

# SADAQAH-BASED CROWDFUNDING MODEL FOR MICROFINANCING AND HEALTH CARE

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## ABSTRACT

The rapid development of payment technology and internet network throughout the world makes crowdfunding to be used widely as mechanism for funding. Generally, the crowdfunding adapts the concept of microfinancing and crowdsourcing, but it has unique characteristics of its own. This present paper is aimed to investigate the potentials of crowdfunding and proposes a crowdfunding model which complies with Shariah using permissible contracts namely *sadaqah* and *qard al-hasan*. The present study was conducted using qualitative method through library research. The study found that crowdfunding has been employed in various models; donation-based and investment-based models. It was also found that it is permissible for the crowdfunding to be incorporated with the Shariah complied contract of *sadaqah* in order to mobilize the fund from the community. Therefore, this study proposed a *sadaqah*-based crowdfunding model. The model has two main roles, which are to provide microfinancing for entrepreneurial projects and set up health care fund for the treatment costs of the needy.

**Keywords:** Crowdfunding, *sadaqah*; *qard al-hasan*, microfinance, health care

## INTRODUCTION

Microfinance can be defined as small loans granted to individuals as capital investment to enable the generation of income through

entrepreneurial activities. Microfinance is one of the forms of debt. Islam approves the existence of debt and its roles in daily life. In Al-Quran, Surah Al-Baqarah 2:282 states about debt in Islam. Even though debt is approved, Islam consistently stresses the most important element while having debt transaction, which is the application of zero-interest (non-*riba*) transactions. In the world history of microfinance, Grameen Bank of Bangladesh has become the leading institution in this area. In December 2015, Grameen Bank reported about 8.479 million creditors with the total loan disbursement of USD18,079 million, where 96 percent of that huge number was female (Grameen Bank, 2016). Many researchers are interested to undergo further research on Grameen Bank microfinance model as it helps to alleviate poverty and aids failing economy (Comim, 2007).

Unfortunately, Grameen Bank charged the interest on loans they disbursed which is explicitly prohibited in Islam. In this regard, Islam promotes *qard al-hasan* (benevolent loan) and gives reward in hereafter to those who are willing to offer this form of loan to the needy.

As Prophet Muhammad SAW said:

*A long time ago there was a man who gave loans to the public. He said to his servant: "When you collect the debt from the person in difficulty, grant him leniency, and God will grant us the facilities side." Then he met God, God gave him facilities.*

*(Sahih Muslim No. 2922)*

The hadith indicates that providing debt to the needy is a noble practice. Those who are in need may use the money to buy food or use as capital to start a small business in any sector of the economy in order to upgrade their standard of living. In macro view, the proliferation of business activities creates jobs and then, reduces unemployment and alleviates the poverty. In narrow view, it will provide sufficient sources of income to the needy to fulfill their needs.

The human needs can be categorized into 3 categories (Hassan, 2005), namely: the necessities of life (*daruriyat*), the necessities which are regarded complements or improvement (*hajiyat*) and the needs where satisfaction accords people social status or recognition (*tahsiniyat*). *Daruriyat* is defined in terms of five objectives which are indispensable in themselves to the extent that people cannot live without them and that of losing them poses a threat to the very survival of normal order. They are maintenance of religion, maintenance of human life, maintenance of children, maintenance of wealth and maintenance of intellect (Ahmad, 2011). These must be completed for someone to live as a normal human being.

One of the needs under *daruriyat* is health care. Growing poverty has significant relation with health care (Davidhizar et al., 2000). Both of them are concerned with the maintenance of human life. Normally, low living standard will make it difficult for the needy and the poor to access to health care. Health problem can be very severe since the cost of treatment is beyond their capabilities, where it is very worrying if the treatment of chronic diseases costs tens of thousands. In order to fulfill this *daruriyat*,

certain mechanism should be employed to fund the cost. Health issues should not be taken lightly by the government as it is one of basic need of the human being. Everyone has the right to achieve the highest attainable standard of physical and mental health, no matter whether they are rich or poor (NESRI, 2016). The mechanism should not only be able to fulfill the needs to better the health, but also to alleviate the poverty and improve the distribution of income (Bakhtiar & Meisami, 2010).

The present paper begins with an introduction that describes the overall study. This is followed by the research background and objectives of the study. Then, this study describes the significance of the study, which is later followed by a discussion on the literature review of existing studies. The illustration of suggested model is explained in the findings. The paper ends with policy implications and conclusion.

