

**Islamic crowdfunding as an innovative mechanism for financing startups:****The reality of the Malaysian experience****التمويل الجماعي الإسلامي كآلية مبتكرة لتمويل المؤسسات الناشئة: واقع التجربة الماليزية**

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**Abstract**

Startups face a funding gap, so many countries have tried to find financing mechanisms to facilitate their access to funding. Crowdfunding is one of the most important financial innovations resulting from technological development. In order to diversify funding channels in accordance with Islamic law, many countries, such as Malaysia, have seen a rapid spread of Islamic crowdfunding platforms that are compatible with traditional crowdfunding platforms in terms of goals and methods of operation, considering that these platforms can provide the necessary funding for startups. This study aims to identify the reality of Islamic crowdfunding in Malaysia as an innovative mechanism for financing startups and to highlight some active Islamic crowdfunding platforms in the field, using the descriptive-analytical method when presenting the theoretical foundation of Islamic crowdfunding, along with the Malaysian experience. Through the study, the importance of Islamic crowdfunding platforms was identified as one of the innovative funding channels currently supporting startups in Malaysia.

**Keywords:** Islamic Crowdfunding; Islamic Crowdfunding Platforms; Startups.

**JEL Classification:** O14, O53.

**ملخص**

تواجه المؤسسات الناشئة فجوة تمويلية لذا حاولت عديد الدول إيجاد آليات تمويلية لتسهيل حصولها على التمويل، ويعد التمويل الجماعي أحد أهم الابتكارات المالية الناتجة عن التطور التكنولوجي، ويهدف تنوع قنوات التمويل وفق الشريعة الإسلامية تعرف العديد من الدول على غرار ماليزيا انتشارا متسارعا لمنصات التمويل الجماعي الإسلامي التي تتوافق مع منصات التمويل الجماعي التقليدية في الأهداف وطريقة العمل على اعتبار أن هذه المنصات تستطيع توفير التمويل اللازم للمؤسسات الناشئة. تهدف هذه الدراسة إلى التعرف على واقع التمويل الجماعي الإسلامي في دولة ماليزيا كآلية مبتكرة لتمويل المؤسسات الناشئة وإبرازا بعض منصات التمويل الجماعي الإسلامي الناشطة في المجال، مستخدمين بذلك المنهج الوصفي التحليلي وذلك عند عرض التأصيل النظري للتمويل الجماعي الإسلامي مع عرض واقع التجربة الماليزية، ومن خلال الدراسة تم التوصل إلى أهمية منصات التمويل الجماعي الإسلامي كأحد قنوات التمويل المبتكرة حاليا في دعم المؤسسات الناشئة. كلمات مفتاحية: التمويل الجماعي الإسلامي، منصات التمويل الجماعي الإسلامي، المؤسسات الناشئة.

تصنيف JEL: O14, O53.

## Introduction

Because of its significant contribution to generating output and creating job opportunities, the emerging enterprises sector is regarded as the backbone of both developed and developing economies. However, the sector faces numerous challenges that limit its growth and expansion, the most significant of which is the difficulty in obtaining financing from traditional financial institutions. Because of the high risks in this sector, these companies are looking for innovative financing mechanisms that are in line with the financial nature of this type of company.

Crowdfunding, which is regarded as one of the most promising activities of innovative modern financial technologies, has grown in popularity among investors, donors, and owners of ideas and projects in recent years. Collectives in the form of platforms enable startups to obtain the necessary financial resources to turn ideas into viable projects by soliciting small sums of money from a large group of people in order to bridge the funding gap in the startup sector. As with traditional crowdfunding platforms, there are Islamic crowdfunding platforms that are compatible with traditional crowdfunding platforms in terms of objectives and method of work, but they base their work on the purposes of Islamic law. Which has seen advancements in its spread as a result of the great importance it has gained by working to finance and develop startups in many countries around the world, including Malaysia.

## Study problem

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

**What is the reality of Islamic crowdfunding as an innovative Sharia-compliant financing mechanism in Malaysia?**

## Study Hypothesis

This study proceeds from the following hypotheses:

**Islamic crowdfunding is one of the advanced techniques for funding startups**

## Study objectives

In order to provide funding sources as a creative replacement for the conventional financing system for projects that struggle to obtain appropriate financing through one of the legal procedures compliant with Islamic law, this study aims to clarify the significance and necessity of taking advantage of the modern applications of Islamic crowdfunding by raising money through

authorized digital platforms. By discussing some of the active Islamic crowdfunding platforms and the reality of Islamic crowdfunding in Malaysia.

