characteristics, advantages and disadvantages of crowdfunding based on donation

Donation Crowdfunding	Model characteristic	Model Advantages	Model flaws
Based on donation	Funders donate without expecting monetary compensation	There is no risk	Entrepreneurs find it difficult to raise large capital
Based on reward	Funders receive a small gift or pre-purchase of a service or product	Low risk	The potential return is small. There is no accountability mechanism

Source: Prepared by the researcher based on different references

Platforms following this model offer their services in two forms: Fixed Funding, also known as the all-or nothing model, where entrepreneurs get the funds only if people fully fund their requested amount within a certain amount of time (like Kickstarter), and Flexible Funding where entrepreneurs get whatever they raise (Indiegogo is one of the leading platforms for this category). Platforms dealing with this model usually incur a certain commission as a small percentage relative to the amount of funds raised, which is usually higher for flexible campaigns.

Figure1: The Size and Growth of the Global Crowdfunding Market



Source: (Tania Ziegler, 2020)

2.2. Crowdfunding Investing (CFI)

When entrepreneurs are in need of a serious investment after passing the initial prototype phase and they want an alternative for traditional VCs, many launches a

Crowdfunding campaign to get a „Crowd“ of investors on board. Those investors provide cash in return for equity in the business (Equity Crowdfunding) or as a debt (Debt Crowdfunding). In rare cases, the crowd follows a royalty-based model where they get a percentage of revenue (Royalty-based Crowdfunding). Being riskier and less common than the Donation-based model. CFI offers significant capital for entrepreneurs to develop their startups and a long-term relation between entrepreneurs and investors. Eureka is an example of a platform following this model (Abushaban, 2014, p. 444).

- ❖ **Stock-based crowdfunding:** Through this, model investors get shares in the company that chooses this type of crowdfunding to increase its capital. The shareholders receive a financial return on their investments and a share of the profits, and it should be noted that each country has special regulations regulating the work of investments through platforms Equity crowdfunding (Usha, 2014, p. 51).
- ❖ **Debt-based crowdfunding:** In this type of crowdfunding, companies apply for debt from debt-based crowdfunding platforms. While the platform reviews the companies' application, and launches it online for funds, so that the online application includes the interest rate on The Company. The credit period and the risks involved in the securities or bonds offered for sale, and in exchange for the securities, the investors receive interest on these unsecured loans, and the company repays the debt after a specified period.

Table 02 : Shows the characteristics, advantages and disadvantages of Crowdfunding Investing

Crowdfunding Investing (CFI)	CFI characteristic	CFI Advantages	CFI flaws	
Investing	Stock-based crowdfunding	Financiers receive equity investment instruments or profit-sharing arrangements	Possibility to participate in the profitability of the project. Unlimited potential for financial gain. It may attract relatively large numbers of investors.	Potential loss of investment. Shareholders are subject to creditors in the event of bankruptcy. The securities laws relating to crowdfunding investing can be complex.
	Debt-based crowdfunding	Financiers receive a debt instrument that pays a fixed rate of interest and returns capital according to a set schedule	The rate of return is predetermined and agreed upon between the lender and the borrower. Debt holders get their money before equity holders in the event of bankruptcy. Safe mode may make it easier for entrepreneurs to raise capital.	It may be subject to major creditors. The high failure rate of startups presents a similar loss risk to an equity investment. It requires a business that actually generates cash flow.

Source: Prepared by the researcher based on different references

II. Islamic crowdfunding

1. Is crowdfunding compliant with Islamic Sharia?

Small and medium-sized businesses can handle their financial challenges using a combination of Islamic financing and Crowdfunding. Individuals can collaborate to donate resources to a certain cause, project, trade, or service they believe in through crowdfunding. It is a social idea that may be used to help people that need to invest in genuine economic activity, such as small and medium-sized businesses.