## RESEARCH BACKGROUND

Malaysia is located in the Southeast Asia. It consists of Malaysian Peninsula and Island of Borneo. Malaysia belongs to a group of developing countries. Since independence, Malaysia has embarked on progressive policies to improve the social and economic conditions of the country. The policies provide a framework for realizing the mission of turning Malaysia into a fully developed nation by 2020 (Mokhtar, 2011). However, the cost of living is becoming increasingly acute in a way of becoming a developed nation. In addition, as an open economy, the global economic downturn has closed impact on the country's economic performance and fluctuations which make employment opportunities becoming uncertain.

In an era of economic uncertainty, the idea to generate income through small business activities is becoming increasingly popular. People are aware they can no longer rely solely on their monthly salary due to the retrenchment that could happen any time. They tend to run their own business. However, the inadequacy of initial capital to start up a business is a worrisome problem. The capital inadequacy problem is also faced by the existing business incumbents. They are always looking for additional capital to develop their businesses (Pope, 2011). For small amount of loans, they traditionally are looking forward to microfinance institutions in helping them to get the fund. Microfinance institution provides financing like banks, but on a smaller scale of activity (Rahman, 2007).

In Malaysia, microfinancing program has been implemented since 1987 as a way to eradicate poverty in the country (Mokhtar et al., 2012) through financing Small and Medium Enterprises (SMEs)<sup>5</sup>. There are three largest poverty-oriented microfinance institutions namely: Amanah Iktiar Malaysia (AIM), Yayasan Usaha Maju (YUM) and TEKUN Nasional (TEKUN). All these three institutions offer various microfinancing schemes to meet the needs and requirements of entrepreneurs. AIM, YUM and TEKUN have a variety of loans and provide services to people of different status and strata. AIM and YUM offer loans to the poor and hardcore poor

among women, while TEKUN lends money to the poor and non-poor which are also among women borrowers. AIM adopts a group lending scheme, whereas TEKUN and YUM use an individual lending scheme. Amongst the three, AIM has become the most dominant microfinance institutions in Malaysia (McGuire et al., 1998). In this case, microfinance is viewed as an alternative in supporting the development of economy and poverty eradication as well (Ahmed, 2002).

However, poor entrepreneurs are not taking full advantage of microfinance services. This phenomenon is prevailing in the countries with Muslim majority (Chapra, 1992). Muslim consumers are restricted to a system of finance which is based on Islamic law (commonly referred to as Shariah). Based on the findings of a global survey conducted in 19 Muslim countries by the Consultative Group to Assist the Poor (CGAP), it was found that about one third of the respondents chose religious reasons as the main reason why they do not take advantage of the existing interest-based microcredit products (Karim et al., 2008). Muslim community unequivocally requires that the Shariah-compliant scheme, which avoid them from the forbidden elements in the contract such as *riba*, *gharar*<sup>6</sup> and *jahal'* (Morsid and Abdullah, 2014). Currently, there are limited number of microfinance institutions that provide financing according to Shariah.

<sup>5</sup> The contribution of SMEs to the economy of Malaysia is 32 percent in 2010 and is expected to reach 41 percent in the year 2020 (Hassan et al, 2013). Therefore, a lot of institutions grow up in Malaysia such as Sekretariat Kemajuan Usahawan Malaysia (SAME), People's Credit Cooperation (KKR) and SME Bank to provide fundings for SMEs.

<sup>6</sup> It refers to uncertainty that could impair contracts.

<sup>7</sup> It refers to doing something without sure knowledge or buying something without knowing its specification (Morsid and Abdullah, 2014).

Due to the demand for Shariah-compliant microfinancing, the interest rate charge was removed and replaced with a management fee (Mokhtar et al., 2012). In this case, AIM, YUM and TEKUN apply management charges on their benevolence loans (Mokhtar, 2011; Mokhtar et al., 2012). However, the charge is imposed by percentage rate out of total principal amount loaned out to borrowers. Hence, the implementation of management fee is still being debated. Those who oppose the practice said if it is calculated by percentages (e.g. 4 percent), it is a kind of interest according to some scholars (Zaharuddin, 2007). The right method according to Shariah should be charging management costs with a fixed amount (e.g. MYR 100) regardless of any amount of loan, instead of a percentage or ratio method (Zaharuddin, 2007).