### **Study Approach**

The analytical descriptive approach was used to reach a clear answer to the problem and achieve the desired goals because it is the appropriate approach for the study, which reviews all concepts and theoretical ideas and is based on collecting, arranging, and classifying information and data, then analyzing and interpreting them, and attempting to link them.

## **1. Crowdfunding theoretical framework**

### **1.1 Crowdfunding definition**

Crowdfunding is a type of financial innovation made possible by technological advancements. In other words, it is a sub-category of both FinTech and Alternative Finance-AltFi. It refers to market-based financing enabled by technology that operates outside of the traditional financial system and includes Internet markets (Ivo , Timothy , & Nava, 2017, p. 01).

Crowdfunding is also known as participatory or co-financing, which is a literal translation of the compound term "Crowdfunding" in English, which consists of two words "crowd," which means mass of people, and "funding," which means financial support, and thus the term means public financing. According to the World Bank, crowdfunding is a method for institutions to raise funds through the Internet. The collected funds typically range in value from \$1,000 to \$1,000,000 USD, and are distributed in the form of donations or investments to a number of individuals (World Bank, 2013, p. 14).

It can also be defined as a collective and collaborative financing process that takes place via an electronic platform that connects investors and project owners in need of funding for their projects. This service primarily targets the small, medium, and emerging enterprise sectors, with projects presented by their owners via crowdfunding platforms so that investors can select the project that best meets their needs, with the possibility of receiving a reward, interest, or a percentage of the project's profits (Heba & Ramy , 2019, p. 01).

It should be noted that the primary distinction between crowdfunding and other traditional financing methods is the union that occurred between financing and the Web revolution. This has made it very easy for project owners who lack the necessary financial capabilities and resources to embody and bring to light their creative ideas, as well as reach a large number of investors and

financiers willing to support such ideas. On the other hand, unlike other methods of financing, crowdfunding does not necessitate complex and lengthy procedures, and it is frequently inexpensive (Al-Aish, 2016, p. 02).

Based on the foregoing, crowdfunding can be defined as an innovative mechanism for financing projects for emerging enterprises by collecting funds from a variety of individuals and/or institutions via digital platforms.

A variety of stakeholders and actors participate in crowdfunding platforms, including (Wahjono, 2015, p. 09):

- ❖ **Funders:** funders can be individuals or institutions, as well as investors, donors, or supporters.
- ❖ **Beneficial investors:** This is the party that seeks to obtain the company's funds, a product, a project, an initiative, or a charitable work, and it can include a wide range of actors ranging from small businesses to government organizations, individuals, and emerging institutions, among others.
- ❖ **Crowdfunding platforms:** These are online platforms that connect donors and investor beneficiaries. Commissions for participation and/or interest earnings may be charged by these platforms. These platforms can also offer a variety of services, such as financial due diligence, contracting, and so on.
- ❖ **Auditors and Other Service Providers:** Platforms and investor beneficiaries can rely on a variety of service providers to evaluate projects and provide other services to both financing parties. Platforms may require the purchase of services, such as financial due diligence or assessments of social and environmental outcomes.
- ❖ **Sponsors:** beneficiaries may receive assistance in designing and managing crowdfunding campaigns from sponsors. These services can be provided for free or on a for-profit basis.

## 1.2 Crowdfunding importance

Start-up companies frequently face difficulties in obtaining financing from investors or government assistance, which weakens the process of development and innovation in the world of entrepreneurship. If startups receive this funding, they will be forced to give up some of their assets, emphasizing the importance of crowdfunding as a form of cooperation rather than seeking

funding from institutional sources. Many factors contribute to the importance of crowdfunding, including (Heba, 2019, p. 13):

- ❖ Contribute to closing the financing gap for small and medium-sized businesses in order to achieve a variety of development goals, including increasing economic growth opportunities and creating more job opportunities, which helps to reduce unemployment rates.
- ❖ Providing the necessary funding to achieve sustainable development goals Crowdfunding platforms, in this context, contribute to the provision of financing to achieve the goals of sustainable development. A number of these platforms assist individuals and low-income families in gaining access to food, health care, education, and labor market opportunities by financing micro, small, and medium-sized businesses.
- ❖ By encouraging innovation, improving individual well-being, and protecting the environment, some of them have earned international recognition for their outstanding contributions to social and economic development and environmental preservation.
- ❖ Increasing financial inclusion, defined as individuals' and businesses' access to useful and affordable financial products and services that meet their needs (transactions, payments, savings, credit, and insurance) and are provided in a responsible and sustainable manner.
- ❖ Improving access to appropriate financial services for individuals and MSMEs at an affordable cost.
- ❖ It enables the development of financial services innovations to serve customers at the bottom of the consumer pyramid, such as microfinance models and financial services delivered via the Internet and mobile phones.
- ❖ It enables access to more complex investment products, increasing market flexibility and developing financial assets.