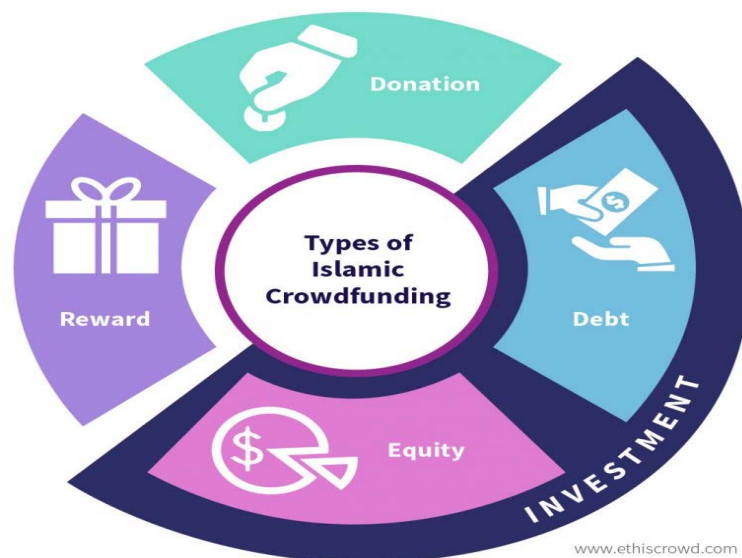
Islamic finance emphasizes equitable wealth distribution, which is a core principle of Islamic law, as funds should flow from those with surpluses to those with deficits in order to achieve social welfare. Crowdfunding also helps to reflect Sharia principles by allowing the public to invest in enterprises that require more cash (Mushthaq , 2017, p. 91).

Crowdfunding systems enable individuals, businesses, and organizations to raise funds, launch new projects, and share commercial and creative ideas. As a result, Islamic crowdfunding is a platform for achieving the aims of projects that are sanctioned by Islamic

law. This does not imply that the Islamic crowdfunding platform is exclusively open to Muslims, but that anybody can participate in it by offering diverse ideas and projects.

Islamic finance is a way of financing that adheres to the basis of Islamic law, focusing on the ethical elements and social responsibility requirements, and ensuring a fair distribution of rewards and obligations among all participants in financial transactions (Achsien, 2016, p. 03). The most important aspect of Islamic finance is profit and loss sharing, which means sharing in risk-taking, which is what crowdfunding does, as it allows individuals and companies to share the risks faced by small and medium-sized businesses in their operations as well as the rewards of economic activity in the event of profits. Islamic financing and crowdfunding platforms for small and medium-sized businesses have obvious overlap (Johnston, 2017).

Figure 2: Types of Crowdfunding



Source: (Tania Ziegler, 2020)

Does this imply that all crowdfunding sites from around the world would be accepted? Or does studying its uses and practices reveal the extent to which dealing with it is legitimate?

The answer varies depending on the crowdfunding model employed. The above listed models have varied methods and processes for funding projects, and hence the Shariah judgment will change depending on the permitted model for acquiring money.

First, we can all agree that primarily interest-based crowdfunding contradicts Islamic laws. To ensure lending through crowdfunding complies with the provisions of Islamic

Sharia, it is necessary to rely on well-known contracts in Islamic financial transactions to avoid usurious interests.

As a result, the crowdfunding model based on usurious lending is rejected and unsuitable for financing small and medium-sized businesses in the Islamic environment. Moreover, if an interest-free loan is used, it is recommended and preferable, and this is what we promote for in order for this financing model to be in accordance with Islamic law. While the donation-based model is based on contribution contracts, which have no sharia problems, the donation is only for the benefit of organizations and institutions that perform halal activities, and the application of the principle of priority in it is extremely beneficial. It is not appropriate to direct donations to leisure activities. As a result, the Muslim population requires food, drink, shelter, and employment. Therefore, according to the general framework, it is permissible under Sharia law, but it should be governed by Shariah principles.

One of the most significant restrictions is understanding the regulations regarding donations, which vary from country to country. In addition to having correct information about the donor and its attitudes, especially in light of the current conditions, this financing model promotes components of humanitarian activity in Islam, even though it plays a significant role in societal development.