Consequently, it restricts Muslims to expand their sources of income through business activities. This situation becomes worse for low income households that already earn minimal income. With little income, they are unable to fulfill their needs, including those under *daruriyat*. One of the important necessities is health. Health determines the quality of labour service and productivity. The World Health Organization estimates that each year 25 million households become poor due to illness and struggle to pay for health care (World Health Organization [WHO], 2005). Even though, there are already a lot of institutions or funds providing for medical cost, like Yayasan Kebajikan Negara (YKN), Jabatan Kebajikan Malaysia (JKM) and Tabung Bantuan Perubatan (TBP) but in reality, the funds are limited, and many people are seeking donations for the cost of chronic disease treatment or immediate surgery. Although, there is a solution through *takaful* schemes to help people

during the hard time, but the poor still face difficulty to allocate money for a monthly payment for the schemes. In this regard, a study conducted by Noor Ashikin et al. (2012) found that 80 percent of the respondents were without financial protection due to their inability to contribute to the monthly premium (contribution). However, they know the importance of having a plan of protection but the financial constraints caused them not to do so (Taib, 2009). Furthermore, health affects life quality as when facing with the high cost of treating the illness, the chances of poor households to be out of poverty is reduced (Leatherman et al., 2011). Besides, health also has been identified as an important tool to help poor people to enjoy a better quality of life (Lloyd, 2009). Improvement of living standards of the poor can help them to get out from poverty by working or running a business to cover household expenditure.

Therefore, the theme of this paper is to promote donation or *sadaqah* as the income generation instrument through business financing as it applies interest-free contract. Meanwhile, crowdfunding is employed as the mechanism for fundraising. Merging both *sadaqah* and crowdfunding may become an alternative solution to funding problem in microfinancing institutions and health care funds. Thus, the objectives of the study are to propose a crowdfunding model as the alternative funding source for SMEs which it is free from usury contract and equally accessible to various groups of people, and to propose a crowdfunding model which consists of dual-functions for financing SMEs and establishing the fund for health care. This study adopts qualitative research using descriptive approach.

Thus, a library research has been employed to gather information from secondary sources consisting of journal articles, presentations and seminar proceedings, theses, news articles, and books which are related to the topic of study. In addition, the information from the internet from some website related to this study is also considered.

## SIGNIFICANCE OF STUDY

This study will be a significant endeavor in promoting the potential of sadaqah as a tool to collect funds for business financing especially for businesses run by young and poor people. This study surely will be beneficial to the entrepreneurship program in Malaysia such as Tunas Usahawan Belia Bumiputera (TUBE), 1AZAM Program and 1MET. The programs expose participants who are mainly young and poor people about the world of business. They also learn techniques and skills in doing business. After graduation, students may need to start their own businesses and often, some of them will receive funding from the programs. Those who do not get the fund or wish to expand their business, this is where the importance of this study when it provides a new funding mechanism that is based on Shariah. The study not only can help to get funds from the public, but also can ensure that projects are carried out in compliance with Shariah.

Moreover, this study will be helpful to support existing medical treatment funds such as Tabung Kebajikan Perubatan Malaysia (TKPM), Tabung Bantuan Perubatan (TBP), Tabung Bantuan Implan (TBIP), Majlis Kanser Nasional (MAKNA), Malaysian Children's Aid Society (MACAS) and Jabatan Kebajikan Masyarakat (JKM). The

study will help Jabatan Kerja Sosial Perubatan (JKSP) to connect patients in need of help with the fund. As the poor have least ability to subscribe to any takaful schemes, through this fund, the poor patients have the access to better health care system. This will improve their health conditions and provide them the capacity to enter the job and business markets.

## LITERATURE REVIEW

There are many studies that focus on the impact of microfinance around the world. Among the earliest studies is Hossain (1988) who studied the microfinance in Bangladesh. He concluded that microfinance has given an impact on alleviation of poverty and improved the standard of living. However, the result was denied by Morduch (1999) who conducted a survey for 1800 households in Bangladesh. He found that microfinance programs did not raise the consumption on average, instead, they only offer households the means to smooth consumption through income smoothing. Similar result shared by researchers such as Zaman (1997) and Hashemi (1997). In contrast, the positive impact of microfinance has been recognized by more recent researchers like Montgomery (2005), Comim (2007) and Chowdhury (2009), Takashasi et al. (2010), Samer et al. (2015) who agreed that microfinance as one of the solution to reduce poverty. The studies confirmed the potentials of microfinance in Hossain (1988).