### 1.3 Crowdfunding mechanism and models

The crowdfunding mechanism via platforms goes through several stages, and the business models of these platforms differ depending on the financing needs of the startup owners and the goals of the investors, as explained below:

#### 1.3.1 Crowdfunding mechanism across platforms

The crowdfunding process for startup projects across platforms goes through a set of stages

that can be summarized as follows (Omran & Qurayd , 2018, pp. 296-297):

- ❖ **Pre-selection of projects by crowdfunding platforms:** Those in charge of managing crowdfunding platforms represent this stage in the initial selection of projects that request funding and may be eligible for funding through platforms on the Internet, based on a set of objective criteria specified by crowdfunding platform operators.
- ❖ **View eligible projects through crowdfunding platforms:** This stage is represented by crowdfunding platforms initially displaying everything related to qualified projects on their website, and thus this stage is an important stage that allows the public to express an opinion on these projects that request financing, putting the public at the center of financing and investment decisions.
- ❖ **Raising the necessary funds to finance projects:** This stage is represented by crowdfunding platforms on the Internet that collect the necessary funds to finance qualified projects by allowing a large number of the public to provide financial contributions to finance projects in accordance with crowdfunding models. If the process of collecting the necessary funds for any project is not completed, it will be canceled and the funds will be returned to their owners.
- ❖ **Project implementation:** Once the process of collecting the necessary funds to finance any of the projects eligible for financing other than crowdfunding platforms has been completed, the stage of embodying the projects on the ground begins by providing the necessary funds to the project owners. Crowdfunding platforms are compensated with bonuses ranging from 5% to 8% for managing the operations associated with financing these projects.
- ❖ **Loan repayment and stock returns:** This is the final stage of crowdfunding project financing, in which loan installments due from project owners are paid according to the agreed terms within the framework of obtaining the necessary financing.

### 1.3.2 Crowdfunding models

The business models that make up the crowdfunding platform market are as follows (Christian , 2015, pp. 01-03):

**a. Investment-based crowdfunding**

In which companies sell equity or debt to investors. In other words, it is an electronic platform that allows individuals or investment institutions to purchase company ownership shares. WeFunder is one of the most prominent equity and investment-sharing platforms that has been able to capitalize on the regulatory authorities in the United States of America's easing of restrictions on institutional conversion and allowing new channels of financing beginning in 2016. The StartEngine platform is also regarded as one of the most important equity-based crowdfunding platforms, as it enables investors to purchase shares in companies raising up to \$50 million. In addition to the Crowdfunder platform in the United Kingdom and the Eureeca platform in the UAE.

**b. Lending-based crowdfunding**

Also known as crowd lending or peer-to-peer lending, this type of crowdfunding involves companies or individuals seeking public funds in the form of a lending agreement. They are, in other words, electronic platforms designed to collect contributions from investors in order to provide loans for an activity or project. Examples include the Kiva platform, which is considered one of the most important lending platforms because it provides small loans ranging from \$100 to \$100,000 to farmers, non-governmental organizations, and small, medium, and emerging enterprises that have a positive impact. The platform also aims to achieve one of its most important objectives: financial inclusion. The platform was also able to transfer approximately 3.2 million borrowers, valued at approximately \$1.30 billion, in the form of small loans to 78 countries worldwide, with a repayment rate of 97 percent. In the United States, similar platforms such as Lending Club and Beehive exist.

**c. Invoice-based crowdfunding:**

A type of asset-based crowdfunding in which businesses sell invoices or unpaid receivables to a group of investors via an online platform. It is an electronic platform that provides liquidity to businesses in the form of (discounted) payments against customer invoices. BlueVine in the United States and MarketInvoice in the United Kingdom are two examples.

**d. Reward-based crowdfunding:**

This platform's model is based on collecting funds provided and donated by individuals and institutions to fund a project or commercial activity in exchange for a reward, which could be

goods or services, at a later stage in exchange for their contributions. It is an electronic platform that allows individuals or investment institutions to offer money in exchange for non-monetary rewards motivated by humanitarian concerns. Some of the most well-known reward-based crowdfunding platforms are Indiegogo and Kikstarter.

