CROWDFUNDING AS AN ALTERNATIVE FORM OF ISLAMIC FINANCING FOR STARTUPS AND SMALL ENTERPRISES

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ABSTRACT

In its current form, Islamic finance is not there to provide financing for startups and small enterprises. This paper aims to investigate the potentials of crowdfunding in expanding Islamic financing for startups and small enterprises, and examine the contemporary state and development of Islamic crowdfunding. To achieve its objectives, the paper created a theoretical framework of crowdfunding and defined its models. It highlighted the development of Islamic crowdfunding, discussed problematic areas that should be dealt with in the future, and illustrated the Islamic crowdfunding process with the case of "Shekra" platform. The paper concluded that crowdfunding carries the core values of Islamic finance and provides the ground for new developments in the field. Nonetheless, the number of Islamic crowdfunding platforms in Muslim countries is minimal, and their growth is limited by the lack of a sound and enabling regulatory framework, and problems with the internet and digital payment penetration, online legal transactions, unclear Shariah screening process, and the lack of awareness and trust.

Key words: Islamic crowdfunding, Regulatory framework, Technological infrastructure, awareness and trust, Shekra platform.

INTRODUCTION

Start-ups and small enterprises are the backbone of both developed economies and developing countries in regarding of employment generation and economic growth. However, this sector faces many challenges, particularly the lack of required financing either to start up or to expand the existing enterprises. The leading causes include their early stage of business establishment and lack of proper business experience, no collateral security, higher transaction costs, improper business planning, lower sales, revenue, and cash-flows to name a few (Thaker, Thaker, Pitchay, Amin, & Khaliq, 2020, p.19).

A paucity of capital access prompts entrepreneurs to seek alternative financing venues. This phenomenon has spurred crowdfunding's global growth, which is essentially the opposite of the mainstream approach to business finance. The technique applies funding of a project or venture by raising money from many people, and each one contributes by a relatively small amount, typically via internet.

The objective of crowdfunding is to lessen the financial difficulty to entrepreneurs who need financial assistance. (Hassanudin, Ahmad, Chandra, & Mohamed, 2020, p.16). The risk overtaken by crowd-funders can be much lower because of the smaller amount of money they invest individually, as well as they can become consumers or they participate in the distribution of income (Zorica, 2014, p. 46), in addition to the cost effectiveness of online financial transactions, so there are several regulators that have encouraged the presence of crowdfunding as a drive to improve financial inclusion (Salizatul, Siti, Nurakmar, Tung, & Khong, 2018, p.18).

Islamic small and medium enterprises are still considered to be underfunded based on the banking sector's loans and deposits. The ratio of SME bank lending to total bank lending is relatively small for Islamic banks. A good example is seen in Egypt, Pakistan and Saudi Arabia; this ratio is 8%, 4.1%, and 2%, respectively (Kabir, 2015, p. 22).

In its current form, Islamic finance is not there to provide financing for start-ups and small enterprises, despite its remarkable global success in terms of growth, expansion, and product diversification. Accordingly, there is an urgent need to develop alternative instruments to respond to such financing needs in Islamic countries. Islamic crowdfunding can play a significant role in solving the small enterprises' issue of accessing to funds. Therefore, it is crucial to investigate the potentials of crowdfunding in expanding Islamic financing for start-ups and small enterprises, examine the contemporary state and development of Islamic crowdfunding, and understand the drivers of Islamic crowdfunding success or failure.