In terms of reward-based crowdfunding, it entails donating to projects in exchange for prizes, with financiers receiving presents based on the amount contributed and the nature of the projects. Contributors receive non-cash profits such as saying "thank you," any praise for the sponsor, receiving a book, receiving the final product, receiving a hard disk for the movie produced, writing the donor's name on the cover of the product or service, receiving a shirt with the company or product name, and so on. It falls under the category of compassion and assisting to do good, and there is no Sharia problem to that, unless the gift is not to a Sharia-compliant project or if the reward is proportional to the amount of money, allowing it to be liquidated and turned into profits. In this case, the legal contract varies from other formulae in transactional law.

From the standpoint of Islamic finance, equity-based crowdfunding provides a fantastic potential to give genuine impetus to financing operations while also meeting the expectations of customers and investors seeking Shariah-compliant investments. Because crowdfunding based on investment and shares combines the benefits of social development

and investment opportunities for a large number of entrepreneurs and investors, the following are the most important benefits of crowdfunding based on investment and shares from the standpoint of Islamic finance (Marzban, 2012, pp. 28-29):

- ❖ Because stock-based crowdfunding is built on profit and loss sharing, it is closely connected to well-known Islamic financial contracts like Musharaka and others.
- ❖ Improving cash access for a wide group of contractors, so closing the funding gap.
- ❖ Small investors now have access to a new type of money.
- ❖ Lowering risks by distributing funds among numerous start-up firms.
- ❖ Encourage and foster creativity.
- ❖ Creating job possibilities through the formation of new businesses
- ❖ Encouraging the expansion of venture capitalists and the prospect of launching public offerings in new areas, such as the health sector, that are not present in Islamic nations' public stock markets, and so increasing the variety of managers' funds.

As a result, while equity-based crowdfunding and investment are founded on the principle of risk-sharing, which is naturally appropriate for financing contracts in the Islamic economy, this does not imply that all fundraising campaigns on equity-based crowdfunding platforms are automatically Sharia-compliant. Rather, we should examine the contracts' specifics to ensure that they are fully compliant with Islamic law.

We also emphasize that using Murabaha in crowdfunding platforms should be done with caution because if Murabaha is not totally authentic, we have entered the prohibited territory, and the most essential thing to remember is that financing is exclusively for assets and no cash financing is offered. Rather of providing the borrower \$100 for equipment, the equipment is purchased on his behalf and resold to him on a predetermined period.

The table below highlights the Islamic crowdfunding tools, their aims, and the fundraising strategies employed on the various crowdfunding sites.

Table 03 : Islamic crowdfunding tools

Finance to	Crowdfunding Model	Targeted Funding	Contract Nature
Charity	Donation-based Crowdfunding	Microfinance Institutions	Giveaway (Donation)
			interest free-loan
Product	Reward-based Crowdfunding	small institutions	Sales
		Startups	
Investment	Debt-based Crowdfunding	Microfinance Institutions	Murabaha
		small institutions	leasing
	Stock-based Crowdfunding	small institutions	Diminishing Musharaka
		Startups	Musharaka

Source: Prepared by the researcher based on different references

Crowdfunding allows small investors to support actual economic activity based on the basis of Islamic finance: its instruments, beliefs, and ethical framework, in order to create a fair distribution of wealth. According to Sharia's goals, money must be changed in the economy in order to turn its wheel in a way that benefits society's members and adds to its development and advancement. This necessitates redirecting resources from those who have surpluses (savers) to those who have deficits (investors). As a result, the required investments may be made for the benefit of society as a whole, resulting in social and economic progress and the establishment of fairness among society's members (Financial Encyclopedia, 2018).

We may also take advantage of some segments of society's need for finances, particularly the poor, by directing crowdfunding to platforms based on contributions (charities, gifts, interest-free loans...), and the beneficiaries will be contractors working on poverty-relief initiatives.