**e. Donations-based crowdfunding**

This model is based on collecting donations from individuals and/or institutions with the goal of funding a charitable project without receiving any financial or material return. The GoFundMe and Justgiving platforms, for example, are among the most important platforms in the world for donations, gifts, and charitable works.

**f. Hybrid-based crowdfunding**

These are platforms that combine various models and types of crowdfunding through the platforms mentioned above.

**1.4 Crowdfunding growth globally**

Crowdfunding began as an extension of traditional funding by friends and family via the Internet, and in less than a decade, crowdfunding has gained traction in a number of developed economies, including Australia, the United Kingdom, and the Netherlands, where the volume of crowdfunding globally has grown rapidly from year to year. The crowdfunding market was worth \$ 1.5 billion in 2011, and it is expected to be worth \$ 03 trillion by 2020 (Kataf & Qimish , 2022, p. 299). This development is due to an increase in global demand for this type of financing, as well as an increase in the number of crowdfunding platforms, which has increased from 536 platforms per year to more than 800 platforms by 2020. Crowdfunding platforms' activities have also expanded beyond the activity of financing charities to become one of the most important sources of financing for small and medium-sized enterprises and entrepreneurs, ranking second only to venture capital as a source of financing for these projects. The total crowdfunding volume for 2020 was concentrated primarily in North America and Asia, with 50% and 30% respectively. This is primarily because this type of financing is a modern financing phenomenon that has primarily grown and developed in the United States of America. South Africa is considered one of the leading countries in the field of crowdfunding, with approximately 22 crowdfunding platforms (Omran & Qurayd , 2018, p. 297). Crowdfunding based on peer-to-peer lending is the most

popular crowdfunding platform, accounting for 74% of the global crowdfunding market, while reward and donation crowdfunding accounts for 8%. The financing formula based on share participation amounted to 07%, while the percentage of the other types reached 03%, which may lead to this type of crowdfunding becoming a specialized financial industry that grows steadily within the development of investment opportunities based on the Internet (Zubir , 2020, pp. 42-43).

## 2. Shari'a-compliant Islamic crowdfunding

Islamic crowdfunding operates on the same principles as traditional crowdfunding, with two exceptions. The first is that the money investment tools, such as speculation, participation, and others, are permissible under Islamic law. As a result, the return on investment is compatible with these tools, and no fixed or guaranteed return is possible. The second point is that all projects funded through crowdfunding must adhere to Islamic law.

### 2.1 Shari'a-compliant Islamic crowdfunding definition

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Islamic crowdfunding is defined as the collection of small sums of money from a large number of individuals or organizations in order to finance a project, activity, person, or other need via an online platform in accordance with Islamic law principles. Thus, Islamic crowdfunding differs from traditional crowdfunding in that it only invests in halal projects, adheres to Sharia provisions by avoiding usury, gambling, deception, and all other Sharia-prohibited activities, and has a Sharia supervisory board (Tariq, Reda, & Salim, 2021, p. 52).

Based on the foregoing, Islamic crowdfunding is a synthesis of crowdfunding technology, transaction jurisprudence principles, and modern Islamic financial industry contracts.

Islamic crowdfunding has many advantages from an Islamic financial point of view, including the following (Tariq, Reda, & Salim, 2021, p. 53):

- ❖ Islamic crowdfunding is based on profit and loss sharing, lending (qard hasan), and donations, as was the case with the original Islamic finance model.
- ❖ It provides a variety of entrepreneurs and small business owners with access to capital.
- ❖ Creating a new class of assets that are more suitable for small and medium-sized investors,

with the potential to reach a large number of local or international donors and donors.

- ❖ Encouraging innovation and preserving human capabilities locally.
- ❖ Job creation through the establishment of new businesses and the growth of small businesses.
- ❖ Supporting the development of commercial projects into large institutions and encouraging future IPOs in modern sectors.

To ensure crowdfunding complies with Sharia law, the following conditions must be met:

- ❖ The business of the Crowdfunding Platform must be governed by a Shariah Board or a Shariah advisor.
- ❖ The practice of investing must be socially responsible.
- ❖ Startups are only permitted to generate revenue from Sharia-compliant sources.
- ❖ Clear legal restrictions must be defined to ensure that the startup will not, in the future, borrow, deposit interest, invest in non-Sharia-compliant instruments, or expand its product and service offerings to include activities incompatible with the Islamic Sharia.
- ❖ The shareholder structure and investor protection requirements should be designed in such a way as to enable compliance with the principles of Islamic Sharia.