LITERATURE REVIEW

Biancone, Secinaro, and Kamal (2019) study focused on the shariah aspect of Islamic crowdfunding and revealed that crowdfunding is based on the principle of social solidarity to serve an idea or a project and the redistribution and better utilization of financial resources. This is in line with the essence of Islamic finance. While Marzban, Asutay, and Boseli (2014) examined the regulatory framework of Islamic crowdfunding and exhibited the rationale of promoting Islamic finance's core-values through Shariah-compliant crowdfunding and achieving its targets of socio-economic development in regions of Shariahcompliance. Similarly, Saiti, Musito, and Yucel (2019) asserted that, by introducing Islamic crowdfunding, Islamic finance could promote the real value of the Maqasid Shariah in the current financial market by promoting a real impact, sustainability, and competency in the real economy. The study of Mushthaq (2017) concentrated on Sharia-compliant crowdfunding in enabling small enterprises. It stated that Shariah-compliant crowdfunding is such an optimal platform for funding micro, small and medium enterprises. On the other hand, Uruba and Mishra (2016) highlighted that despite the potentials of crowdfunding to expand the scope of finance for startups, small and medium enterprises facing a funding crisis, its growth and progress in the Middle East has been relatively slow-paced in comparison to various developed economies of the world. Crowdfunding is still in the Islamic world continues to take slow steps, and faces many challenges (Biancone et al, 2019, p.8; Saiti et al, 2019, p.481).

The literature review reveals an overall lack of comprehensiveness in the existing literature as some has covered the Shariah aspect, others have discussed the regulatory framework, while some researches have discussed the role of Sharia-compliant crowdfunding in promoting small enterprises.

RESEARCH OBJECTIVES

This paper attempts to contribute to the process of filling the gap of comprehensive study in Islamic crowdfunding. Its purpose is to investigate crowdfunding's potentials in expanding Islamic financing for start-ups and small enterprises, examine the contemporary state and development of the Islamic crowdfunding, and the reasons behind the underdevelopment of this new Islamic financing alternative.

DESIGN OF THE RESEARCH

The research methodology follows a path of inductive-deductive analysis and case study. The deductive and inductive approaches provide a comprehensive approach in analyzing qualitative data. Simultaneously, the case study approach allows in-depth, multi-faceted explorations of complex issues in their real-life settings. The value of the case study approach is well recognized in the fields of business, law and policy. In this study, previous studies and academic papers on the topic of crowdfunding and Islamic crowdfunding were used as the primary sources of information.

The rest of the paper is organized as follow: Section 2 defines crowdfunding, describes its different models, and highlights its worldwide development. Section 3 discusses Islamic crowdfunding, potential trends in this area and highlights problematic areas that should be dealt with in the future. Section 4 introduces Shekra platform and analyses its funding framework. Section 5 presents the findings of the study, and finally section 6 discusses the conclusion.

CROWDFUNDING

CROWDFUNDING DEFINITION

Crowdfunding is the pooling of small amounts of money from many investors through internet platforms and is one of the better-known forms of alternative finance (Mushthaq, 2017, p.89). It is also defined as the efforts by entrepreneurial individuals and groups — cultural, social, and for-profit — to fund their ventures by drawing on relatively small contributions from a relatively large number of individuals using the internet, without standard financial intermediaries (Beaulieu, Sarker, & Sarker, 2013, p.3). In thesame vein, Abdullah and Oseni (2017, p.225) defined crowdfunding as a type of participative online activity in which an individual, institution, non-profit organization, or company proposes to a group of individuals of varying knowledge, heterogeneity, and number, via a flexible open call, the voluntary undertaking of a task which always entails mutual benefit, and the crowd participates bringing work, money, knowledge, and experience.

The above definitions denote that crowdfunding is an innovative financing mechanism based on the internet instead of the standard financial intermediaries, like banks and other financial institutions. It aims to mobilize capital and fund projects initiated by individuals, businesses, or charitable organizations. The project is funded and supported by small contributions from many persons, who were enthusiastic about the project, and their contributions were made either by money, knowledge, experience, or work.

CROWDFUNDING PLATFORM

Crowdfunding typically occurs through platforms designed for this particular purpose. Crowdfunding platforms are online intermediaries that facilitate the transfer of funds from those looking todonate or invest to those in need of capital. Over the last several years, many crowdfunding websites have emerged.

Crowdfunding platforms operate by allowing project founders, who seek finance, to make a pitch or post a description of their idea or project on the site, outlining how much money they need, what they need itfor, and what, if anything, you get in return for contributing. Potential backers can then discover projects through avenues such as social media or by browsing a crowdfunding website. They can interact with both those looking for finance and other potential funders and then decide whether they want to back the campaign. If the backer believes in the idea and wants to help make the project possible, (s)he can support the project by contributing money via the crowdfunding website. Typically, the amount given by a backer is small relative to the overall funding needs.