The success of microfinance has been proven successful in Islamic countries. Montgomery (2005) confirmed that microfinance in Pakistan has positive impact on social welfare and income generation, particularly for the poorest

participants in the program. In Indonesia, Takahashi et al., (2010) found that microfinance positively impacts poverty alleviation. In Malaysia, Moktar (2011), and Al Mamun & Adakalam (2011) found the positive impact of microfinancing. However, Samer et al. (2015) and Takahashi et al. (2010) from their study concluded that the impact takes time to show the significant change in income level. Therefore, according to Rahman (2007), microfinance concept is more suitable to be implemented for poor entrepreneurs because it adapts the disbursement of small loan while, no collateral or guarantor needed. The process is more convenient with respect to the condition of the poor. Rahman (2010) added the argument that microfinancing is an alternative for bank financing because banks view the poor as not-credit worthy. Segrado (2005) noted that microfinance focuses directly on the wellbeing of society as a whole, particularly on the poor, destitute or deprived sections of the society. Thus, microfinancing is the suitable tool for helping poor entrepreneurs.

In addition, microfinancing has attracted discussions on Shariah issue since most of the microfinancing programs adapt interest-based financing. Since then, the issue becomes the main consideration for Muslims in business and entrepreneurial fields. A study by Karim et al. (2008) found poor Muslims in many countries reject all forms of interest-based loans, including Grameen Bank's schemes, on religious grounds. Similarly, Aslam (2014) in his study in Pakistan found that people are more interested in subscribing microfinancing loans due to religious perspective and prohibition of *riba*. In addition, Khan &

Phillips (2010) studied on START<sup>8</sup>, a loan advancing microfinance institution in Kosovo, found that there are a significant proportion of borrowers that seek loans from START for religious reasons. Hence, Ashraf et al. (2014) concluded that the core argument in the motivation of Islamic microfinance institutions (MFI) is cultural and religious factors because both are important factors for MFI success in Muslim countries.

In Islam, there are various contracts that may be applicable for microfinance, such as *musyarakah*, *ijarah*, *mudharabah* and *qard al-hasan*. Among the four contracts, *qard al-hasan* is the most suitable instrument for microfinancing according to Askari et al. (2011). They found that *qard al-hasan* has been proven successful with a successful track record in Iran. On the contrary, Abbas & Shirazi (2015) found that *musyarakah*, *murabaha* and *ijarah* are the most applicable. Even there are conflicts of views, but the advantages of *qard al-hasan* are undeniable and considered more spiritually Islamic. It is an act of pure charity by Muslims who can afford to help Muslims who are less fortunate and in a way it can help to alleviate poverty according to Mansori et al. (2015). In this regard, Obaidullah (2008) in his study proposed an Islamic microfinance model using three different non-profit Shariah contracts, namely, *zakah*, *sadaqah* and *qard al-hasan*. Rulindo & Pramanik (2013) believed that *qard al-hasan* is considered the most suitable for social-based financing which is not aimed at profit. These findings have argued that *qard al-hasan* is more appropriate contract for the purpose of poverty alleviation.

<sup>8</sup> A microfinance institution that was established in 2002 by Islamic Relief.

## Crowdfunding

### Definition

Crowdfunding has been proposed as a new financing mechanism. The original concept of crowdfunding is a showcase of ideas to the community. It is presenting an idea to the potential, large and anonymous public in order to have funding from them. In this regard, crowdfunding is also known with other names. According to Agerfalk & Fitzgerald (2008), Pisano & Verganti (2008), Poetz & Schreier (2012) and Grivenics et al. (2014), the practice is known as “crowd-sourcing”. According to Kuti & Madarász (2014), crowdfunding is the response to an open call where the members of a large audience voluntarily decide to finance some kind of a goal directly. Usually, each individual who is interested to help to achieve a particular goal provides a small sum of contribution in exchange for profit or a product or a service to be produced. Sometime, the individual contributes based on pure charity without expecting anything in return.

Since crowdfunding is funded through the small contributions from a large number of individuals, it also suits the concept of microfinance according to Morduch (1999) and Calveri & Esposito (2013).

### Crowdfunding Models

Most researchers categorize crowdfunding to at least four models namely equity-based, lending-based, donation-based and reward-based crowdfunding models as mentioned in Hemer (2011), Calveri and Esposito (2013), Kuti & Madarász (2014) and Grivenics et al. (2014). The World Bank (2013) added one more model which is royalty-based model. Crosetto & Regner (2014) argued that among all the models, the donation model appears, foremost, to be a clever way of sale. Their results also indicate that there are present values of altruism in the internet community which can make the crowdfunding mechanism work. The five models are summarized in **Table 1** below.