## 2.2 Islamic crowdfunding tools and models

The following table clarifies Islamic crowdfunding tools, their targets, and the financing models used in various crowdfunding platforms:

**Table 1.** Islamic crowdfunding tools.

Contract	Targeted	CF model	Funding to
donation, interest-free loan (Al-Qard Al-Hassan)	Microfinance institutions	Donation based	Charity
Sales	Small enterprises, startups, microfinance institutions	Reward based	product
Murabaha, Al-ijaza	Small enterprises, microfinance institutions	Debt-based	
Diminishing Musharaka, Musharaka	Small businesses, start-ups	Stock-based	Investment

Source: prepared by the researcher based on (Sekoni, 2016, p. 27)

Islamic crowdfunding can also be classified into the following models (Sheyad, 2019, pp. 252-253):

**a. Zakat-Based Model**

This model is devoted to productive projects for the benefit of the poor, in order to motivate them to set up and establish projects, as well as to motivate them to give and grant money rather than wait for zakat money. Those in need of zakat can make a request through crowdfunding platforms, and Sharia supervisory boards set up a mechanism to grant them zakat funds according to known Sharia controls, and they are monitored to ensure that zakat funds are invested in halal projects and with considerable technical and practical competence.

**b. Endowment-based model:**

In this model, small projects are funded through the Islamic endowment system, which involves the establishment of projects and project ideas that require endowments from benefactors and have a lawful purpose that meets social and development goals. Crowdfunding projects can be in the fields of education, health, and a variety of other developmental ideas. With the proposal to create a specialized endowment fund to finance small and medium-sized businesses.

**c. Model of interest-free loans:**

This model aims to motivate and support needy families and young entrepreneurs to carry out mini-projects aimed at increasing their income and providing products and services to the community that meet their needs without relying on aid and donations. As much as possible, interest-free loans are made available through the crowdfunding platform and are directed to the owner of an initiative or a family with a simple production or service project. After the success of the project, the principal of the loan is repaid, and a second project is financed in the same way, ensuring the circulation of capital between the various projects directed to the needy groups.

**d. Partnership-based model (Mudaraba - Musharakah):**

This model is based on risk and profit sharing principles, and it is very suitable for Islamic financing formulas, taking into account investment in real assets, avoiding gambling and fictitious speculation, and taking into account the system of local laws for investors in terms of money transfer procedures and the nature of investments, because some platforms will have an international rather than a local dimension, because some platforms will have an international

rather than a local dimension. Shareholders' participation here is purely financial, with no effort required. This is accomplished by contributing to the ownership of specific assets on a permanent or temporary basis.

**e. Debt-Based Model (Murabaha - Ijara)**

In some cases, risk-sharing (which is adopted in the form of participation and speculation) in financing small and medium enterprises may entail high risks. As a result, using Murabaha financing is less risky and more suited to the nature of small, medium, and entrepreneurial projects, ensuring that no risks are involved in the event that projects fail, with the need to focus on financing secured by assets.

**2.3 Challenges of Islamic crowdfunding platforms**

The most significant challenges confronting Islamic crowdfunding platforms are (Burhan , Musito, & Ensari , 2020, p. 478):

**a. Regulatory concerns**

Given that crowdfunding offers ways for financiers to finance a minimum contribution of their shares, which is not legally possible in some countries due to the lack of legislation and awareness of this process, one of the difficulties faced by Islamic crowdfunding platforms is the legal issues related to crowdfunding.

**b. The secondary market**

Investors' risks should be minimized to the greatest extent possible, and entrepreneurs should be equipped not only with capital, but also with the skills necessary for success. As a result, the traditional crowdfunding process must be restructured to meet not only Sharia law requirements, but also the unique circumstances and needs of entrepreneurs and investors in Islamic countries.

**c. Sharia concerns**

A regulatory framework for crowdfunding should be put in place that is compatible with the specificities of the markets of Muslim countries, taking into account the nature of these markets, and most importantly, the compatibility of financial instruments with Sharia for the various stakeholders in the crowdfunding process. To ensure Islamic law compliance, the crowdfunding platform's operations should be overseen by a Sharia board or a Sharia advisor, and investments should be socially responsible.

**d. Fraud cases:**

Among the scams on crowdfunding platforms in general and Islamic crowdfunding platforms in particular is the theft of ideas. When presenting an idea on a specific platform, one must be aware that the idea could be stolen and a parallel campaign launched. From this perspective, it is beneficial to ensure that the concept is completely protected against theft. To limit this, it is preferable to hold private discussions with potential investors, as this contributes to and ensures that no one hijacks the idea, as opposed to presenting it directly to the public. Another way to ensure that the idea is copyrighted before publishing it on any crowdfunding platform is to issue non-disclosure agreements between the owner of the idea and potential investors.