The majority of platforms operate the all—or—nothing model. If the target amount is not raised withina given timeframe, contributions are returned to funders, and no financing goes ahead (Mushthaq, 2017, p.89; Beaulieu et a1, 2015, p.3).

TYPES OF CROWDFUNDING

The different types of crowdfunding can be categorized as follows (World Bank, Islamic Development Bank, & Islamic Research and Training Institute, 2015, p.53; Abdullah & Oseni, 2017, p.226):

DONATION-BASED CROWDFUNDING

In donation-based crowdfunding, the funders make donations for a social cause without expecting to gain anything. In other words, backers support an initiative through contributions from a purely philanthropic perspective without expecting any future compensation.

REWARD-BASED CROWDFUNDING

In reward-based crowdfunding, the funders (backers) fund (back) a project to gain non-financial rewards. They receive a token of appreciation for supporting an initiative, such as a gift, an acknowledgment for support, or samples of the products or services being developed. Reward-based crowdfunding is an excellent online venue to pre-sell products and use these proceeds to produce the goods or services offered.

LENDING-BASED CROWDFUNDING

While the first two types are more philanthropic, lending-based crowdfunding is an investment vehicle through which crowd investors provide loans to startups or small enterprises to support their ventures in exchange for receiving returns in fixed periodic income and expect repayment of the original principal investment.

EQUITY-BASED CROWDFUNDING

Like lending-based crowdfunding, crowd investors support startups or small enterprises for financial gain. Equity-based crowdfunding enables the funders to receive compensation in the form of shares in the venture financed and are thus part of a profit and loss sharing agreement with the funded startup.

THE GROWTH OF CROWDFUNDING INDUSTRY OVER THE WORLD

Crowdfunding in donations, rewards, debt, and equity represents a new financing model for entrepreneurial activities and small enterprises overcoming the funding gap and financial institutions' risk implications (Marzban et al, 2014). The concept and how one can use and contribute to crowdfunding are still evolving and probably will continue to do so (Mushthaq, 2017, p.89). However, it is essential to note that the rise of crowdfunding in the last ten years derives from the proliferation and the emergence of web applications and mobile services (Biancone et al, 2019, p.1). This alternative financing instrument has become a popular model in the financial service industry and successfully disrupted the current financial system (Saiti et al, 2019, p.474).

Regarding market development, the crowdfunding report by Massolution showed that the overall crowdfunding industry is growing significantly throughout the world. The 2012 worldwide crowdfunding volume reached US$ 2.7 billion raised from over 1 million campaigns, making crowdfunding volume increase by 81% in 2012, which is an acceleration from the 64% growth in 2011 (Massolution, 2013). In 2014, the crowdfunding market grew by 167%, with a total of US$ 16.2 billion raised across crowdfunding platforms globally. Afterward, the volume of crowdfunding was more than doubled during the year 2015, to reach US$ 34.4 billion, as shown in the table below:

Table 1: Total crowdfunding volume (2012-2015 US$ Billion)

2012	2013	2014	2015
2.7	6.1	16.2	34.4

Source: http://crowdexpert.com/crowdfunding-industry-statistics/

In terms of a fund raised by region, although crowdfunding offers a growing number of countries opportunities to access funds, platforms in North America and Europe raised much more capital than platforms in other areas. In 2012, North American crowdfunding volume reached US$ 1.6 billion, and European crowdfunding volume reached US$ 945 million. In 2015, the crowdfunding volume grew significantly in Asia, making its volume more significant than the European continent and becoming the second-largest market for crowdfunding after North America. However, in the remaining regions, the volume of crowdfunding was limited and did not exceed a total of US$ 200 million, as shown in the table below:

Table 2: Total crowdfunding volume by region (2015 US$ million)

North America	Asia	Europe	South America	Oceania	Africa
17,200	10,540	6,480	84.74	68.6	24.16

Source: http://crowdexpert.com/crowdfunding-industry-statistics/

ISLAMIC CROWDFUNDING

ISLAMIC FINANCE AND CROWDFUNDING

Islamic Finance, ideally, is an alternative way of financing based on ethical and socially responsible standards, which ensures fair distribution of benefits and obligations between all the parties in any financial transaction. Crowdfunding carries these characteristics and provides the ground for new developments in the field.