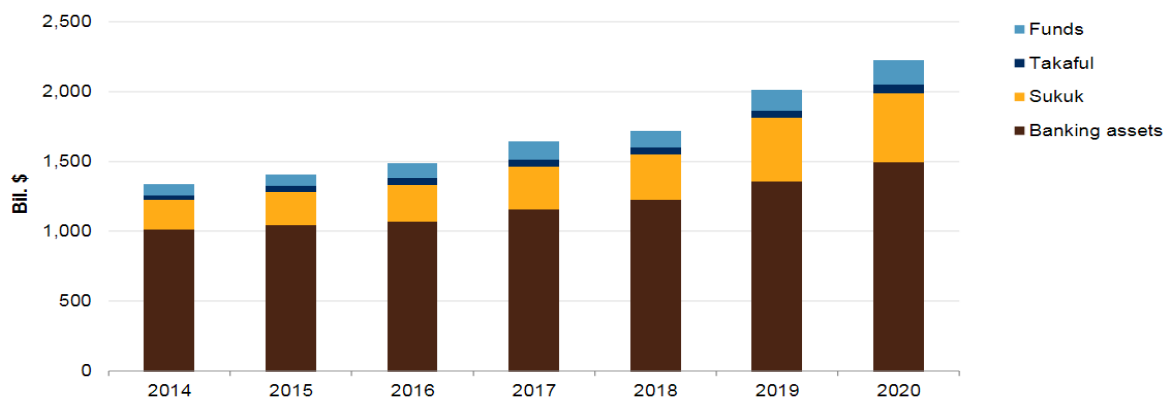
Mudaraba contracts are between the owner of the money (investors) or someone who brings capital to conduct business and projects under Islamic law, whereas mudarabah contracts are suitable for another type of project on crowdfunding platforms, as the mudarib (contractor) manages businesses and projects. The following are the benefits of this contract (Tulumen, 2010, p. 12):

- ❖ Profits from businesses and projects are divided among investors and contractors depending on a predefined percentage.
- ❖ Unless there is proven fault or violation of contract by the contractors, material losses are paid by the investors.
- ❖ Investors have no influence on the firm or projects, nor do they have the power to vote on management choices.
- ❖ In practice, the al Mudaraba contract is appropriate for funding innovative startups and small businesses.

2. Shariah regulations for crowdfunding

- ❖ The projects and items offered must be in accordance with Islamic Sharia. In addition, it is permissible to solicit cash and donations for the purpose of project implementation, which is a frequent and general motive behind the usage of Islamic crowdfunding platforms.
- ❖ The capital directed to finance the projects shall be halal.
- ❖ To guarantee Shari'a compliance, a Shari'a supervisory authority should be created to verify that the funds directed to finance projects or goods, as well as the projects themselves, are in accordance with the norms of Islamic Shari'a.

Figure 3: The global growth of Islamic finance



Source: (IFSB, Eikon, 2021)

3. Technical regulations that contribute to the success of Islamic crowdfunding platforms

- ❖ **Market and product research, as well as product development based on consumer feedback and comments:** Unlike projects that rely on traditional fundraising, crowdfunding platforms are available on websites and social networks, making the reverse coverage function widely available. As a result, the product or

service may be terminated at the start of the campaign and there is no need to continue. Crowdfunding is an excellent resource for market and product research. These platforms are ideal for launching a new product to the market and consumers, or for updating an existing product with new features. If the product succeeds and achieves customer satisfaction, or if the product fails to achieve the desired success despite following campaign guide guidelines, project or product owners can reach out to users and obtain accurate feedback or comments regarding the campaign's or product's improvement and development (Norhafiza & Zaemah , 2021).

- ❖ **Free ads and advertising:** The requirement for crowdfunding platforms to run campaigns in the form of films, images, and files in order to attract the media and social media users, which account for a big amount of the world's population. If it is well utilized, it might be one of the success reasons.
- ❖ **Attracting Investors' Interest:** One of the benefits of using crowdfunding platforms is that project owners may attract investor interest, which generally happens when the campaign is a success and draws the attention of users, the media, and the community in general.
- ❖ **Pre-orders:** Crowdfunding platforms enable donors to purchase a product or service at a lower cost than the retail price.

4. Suggested models for Islamic crowdfunding

4.1. Zakat-Based Model

This concept is focused to productive initiatives for the underprivileged in order to encourage them to start projects and donate rather than waiting for zakat money. Those in need of zakat can make a request through crowdfunding platforms, Shari'a supervisory bodies set up a mechanism to give them zakat funds under well-known Shari'a regulations, and they are supervised until they invest zakat funds in halal projects with a high level of technical and practical efficiency. Otherwise, it is best to prevent wasting zakat funds.