**3. The reality of Islamic crowdfunding for startups in Malaysia****3.1 The development of Islamic finance in Malaysia**

Malaysia has one of the longest histories of Islamic banking, dating back to 1963, when the "Hajj Provident Fund" was established as the first savings fund without interest. Which is considered the first Islamic financial institution whose goal is to save Malaysian Muslims' money to finance the Hajj and to provide them with tables that benefit them in improving their affairs, and although the emergence of banks began in the mid-1970s, the first start of Islamic banking in Malaysia dates back to 1983. That is, on April 7, 1983, the Islamic Banking Law was passed, which is considered the foundation for the work of Islamic financial institutions in this country. As a result, the Malaysian Islamic Bank was established in the same year as the first commercial Islamic bank whose operations are based on Islamic law principles, and an Islamic Takaful insurance company was established in Malaysia in 1984, following the issuance of the Islamic insurance law in the same year.

Following this encouraging performance, the Malaysian government set the goal of becoming one of the world's most important centers for Islamic banking. The Malaysian Central Bank introduced the "Islamic banking system" or the Islamic branch system for conventional banks in 1993 in order to accelerate the dissemination of Islamic banking products to local customers in the shortest possible time. As a result, conventional banks were permitted to offer Islamic banking products through their existing facilities, and 24 conventional banks responded by offering Islamic banking products and services through their 1,663 branches (Bin Qayed, 2020, pp. 232-233).

### 3.2 The evolution of Islamic crowdfunding for startups in Malaysia

Malaysia is one of the leading countries in Southeast Asia in the field of Islamic crowdfunding, which provides regulatory approval for equity-based crowdfunding. According to the Asian Institute of Finance report, some statistics related to the emergence and development of Islamic crowdfunding platforms available for startups can be presented, where the volume of funds circulated is estimated at \$5 million, equivalent to 6% of the total capitalization of the securities market in Southeast Asia. Donation-based crowdfunding represents 92.4% of the Malaysian market, while reward-based crowdfunding represents only 6% of the total market in Malaysia, where it managed to raise \$325,000 during the period from 2013 to 2015. In 2014, three main platforms (PithIN- MyStarttr- MDeC) appeared based on rewards and donations. 19 projects succeeded in raising funds out of 103 projects. In 2015, six new equity-based crowdfunding platforms emerged (Ata Plus- Crowdonomic- Eureeca- Pitch In- CrowdPlus. Asia- Alix Global).

Malaysia has provided specific instructions for sharia-compliant crowdfunding platforms. The regulatory framework issued by the Securities Commission requires sharia-compliant crowdfunding platforms in Malaysia to appoint a shariah advisor and disclose information on the financing structures used.

Crowdfunding platforms have been supervised by the Malaysian Securities Commission since 2014, and the Commission issued amendments to the regulations in mid-2019, accompanied by licenses for investment-based crowdfunding platforms, including a sharia-compliant platform. The total number of crowdfunding platforms of all types in Malaysia is now 21 licensed platforms, which have successfully provided funding to around 900 small and medium-sized enterprises with a total amount of over \$85 million until March 2019.

As for the mechanism of Islamic crowdfunding platforms in Malaysia, it is carried out by collecting donations using crowdfunding platforms equipped with the IZCM Zakat Model system. All campaign information is provided electronically, and the funds collected are paid to zakat institutions within a predetermined time frame. These institutions manage the collection of funds until the target amount is reached. The system then tracks the received funds and distributes them to startups, businesses, and basic needs. (Abdi & Maiza , 2021, pp. 127-128).

### 3.3 Actif Malaysian islamic crowdfunding platforms

Donations are collected through crowdfunding platforms that are equipped with the IZCM zakat model system, where all campaign information is provided in electronic form, and the funds are then submitted within a predetermined time frame and paid to the zakat institutions, who manage the fundraising until the target amount is reached. Following that, the system keeps track of the funds received and distributes them to start up entrepreneurs, businesses, and basic needs. The following are some of the most important crowdfunding platforms in Malaysia that operate in accordance with Islamic law principles:

**a. PitchIN platform:**

Founded in 2012 and widely recognized as Malaysia's national crowdfunding platform, PitchIN not only operates as a reward-based crowdfunding platform, but also as an equity crowdfunding platform. It has successfully implemented a large number of crowdfunding projects and was registered with the Malaysian Securities Commission in 2015 as a recognized market operator for the purpose of providing equity crowdfunding related services to Malaysian companies.