Lending-based crowdfunding is treated differently in this case since it is clear that Islam prohibits interest at all cost. The platform must rely on Islamic financial contracts and processes without interests such as the use of Murabaha and Ijarah.

Based on the principle of Muḍarabah, all capital is unguaranteed, and in the case of default, all the materials in the business will be liquidated and returned to the investor. On the other hand, in Murabahah crowdfunding, capital from the crowd will be collected as the fund to buy all assets necessary to establish the campaigner's business and sell it to campaigners with the cost-plus methodology. This methodology is a safer way to become involved in lending crowdfunding, yet there will be no interest involved, and it complies with all Shariah requirements. With this concept, there will be real profit-and-loss sharing within the business since all of the parties bear the risk (Biancone et al, 2019, p.5; Saiti et al, 2019, p.476).

Crowdfunding represents a significant opportunity to deliver the essential expectations from Islamic finance by combining the benefits of social development and investment opportunities, for a wide range of entrepreneurs and investors (WB et al, 2015, p.55). The advantages of crowdfunding for Islamic countries include (Marzban & Asutay, 2012, p.29):

- Providing access to capital for a wide range of entrepreneurs and small business owners, thus reducing the funding gap.
- Opening up a new asset class for small and medium investors, and the possibility of reaching a large number of local and international donors.
- Minimizing risk by splitting limited capital across multiple start-ups.
- Promoting innovation and keeping the talent local.
- Creating jobs through the established start-ups, and the expansion of small enterprises.
- Supporting the growth of ventures to enterprises and possible future initial public offerings -IPOs- in new sectors such as the technology and health sector, which are almost nonexistent in Muslim countries' public equity markets, thus increasing diversification for fund managers.

To tap into this opportunity pool, a customized crowdfunding framework for Islamic countries has to be developed, taking into consideration the nature of these markets, and most significantly, the compliance and adherence of the financial instruments with Shariah from the perspective of the different stakeholders involved in the crowdfunding process (Marzban et al, 2014). Therefore, crowdfunding must meet the following criteria to ensure Shariah-compliance (WB et al, 2015, p.55-56):

- The platform must be governed by a Shariah board or Shariah supervisor.
- Investments must be socially responsible.
- Start-ups must operate in Shariah-compliant businesses and not generate income from sources that are not Shariah-compliant.
- Clear legal restrictions must be defined to ensure that the start-up does not raise interest-based debt, deposit cash, invest in noncompliant instruments, or extend the product and service portfolio to include noncompliant activities in the future.

DEVELOPMENT OF ISLAMIC CROWDFUNDING

The Islamic Financial Services Board report (2017, p.120-121) stated that the number of distinct crowdfunding platforms with a primary location in a member state of the Organisation of Islamic Cooperation -OIC- were only 80. Most of these are donation- or reward-based platforms. IFSB identified 14 equity-based and 13 commercial loan-based crowdfunding platforms with an "active" status. IFSB sifted out only four active "Islamic" crowdfunding platforms with a primary location in an OIC member state from the platforms' profiles. There are two more Islam-oriented active platforms of this type outside the OIC: Ethis Crowd (Singapore) for real estate, and KapitalBoost (Singapore) for SME financing. Accordingly, the number of platforms in OIC member states that explicitly refer to Islamic finance or Shariah and offer investors financial returns is very small.

Islamic crowdfunding's growth prospect is vast, considering the relatively small market and massive demand for crowdfunding financing. As a comparison, the estimated total Islamic crowdfunding in 2015 reached US$ 30 million versus the total crowdfunding market of US$ 34 billion (Saiti et al, 2019, p.474-478).