**Table 1:**

**Types of crowdfunding model**

Crowdfunding Model	Business Model	Features
Donation	Donation-based	Philanthropic funders donate without expecting any monetary compensation.
	Reward-based	Funders receive a token of appreciation or pre-purchase of a service or product. This model is evolving into a market place of its own, with firms raising considerable sums through pre-sales.
Investing	Equity-based	Funders receive equity instruments or profit sharing arrangements.
	Lending-based	Funders receive a debt instrument that pays a fixed rate of interest and returns on principal for a specified schedule.
	Royalty-based	Funders receive a share in term of unit trust, which acquires a royalty interest in the intellectual property of the fundraising company. A percentage of revenue is paid out over a period of time. The payout varies depending on the periodic revenue.

### Advantages of Crowdfunding

Among the advantages of crowdfunding are, the entrepreneurs or initiators will receive encouragement and feedback from funders or backers (Kuti and Madarász, 2014). In addition, the funders put trust on the entrepreneurs since they will be monitored on their progress of the projects through social media. The World Bank (2013) stated that feedback from customers and donors may lead to a revision of the planned project. Therefore, crowdfunding may work as the market testing and demand measurement platform. In this regard, Grivenics et al. (2014) argued that the chances of success of a project can be estimated through performance during funding in the first couple of days after launching. This can avoid unnecessary spending on the project.

Valanciene & Jegeleviciute (2013) concluded in their study that one of the benefits of crowdfunding is the entrepreneurs have the rights to make their own decisions without interference by any party. In many cases, interference may affect negatively to business performance as it incurs the conflict of interest. Thus, the independence gives the entrepreneurs the incentive to concentrate on product development and innovation. Besides, it can be a good chance to test marketability. It will improve market competition and product quality.

Lastly, according to Calveri & Esposito (2013), the advancement of telecommunication contributes to the success of crowdfunding. The increase of the speed of the internet facilitates the online funding. Hence, people prefer to use online services and interactive social communication venues to help crowdfunding platforms to find potential funders and promote

the project. This feature enhances the potentials of crowdfunding as source of business financing.

### Health Care

With respect to health care, it is the fundamental matter that affects the well-being of human life. Bakhtiari & Meisami (2010) indicated that improving the health and education status in Islamic countries will reduce income inequality and poverty. The issue arising in health care is related to the cost of treatment when it exceeds the capacity of an individual to bear the cost. Saha & Metcalfe (2011), Fatin & Kamaruzaman (2014) and Mokhtar et al. (2012) suggested in their study that micro-takaful or insurance can be an effective mechanism in dealing with insurable risk for low-income household and micro-entrepreneurs. According to Churchill (2006), "micro-insurance is the protection of low-income people against specific perils in exchange for regular premium payments proportionate to the livelihood and cost of the risk involved" (Churchill, 2006: pp. 12). Hamid et al. (2011) concluded that micro-insurance has positive association with poverty in Bangladesh. In this regard, Taib (2009) argued that the poor know the importance of having a plan of protection but financial constraints has caused them not to do so. As shown in Noor Ashikin et al. (2012), 80 percent of the respondents are without financial protection due to inability to contribute the monthly premium.

To conclude, past researches have shown that there is a gap in merging crowdfunding with *sadaqah* in collecting fund. To disburse it, the literature argues that *qard al-hasan* is the most appropriate instrument for business financing. One of the beneficiaries

of crowdfunding is for health care of the poor. Therefore, this study is relevant as the establishment of Shariah-based crowdfunding which has not been studied. Second, the integration between the crowdfunding and health care fund which uses Shariah-based contracts also have yet been studied. This study believes that it will be the first study suggesting and investigating the feasibility of the model.

### Based-line Crowdfunding Model

As has been described previously, crowdfunding is classified into five main models which are based on different objectives of the projects. The purpose of funding includes profit and non-profit motives. Although donation-based and reward-based are non-profit making, lending-based and investment-based are profit making, they are in fact operate with similar procedure. The procedure used is common for all other models as they apply similar purposes and flows. There are three main actors in crowdfunding mechanism, namely entrepreneurs, crowdfunding platform and the crowd. The platform acts as an intermediary that works to assist and facilitate the dissemination of information to those who need funds to carry out their projects. Essentially, the information provided to the public includes the type of projects, capital needed and the reporting of funds contributed. However, there are also platforms that serve over it such as consulting, giving advice, organizing public relation and due diligence (Hemer, 2011). The illustration of the basic procedure of crowdfunding mechanism is shown in **Figure 1** below.