**b. LaunchGood platform:**

It is the world's largest Islamic donation platform and a reward for the Islamic crowdfunding platform. It began in the United States of America in 2013, and it expanded to Malaysia in 2018. As of March 2018, it had raised US\$35 million in over 102 countries and funded 3,274 campaigns in over 130 countries, with a strong emphasis on personal fundraising campaigns as well as disaster relief and humanitarian aid in conflict zones.

**c. Ethis Malaysia platform:**

Part of the Ethis Group, it began in Singapore as a private investment club in 2014 before expanding to Malaysia. The Securities Commission of Malaysia granted the first Malaysian Shariah-compliant equity crowdfunding license in late 2020 to carry out equity crowdfunding business activities. Where Islamic principles apply in the contractual relationship between investors and exporters, all business activities must also comply with some Sharia-compliant Islamic business principles and examination. Ethis collaborates with Global Sadaqah, a philanthropic platform known for its impactful crowdfunding investments for social housing development projects that serves ordinary people, high-net-worth individuals, corporations, and

government agencies. Equity crowdfunding, according to Ethis, is the future of Islamic capital markets, providing access to investment opportunities in unique and unique companies while also serving as a platform for entrepreneurs to pitch their companies to a community of global investors. As of September 2019, more than RM1 million had been raised through local equity crowdfunding and peer-to-peer financing platforms, and more than 1,629 SMEs had received crowdfunding funding through this platform since 2015.

Both the Mudarabah and Musyarakah contracts are the most commonly used contracts in projects and campaigns on the ETHIS crowdfunding platform. The Mudarabah contract is executed through the ETHIS platform according to the following steps (Ethis islamic crowdfunding report, 2018, p. 22):

- ❖ Forming a joint venture company with the project developer;
- ❖ Individual investors transfer their investments to the project's designated bank account;
- ❖ The project funds are disbursed in stages;
- ❖ The project is developed and completed;
- ❖ Upon completion of the project, the project profits are transferred to the joint venture company;
- ❖ The profits are shared according to the predetermined profit-sharing ratio;
- ❖ The profits are then transferred to the investors by the ETHIS platform managers.

As for the stages of crowdfunding on the ETHIS platform through the Musyarakah contract, they are carried out according to the following stages (Ethis islamic crowdfunding report, 2018, p. 23):

- ❖ Investors appoint an agent for the ETHIS project by way of a power of attorney to execute a Musyarakah contract with the project developer for a certain number of units;
- ❖ The investors sign an investment agreement to appoint an agent to act on their behalf in executing the contract;
- ❖ The ETHIS project enters into an agreement with the project developer to build a certain number of units, and the agreement is governed by Indonesian law, which allows the relevant party to take legal action in the event of any wrongdoing by the project developer;

- ❖ The investors transfer their investments to the project's bank account;
- ❖ Payments are made to the project developer in installments according to the progress made in construction;
- ❖ The project developer constructs the project units;
- ❖ When construction begins, the project developer transfers conditional ownership of the ETHIS project units through sales certificates upon successful completion of the construction, and the remaining sale price is paid to the developer and the Musyarakah contract is sealed.

Regarding the performance of Islamic crowdfunding on the ETHIS platform, 26.8% of crowdfunding campaigns were successful in 2019, with full investment value and profits earned. Meanwhile, the percentage of crowdfunding campaigns that received partial payment for projects was around 29.3%. The percentage of ongoing projects, despite delays, was estimated at 14.6%. On the other hand, the percentage of projects that failed to secure funding was 2.5%.

As for the cumulative value of crowdfunding from 2014 to 2019, it witnessed a continuous increase. In 2014, the value was around 1,000,000 Singapore dollars, which exceeded 2,000,000 Singapore dollars in 2015. In 2016, 2017, and 2018, the cumulative value of crowdfunding exceeded 33,000,000 Singapore dollars, 4,000,000 Singapore dollars, and 5,000,000 Singapore dollars, respectively. In 2019, the value exceeded 7,000,000 Singapore dollars ( Ethis islamic crowdfunding report, 2019, p. 10).