4.2. Endowment-Based Model

Small projects are sponsored under this approach through the Islamic endowment system, which involves the production of halal initiatives and project ideas that benefactors are asked to endow, as well as the fulfillment of social and development goals. Crowdfunding projects can be in the sectors of education, health, and a variety of other development

initiatives. With a proposal to create a specialist endowment fund to support small and medium-sized initiatives on a specific platform.

4.3. Qard Hasan (Free interest-loan) Based Model

Within this concept, the crowdfunding platform intends to assist low-income families and young entrepreneurs in completing micro-projects aimed at increasing their incomes and providing products and services to the community that suit their needs without relying on government assistance. while Qard Hasan (interest-free loans) are made available through the crowdfunding platform to as many people as possible and are directed to an initiative owner or a family with a small product or service enterprise. After the project's success, the loan is repaid, and a second project is sponsored in the same way, maintaining capital flow between different programs aimed at vulnerable populations.

4.4. The Musharaka-Based Model (Mudarabah-Musharaka)

This concept is particularly suited to Islamic finance methods since it is built on risk and profit-sharing principles. Taking into account investing in real assets, avoiding gambling, the system of local laws for investors in terms of money transfer procedures and the nature of investments, because the platform dimension will be an international dimension, not a local one, shareholder participation here is only money without effort. This is accomplished by contributing to the ownership of specific assets on a permanent or temporary basis.

4.5. Debt-based model (Murabaha and Ijarah)

In some circumstances, risk-sharing in the financing of small and medium-sized firms may be quite dangerous, making Murabaha financing less risky. It is appropriate for the nature of small, medium, and entrepreneurial initiatives, assuring that there are no risks associated with project failure. With the need to focus on financing guaranteed by assets, the loan formulas suit some of the demands of clients and entrepreneurs who do not want to share the profits and projects they intend to carry out with others.

III. Islamic crowdfunding platforms Challenges

Crowdfunding platforms operate by focusing on the financing of the "crowd." However, these Islamic platforms have a number of obstacles in their theoretical and practical frameworks, which will be addressed as follows:

1. Common Challenges for Crowdfunding Platforms

- ❖ **Trust:** Before you go forward and join in a crowdfunding campaign to raise funds for a certain project, it is a good idea to ask how to gain the contributors' trust and get

them to trust the project. These questions can aid in the development of effective strategies for promoting the project in order to raise cash from a wide range of sources. The major concern here is to offer credibility to the brand or project in order to defend against fake campaigns that arise after getting money. Because of these occurrences, many investors have hesitated applying to fund initiatives.

- ❖ **Building interest before crowdfunding campaign:** One of the most common reasons for donor failure is that they create the campaign first before working to grow the interests of others. This is a common mistake that everyone makes; we are supposed to get people interested in the idea before launching a campaign to raise money to fund the business, and we may end up missing the target. Therefore, if we are looking to launch a crowdfunding campaign soon, we need to build our interest in a campaign for about five months before launching the actual campaign. This will make fundraising easier since people will be familiar with the concept and will be ready to give to help.
- ❖ **Supporters Loyalty:** When participating in crowdfunding campaigns, we must remember that the supporters or investors who supported the project when it was first launched require benefits in return, and some may wish to share the project while others may merely need to deliver the company's initial items, for example. This is one of the most common locations when things go wrong. There are a few project managers. After the crowdfunding campaign concludes, the difficulties get more complicated since all investors doubt the project's reliability, which obviously affects the brand's image, necessitating the need to identify acceptable solutions to fulfill the needs of investors.
- ❖ **Ideas Protection:** When presenting an idea on a certain platform, keep in mind that there is a risk that the idea will be stolen and a duplicate campaign will be launched, so it is necessary to ensure that the idea is properly safeguarded against such theft. To reduce this, it is preferable to hold private discussions with potential investors and ensures that no one will hijack the idea, and it is preferable to issue non-disclosure agreements between the owner of the idea and potential investors. Another option is to ensure that the idea has Copyright before being published in any crowdfunding system.