CHALLENGES FACING ISLAMIC CROWDFUNDING PLATFORMS

The following core challenges limit the growth and development of Shariah-compliant crowdfunding platforms in Muslim countries:

THE LACK OF REGULATION

In 2012, JOBS (Jumpstart Our Business Startups) Act, was signed into law by the US President. The Act required the SEC (Securities and Exchange Commission) to adopt rules and formulate laws that will allow and provide for crowdfunding in the country. It led to opening up big and small crowdfunding platforms and created job opportunities in the country besides bringing an inflow of required capital or finance to the startups and SMEs.

However, an insight into the Middle Eastern countries shows the absence of proper laws and regulations that would provide for financing through Crowdfunding, let alone incentivizing the entire regime. In some of the regions, such as the UAE and Oman, there is ambiguity regarding whether the fund raised through Equity Crowdfunding would result into issue of Capital and would be governed by the Securities and Contracts Laws of these nations (Uruba & Mishra, 2016, p.101). Since crowdfunding is a public fundraising, it cannot be considered as a private placement. Thus, without specific regulation, it is regarded as a public offering governed by highly complex processes similar to IPOs. To overcome this, some platform operates as a closed network of investors, this limits growth and prevents the utilization of social media and other public marketing to explicitly market its services, educate the public, and increase outreach. Furthermore, the lack of regulation creates uncertainty and concerns by the public on the legality of the investment platforms (WB et al, 2015, p.59; Mushthaq, 2017, p.92). A specified act or a law providing clear guidelines addressing such issues and governing crowdfunding investing would be indeed a significant step (Uruba and Mishra, 2016, p. 101).

WEAK TECHNOLOGICAL INFRASTRUCTURE

Technological infrastructure is a cornerstone for crowdfunding, relying on internet and digital payment penetration (Consultative Group to Assist the Poor, 2017, p.27). The internet is growing strongly in the Middle East and Africa, but still lag behind penetrations in developed countries. In 2017, internet penetration rates in Africa was 35.2 percent from the population and in the Middle East was 64.5 percent, compared to 85.2 percent in the EU and 95 percent in North America (internetworldstats.com/stats.htm).

Digital payments are the key challenge in developing countries. Diverse digital payment gateways that could reduce crowdfunding's transaction costs are lacking, and credit card penetration and online bank transfers are low in developing countries. Furthermore, online legal transactions need to be made possible through digital signatures and other verification technologies. This would strengthen the core value proposition of online crowdfunding. Currently, in countries like Egypt and Malaysia, to establish a company, to register shareholder rights, and for the legal documentation, crowdfunding investors must conduct several offline activities (WB et al, 2015, p.59).

SHARIAH ISSUES

Islamic crowdfunding is Islam-based crowdfunding, so project and product being offered must be halal and permitted by the religion of Islam. Likewise, the money used to finance a project must be guaranteed halal (Sentot, Anna, & Widayat, 2015, p.9). To comply with Shariah, Islamic crowdfunding also needs to avoid gambling and speculations (maysir), uncertainty (gharar) and interest rate (riba). Thus, among the four types of crowdfunding, only lending-based crowdfunding does not comply with Shariah since it consists of element of riba. Reward-based crowdfunding is almost similar to Bay as-Salam's concept (Salizatul et al, 2018, p.18). To determine the halal of a project or product, it is necessary to establish Sharia Supervisory Board (Sentot et al, 2015, p.9). The Shariah status and screening process are not clear for many Islamic crowdfunding platforms. For instance, the platform characterized in its Crowd surfer profile as a "Shariah-compliant equity platform for SMEs and start-ups in Malaysia" – AtaPlus, did not mention the Shariah compliance on its website. The only hint of Shariah compliance was the list of activities in which a fund-seeking entrepreneur must not be involved. One of the oldest equity crowdfunding platforms in Egypt – Shekra – quotes several previous Islamic awards on its website. It does not explain how it assures Shariah compliance. Finally, an Indonesian platform for student loans – Danadidik – applies a profit- (or income-) sharing model to calculate the returns for investors. Although this is vaguely reminiscent of Islamic financing techniques, the platform claims to adhere to Islamic principles (IFSB, 2017, p.120).