#### **d. Ata Plus Sdn Bhd Platform**

Platform for equity crowdfunding ATA Plus was founded in December 2015 and launched in March 2016, with the goal of democratizing financial inclusion by connecting capital with exciting businesses. Although ATA Plus is not Sharia-compliant, it can be considered a noma of a Muslim-focused crowdfunding platform because it allows issuers to offer and sell shares in their company directly or indirectly as a market operator recognized by the Securities Commission of Malaysia

#### **Conclusion**

Through this study, it was possible to understand the significance and function of Islamic crowdfunding platforms in supporting both Islamic finance and start-ups. Due to the rising demand for it, Islamic finance has established itself as a modern industry and gained prominence in recent years. Due to its significant contribution to bridging the funding gap for the nation's small

and emerging businesses, Malaysia is one of the nations engaged in the field of Islamic crowdfunding.

The study produced a set of findings that can be summarized as follows:

- ❖ Crowdfunding is a modern financing option that differs from traditional financing channels in that it is compatible with the nature and privacy of emerging institutions. It allows entrepreneurs and emerging entrepreneurs to fund their projects by collecting funds from a group of individuals and investors via digital platforms.
- ❖ Crowdfunding platforms' business models are divided into equity-based, lending-based, donation-based, reward-based, and hybrid crowdfunding platforms. Among the most important crowdfunding platforms are lending-based platforms.
- ❖ According to international experiences and the industry's success, it is clear that crowdfunding platforms have proven to be effective in bridging the financing gap for startup projects. As a result, it is regarded as the most appropriate and optimal financing channel for these institutions, particularly given that securing project capital was and continues to be the main challenge for the owners of emerging institutions.
- ❖ According to recent global reports, the crowdfunding market appears to be growing and is expected to take the lead as an alternative financing source if the appropriate environment is created and provided for this industry.
- ❖ Crowdfunding represents a fundamental shift in the method of obtaining financing because it allows small investors and start-ups to reach a large number of investors who support this idea, as opposed to traditional financing, which typically rejects applications for loans from emerging institutions.
- ❖ Islamic crowdfunding is a type of financing that combines Islamic financing tools and crowdfunding techniques to help emerging and small businesses finance their needs. The difference between it and traditional crowdfunding is its application of Islamic law principles.
- ❖ Platforms for Islamic crowdfunding that are distinguished by their speed, flexibility, and diversity, allowing start-ups to choose between various financing platforms based on what best suits their ideas and projects.

- ❖ Malaysia's experience is one of the pioneering experiences in the field of Islamic finance, and its success can be attributed to its emphasis on developing the legal framework required for the success of Islamic finance, as well as establishing the infrastructure for Islamic banking. Furthermore, Malaysia's use of Islamic law in crowdfunding platforms has never been an impediment to development or increased risks in transactions, but rather a result of the efficiency of its integrated regulatory and legislative policy, which has become a public Islamic center and a model to emulate.

Based on these findings, we are able to formulate the following recommendations and solutions for actors and those interested in Islamic crowdfunding.

- ❖ The need for government agencies to prioritize crowdfunding platforms by implementing all measures that would increase investors' use of the crowdfunding mechanism.
- ❖ Establishing clear and sound legal and regulatory frameworks that regulate the mechanism of working crowdfunding platforms in accordance with investors and the general public and in proportion to available resources.
- ❖ Constructing a database and statistics for the websites of crowdfunding platforms so that investors can obtain the necessary information regarding the offered projects.
- ❖ Encouraging start-ups and the creators of innovative projects to adopt crowdfunding as a source of permanent and rapid funding.
- ❖ This type of financing mechanism, which accelerates economic development, must be embraced, developed, and expanded by governments.
- ❖ The need to activate Sharia governance in order to ensure that Islamic crowdfunding platforms and the businesses they fund comply with Islamic Sharia principles.
- ❖ Focusing on the availability of transparency in Islamic crowdfunding platforms by emphasizing the availability of all necessary information relating to companies seeking financing through Islamic crowdfunding platforms or to investment and financing operations at their level.
- ❖ Establishing electronic platforms that are solely concerned with financing and facilitating the establishment of small and medium-sized businesses, and adopting Islamic financing methods such as Murabaha, Musharaka, Qard Hassan, etc., with each formula being suited to a specific type of project.

- ❖ The necessity of establishing effective oversight principles for Islamic crowdfunding platforms in order to determine the sources of funds and their intended use.
- ❖ Increasing awareness of the significance of Islamic crowdfunding platforms through awareness campaigns that highlight the significance and risks of these platforms.
- ❖ The Malaysian experience in the field of Islamic crowdfunding sent a clear message urging all nations to adopt an alternative model to traditional crowdfunding, which gives investors a large margin of freedom to choose to work in the most risk-free manner.

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