2. Challenges in offering Shariah-compliant crowdfunding

Although crowdfunding activities are relatively less common in Islamic markets, they are gaining recognition as an important strategy for meeting the financing needs of Muslims, particularly those who are extremely aware of religious values that extend to finances as well, despite the fact that there is an option to take advantage of funding methods. In the absence of Islamic finance, some still prefer to avoid financial services owing to a strong religious attitude, which is common in poor to middle-income households. However, there is great potential to benefit from Islamic markets in developed economies such as the European Union, where the Muslim population is around 7% of the total population and is expected to grow in the future. Interestingly, there is a high proportion of Muslims in developed countries demanding the availability of Islamic finance tools to meet their project financing needs.

Among other challenges, one of the most significant is overcoming legal issues related to crowdfunding, because crowdfunding allows funders to finance the minimum contribution of their shares, which is not suitable for managing in some countries due to a lack of legislation and knowledge of the process, as in Algeria.

Furthermore, the conventional shareholder structure enforced by venture capital companies, which involves the award of preferential rights to some investors, is deemed non-Shari'a compatible, thus the shareholder structure and investor protection regulations must be adjusted to accordance with Shari'a principles.

Otherwise, investors' risks should be minimized as much as possible, and entrepreneurs should be prepared not only with capital, but also with the necessary skills to increase their chances of success; thus, the traditional crowdfunding process should be restructured to meet not only Sharia requirements, but also the unique circumstances and needs of entrepreneurs and investors in Islamic countries.

One of the problems for this sort of funding is the low Internet coverage rate and lack of experience with electronic payment methods.

The Islamic world's biggest problem with crowdfunding is that it is seen as weak and conventional, with a traditional design that demands users of these platforms to be computer users and utilize the intelligence to contribute through this platform while also benefiting from it. The majority of Islamic nations are classified as third world countries, meaning they are developing or advanced economies.

Lack of resources, corruption, social and political unrest, and a variety of other reasons have slowed the progress of the majority of Muslim nations; according to a World Bank assessment, the Muslim majority is the poorest in the world. Furthermore, regulating these Islamic platforms that rely on crowdfunding presents another challenge, because crowdfunding gateways collect money from the public and then disburse it to businessmen in need of such money, and the money raised by funders may require proper authorization from the regulatory body to regulate and monitor Correctly. Many Muslim nations lack the required regulations that would control these portals and how to properly manage them owing to the lack of a legal structure in this new industry.

Furthermore, contracts in Islamic finance include particular limits that limit financiers' returns by not funding them somewhere else than a restricted set of members of society. People can contribute their share of Zakat, which can be funded into eight categories as mentioned in jurisprudence rulings, as in the case of crowdfunding based on donation, but restricting it through Sharia requires various considerations and permission from schools of thought due to a lack of coordination in standards. Opinions, as well as trust, are important factors in fundraising.

The Regional Network for Social Responsibility, in collaboration with the Global Center for Sustainable Development, held events in Bahrain in 2019 called "Crowdfunding Platforms Conference and Award for Charitable and Community Projects," with the slogan "Financial Technologies for Pioneering Community Projects," to research the industry's prospects. Crowdfunding, on the other hand, has been allowed in some nations, such as the United Kingdom, to safeguard investors from probable fraud from fictitious enterprises. Some Arab nations have legalized the platforms, which are still new in comparison to the rest of the globe. However, in a short amount of time, these platforms have played a significant role in delivering development initiatives and providing new technologies that support government, business, and community activities in satisfying societal requirements.

IV. Conclusion

After reviewing the previous points in the research, we can conclude that the most important result of the research is activating the culture of entrepreneurship, stimulating the establishment of small and medium enterprises, creating job opportunities, and therefore bringing about economic development.