THE LACK OF AWARENESS AND TRUST

Another challenge for crowdfunding in developing markets is the lack of general awareness and trust. Since crowdfunding is a recent phenomenon, there is little overall awareness among potential users (funders and fundraisers) of this innovation (CGAP, 2017, p.28).

Islamic financing is also new to most people, especially as conventional financing (interest-based) has become the norm in most communities. While Islamic finance structures such as Murabaha (cost plus profit margin) is relatively straightforward, most people are apprehensive in trying something new regarding finance and investment. Thus, significant effort in educating the public about Islamic finance and crowdfunding is required (Mushthaq, 2017, p.91-92).

SHEKRA – AN EQUITY-BASED CROWDFUNDING PLATFORM IN EGYPT

This section presents the case of Shekra to illustrate how significant Islamic crowdfunding can be on supporting star-ups and small enterprises in Muslim countries and achieving Islamic finance objectives, as well as the challenges faced by it.

Shekra platform uses different Islamic financing methods, including diminishing partnership, interest free loan, donation etc. It is affected by all types of obstacles and challenges facing Islamic crowdfunding, making it essential and worth studying.
Shekra platform is among the first Islamic crowdfunding platform in the region. It emphasizes quality services, partnership, risk-sharing, and social impact. This example provides the possibility of a fruitful common ground between the Islamic finance and crowdfunding industries. Shekra provides many activities before and after funding.

SHEKRA PLATFORM

The crowdfunding platform "Shekra" has drawn its name from the Arabic phrase "شارك فكرة", which means "share an idea". The platform was launched in Cairo, Egypt in November 2012 by seven founders coming from backgrounds in technology, aviation, investment and banking, who have pooled their resources to support Egyptian start-ups. In order to fully support start-ups, Shekra provides many activities before and after funding, and guaranty compliance with Sharia law. The platform hopes to expand throughout Africa and OIC members (Gabr, 2013).

Shekra is characterized by some distinguished features that are distinct to it. Unlike other crowdfunding platforms, which ask the public to fund projects, Shekra relies on a closed network of investors. Since crowdfunding is a new concept in Africa and the Middle East region, a closed investor network is crucial to ensure the seriousness and reliability of the investors and to circumvent legal restrictions. Besides, Shekra strongly believes in the concept of sharing the risk with both entrepreneurs and investors. Therefore, the main compensation of Shekra is through in-kind equity rather than charging a fixed percentage of the capital raised as is the common practice of conventional crowdfunding platforms. This ensures profit and loss sharing among all stakeholders and increase the confidence in Shekra as a partner whose interests of selecting successful start-ups are aligned with those of entrepreneurs and investors. A minimum fee is charged to the start-ups to provide services including business plan support, due diligence, and monitoring (shekra.com/en/howitworks.php).

Shekra platform has realized remarkable achievements in a short period. A year after its inception, Shekra's closed investors network included more than 60 investors, some from Egypt and others from around the region and the globe. Besides, several agreements were concluded with individuals, institutions and groups to join the investor network. Concerning start-ups, the number of registrations received by Shekra exceeded 100 (Gabr, 2013). In 2015, Shekra financed and supported seven start-ups across different industries, such as in the sustainable development sector, delivery and errands services, an online psychiatric support service, and a renewable energy provider for farmers (WB et al, 2015, p.57).

As a reward for its efforts, Shekra received the "Ethical Finance Initiative Award" by Abu Dhabi Islamic Bank in 2013, and the Islamic Economy Award for "Best SME Development" at the Dubai Summit of Global Islamic Economy in the United Arab Emirates (shekra.com/en/).

SHEKRA FRAMEWORK

Shekra developed a framework through which it tackled the core characteristics and opportunities existing in Middle East and North Africa -MENA- market resulting in redefining contributors, enterprises, and investing process.

CONTRIBUTORS

Shekra crowdfunding platform relies on a large and diversified base of contributors, including individuals and institutions, to fund start-ups. Due to regulatory restrictions in MENA region, crowd investing has to rely on a closed network of investors instead of relying on public contributors. Individual contributors residing in the respective country, as well as the diaspora investing back in their countries of origin provide a significant contribution pool to be provided mainly in the form of equity, but in some cases also in the form of interest-free loans, to support entrepreneurs from a social responsibility perspective. Another pool of capital can flow in from institutional crowd contributors in the form of interest-free loans such as provided by government organization and institutional development organizations, equity investments, and grants such as provided through international donors (Marzban et al, 2014).

ENTERPRISES

To address the needs of different classes of entrepreneurs, and to provide financing mechanisms reflecting their long-term purposes and vision for the respective venture, Shekra has made a clear distinction between start-ups and small enterprises. Small enterprise owners such as restaurants, agricultural products or family business in general seek financing to grow their business rather than targeting a possible acquisition. For such kind of financing purposes, the exit scenario is in the form of a share buyback by the respective entrepreneur through using a diminishing musharakah (partnership) agreement between the entrepreneur and the crowd. In the case of start-ups with growth potential, the typical venture capital equity nature is more appropriate to employ due to the increased risk nature of seed / early-stage start-ups, which is compensated through expected multiples returns from a prospective exit scenario. The framework employs for start-ups structured contracts based on both Musharakah and interest-free loans to ensure fair distribution among capital providers in the case of liquidation (Marzban et al, 2014).

INVESTING PROCESS

Crowd investing within the Shekra crowdfunding framework is based on a multi-stage process. The beginning of the process is by reaching out young entrepreneurs who have good business ideas deserving support and assistance. Shekra start-ups reach program aims at identifying entrepreneurs through various methods, including initial registration by entrepreneur on Shekra.com, organization Shekra start-up events, social network reach out (shekra.com/en/howitworks.php), roadshows at universities and partners (Gabr, 2013).

Potential start-ups submitted to or identified by Shekra are assessed based on a sophisticated internal screening process. The Shekra team and network of external consultants evaluate the potential start-ups and give them an appropriate Shekra Score. Start-ups have to reach a minimum Shekra score in order to be considered eligible for the Shekra Network. For Start-ups meeting the minimal Shekra Score, but missing essential skills or requirements, they will be supported to become Shekra-eligible. This might include supporting them in developing their business plan and providing them with crucial basic business training through a crash course provided by Shekra educational partners and / or Shekra in-house experts.

In the second stage, when the start-up becomes ready for the crowd, it will be posted on the Shekra Portal and promoted through Shekra social media network services. Funding is considered successfully completed when the target fund of a company is fully attained within the specified timeline.

In the last stage, Shekra undertakes the legal process required to document the transfer of the shares in the start-ups to the investors upon the completion of the funding process. The entrepreneurs and investors will also sign a Shareholder Agreement, which will govern their relationship and will define their rights and obligations (shekra.com/en/howitworks.php).

FINDINGS OF THE STUDY

The role of crowdfunding in supporting start-ups and small enterprises takes many forms. Funding ventures by drawing on small contributions from a large number of individuals using internet platforms, which facilitate the process of transfer of funds from those who were looking to donate or invest to those in need of capital. The crowd’s contributions encompass also knowledge, experience, and work. In addition, entrepreneurs could dialogue with the crowd to get ideas, and solicit input on the product or service they intend to offer. Furthermore, the pooling of small amounts of money from many investors through internet platforms reduces the risk and financing cost, and the existence of different types of crowdfunding platforms enlarge the possibilities for start-ups and small enterprises to get the needed funds. These funds could take the form of donations from a purely philanthropic perspective, pre-selling products and using proceeds to produce the goods or services offered, or equity and debt financing in exchange of financial gains.