Results:

- ❖ Islamic crowdfunding is a type of financing that uses a combination of Islamic financial instruments and crowdsourcing approaches to address the financing needs of small and medium-sized businesses. Crowdfunding is, by definition, a technique that assists individuals in mobilizing their money to support a specific project that aligns with their views, values, or orientations.
- ❖ Because of the importance of "participation and sharing" in helping young entrepreneurs within their communities, crowdfunding platforms throughout the world have demonstrated to have social and cultural benefits on society, in addition to financing initiatives and economic growth.
- ❖ Crowdfunding, as a new form, requires additional regulation since it contains various risks, such as the fake identity of the person who issued the project or concept, and the funds collected can also be misused. The platform is vulnerable to operational security and confidentiality threats.
- ❖ The relationship of Islamic finance and crowdfunding has resulted in the possibility of embodying tangible projects, facilitating participation for all members of society, reducing risks, investing money instead of hoarding it, and bringing many employees out of a state of investment inactivity and into a state of investment and development.
- ❖ The most significant feature of Islamic crowdfunding is risk sharing, which allows individuals and businesses to share the risks that SMEs experience in their operations. Crowdfunding, when done through platforms acceptable with Islamic law, demonstrates the intersection between Islamic finance and the SMEs sector. Islamic finance's risk-sharing premise makes it a good candidate for development in SMEs, especially as investors in this industry are more open and willing to share risks.
- ❖ Crowdfunding in accordance with Islamic Sharia gives a chance for investors, contributors, and entrepreneurs to strengthen the small business sector and enhance the economic and social aspects of Islamic world.
- ❖ Because crowdfunding is done by individuals through digital platforms to support loans, investments, and commercial projects, this relatively new type of financing is done on a small scale according to temporary regulations and requires legislative systems that protect the rights of all parties involved.

- ❖ Equity crowdfunding is founded on the risk-sharing concept and is often appropriate for financing contracts in the Islamic economy; however, this does not imply that all fundraising campaigns on equity crowdfunding platforms are inherently Sharia acceptable. Rather, we should examine the contracts' specifics to ensure that they are fully compliant with Islamic law.
- ❖ There is an urgent need for specialized platforms aimed at establishing standards and values that will assist investors and businessmen who are committed to social responsibility in their investments in order to enable start-ups and incubate creative ideas based on economic and social foundations, rather than profit alone. It is feasible to set up committees or lawful authorities to oversee and control crowdfunding operations.
- ❖ Although crowdfunding experienced tremendous growth following the 2008 global financial crisis, practical models for the reality of entrepreneurship, its environment and the various players in it, cultural and religious factors, as well as economic conditions in Islamic countries, should be developed.
- ❖ Crowdfunding does not require banks or financial markets, but rather an advanced system in terms of online payment and transmission of money to project owners' accounts. As a result, security in electronic services is regarded as the most critical aspect in success, while its lack constitutes one of the most significant obstacles to progress. Crowdfunding platforms are becoming more popular in the Arab and Islamic worlds, owing to a general lack of electronic payment methods and inadequate Internet access.

Recommendations

- ❖ The crowdfunding sector, particularly crowdfunding models based on shares, remains illegal in many Arab and Islamic countries, necessitating the reform and development of the legal and legislative systems, as well as the improvement of the structure of the information and communications technology sector,
- ❖ Many Arab countries and other countries limit the percentage of foreign investment in local firms, and financial institutions, including crowdfunding platforms, must comply with these rules and guarantee that permitted ownership limitations are not exceeded.

- ❖ We propose the establishment of an electronic platform in every Arab country that is mainly interested in financing and facilitating the establishment of small and medium-sized businesses, as well as the adoption of Islamic financing methods distributed in accordance with the previously explained models, such as Murabaha, Musharaka, and Qard Hassan. Each funding formula is customized to a certain sort of small and medium-sized business.
- ❖ Most Islamic crowdfunding platforms rely on the Murabaha and Mudaraba formulas, which raises the risks, and it is preferable to rely on Islamic crowdfunding on a variety of formulas. Which contribute to reducing risks among small and medium enterprises, as well as providing capital access to a wider range of projects, encouraging innovation, and retaining talent, and creating job opportunities for young people, all of which have a positive impact on society.

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