Shekra, as crowdfunding platform, addresses the need of different classes of entrepreneurs in a shariah-compliant way. Investors’ contribution is provided in the form of equity, interest-free loans, and grants. It provides financing to small enterprises using a diminishing partnership agreement (Musharakah), and financing to start-ups using partnership agreement (Musharakah) and interest-free loans. In addition to secure funding, Shekra supports start-ups in developing their business plan and providing them with crucial basic business training. Its main compensation is through in-kind equity, which is a way of sharing the risk with both entrepreneurs and investors.

The results of this study agree with previous researches, they indicate that crowdfunding basic principles are in line with the essence of Islamic finance. It is based on the principle of social solidarity and redistribution, which are fundamental concepts of Islamic finance (Biancone et al, 2019). The diversity, flexibility, and other characteristics of Islamic crowdfunding make it an optimum alternative for financing start-ups and small enterprises in accordance with Shariah (Mushthaq, 2017). Therefore, the adoption of crowdfunding could expand Islamic financing for start-ups and small enterprises, as well as promoting the real values of Islamic finance (Saiti et al, 2019), and achieving Islamic finance targets in terms of socio-economic development in Islamic countries (Marzban et al, 2014).

Concerning the contemporary state of Islamic crowdfunding, the number of platforms in OIC member states that explicitly refer to Islamic finance or Shariah is very small. The estimated total Islamic crowdfunding in 2015 reached a mere volume of USD 30 million. This small funding volume raised by Islamic crowdfunding confirmed the slow-paced progress at which Islamic crowdfunding is growing, and the great difficulties that it is facing (Uruba & Mishra, 2016; Biancone et al, 2019, p.8; Saiti et al, 2019, p.481).

Regarding the reasons behind Islamic crowdfunding underdevelopment, they include different aspects. First, the lack of regulation limits growth and prevents the utilization of social media and other public marketing to explicitly market crowdfunding platforms’ services. Second, technological infrastructure in Islamic countries is weak, as diverse digital payment gateways that could reduce the transaction costs of crowdfunding are lacking, credit card penetration and online bank transfers are low, and digital signatures and other verification technologies that could make online legal transactions possible are missing. Third, the Shariah status and screening process are not clear for many Islamic crowdfunding platforms, which do not explain how they assure Shariah compliance on their websites. Finally, there is a little overall awareness among potential funders and fundraisers of crowdfunding in Islamic countries, and the use of Islamic financing is also unfamiliar to most people.

DISCUSSION AND CONCLUSION

This paper analyzed the pivotal role played by Islamic crowdfunding as a major driving force in the encouragement and expansion of start-ups and small enterprises, the chief backbone of economic growth. In addition, it revealed the progress that could be achieved with respect of Islamic finance expansion in the course of its adoption.
Crowdfunding is used to finance expansion projects and capital increase of start-ups, small and medium enterprises. It is based on the principle of social solidarity, redistribution and better utilization of financial resources, its ability to reach the wider community and participation, regardless of geography, is a key enabler to rally support and mobilize wealth that could fund start-ups and small enterprises, and fuel social and economic development.

Crowdfunding could offer a solution to the problem of lack of financial support for start-ups and small enterprises facing funding crisis in Islamic countries. Also, combining Islamic financing contracts, such as Musharaka, Murabahah, Ijarah, Mudharaba and free-interest loans, and crowdfunding represents an opportunity to significantly contribute to the enhancement of Islamic finance role in promoting social and economic development.

Although the great potentials of crowdfunding, its growth and progress has been relatively slow-paced in comparison to various developed economies of the world. Islamic crowdfunding platforms could realize remarkable achievements with regard to financing and supporting start-ups and small enterprises across Muslim countries if their number is increased and their activities are developed. Nonetheless, the growth of crowdfunding in Muslim countries is limited by the lack of a sound and enabling regulatory framework, and problems with internet and digital payment penetration, online legal transactions, unclear Shariah screening process, and the lack of awareness and trust.

The results of this study indicate that crowdfunding basic principles are in line with the essence of Islamic finance, and agree with previous researches in terms of crowdfunding potentials and limitations in Muslim countries, limitations that should be taken into account when considering creating a sound and enabling environment for Islamic crowdfunding.

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