#### Flow of **Figure 1**

1. The capital seekers or entrepreneurs present their business projects to the public through the intermediary of

the crowdfunding platform.

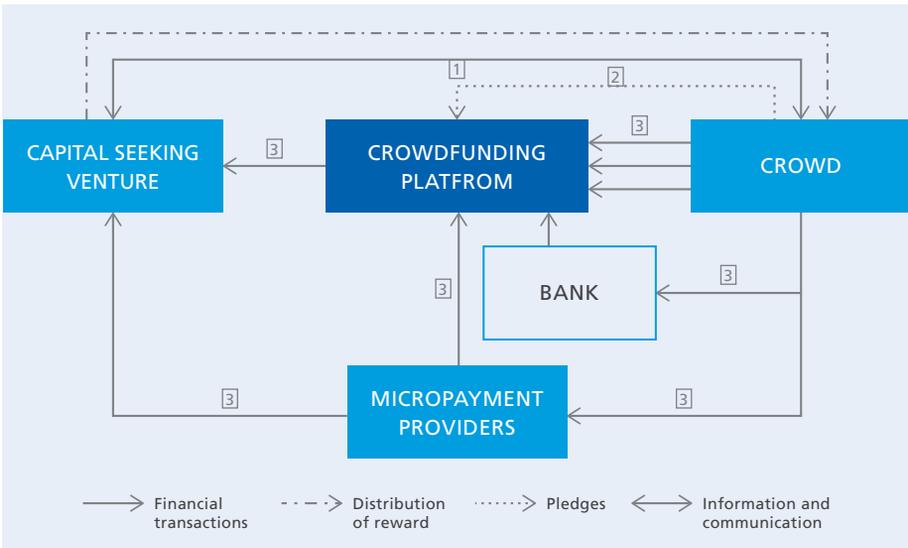
2. Those who agree to fund the project, they will make arrangements or pledge with the platform about the reward that they will get.

Generally, most of the renowned platforms like Kickstarter, IndieGoGo, EquityNet and Crowdcube adopt this model in their business. Kickstarter and IndieGoGo use reward-based and donation-based crowdfunding while Crowdcube uses debt-based and EquityNet employs equity-based investment. Although they employ different mechanisms, in general they share similar procedures. The only difference is the form of reward received by the donors or the crowd. For donation-based crowdfunding, the donors will not be rewarded with any monetary rewards because it is a kind of charitable contribution. In reward-based crowdfunding, the donors will get a reward in a form of non-monetary reward. For example, Skolafund's platform offers breakfast invitation with the philanthropic club to all of its donors. Funders will get in return the principal amount of loan including interest for the debt-based model, while for the equity-based platform; it provides a return in a form of dividends to the investors. These features have been mentioned in **Table 1**.

According to Hemer (2011), platforms such as Kickstarter, MyMajorCompany, SellaBand and SliceThePie have achieved good success rate of funding between 42 percent and 84 percent with an overall average rate of funding at 64 percent. However, none of those existing models have the aim to eradicate poverty. Among the solutions to reduce poverty are through providing credit and financing the cost of treatment for the poor. Furthermore, among the existing

Figure 1:

### Illustration of basic crowdfunding mechanism



Source: Hemer (2011)

platforms, there are only three platforms that claimed to be identified as Shariah-compliant platforms. They are Shekra and Yomken in Egypt, and Ata Plus in Malaysia. All these three platforms are equity-based and reward-based platforms. Yet, there is no donation-based platform which is Shariah-compliant. Hence, as a result, a new model based on the concept of donation should be proposed.

#### Sadaqah-based Crowdfunding

In this study, we propose the *sadaqah*-based model. This model incorporates the concept of microfinance for entrepreneurs using *qard al-hasan* contract. *Sadaqah* is a dynamic charity form, which varies with the *zakah* or *waqaf*. *Zakah* is set up to the use for a particular group, while, *Waqaf* has a feature that its assets should remain perpetual and inalienability (Ismail et al., 2015). *Sadaqah*'s assets are otherwise.

The characteristics of *sadaqah* are flexible to facilitate any idea for the benefit of its assets without any pre-specified restrictions by the Shariah. With respect of limitation issue in microfinance, this model is more dynamic. The element of dynamism can be seen through people can fund a project or business that they assume to be better whether the entrepreneurs are women or men. There are no gender issues in funding, but they only looked at the idea of which project give more benefits to the people and the economy. The Shariah issues mentioned earlier in microfinance can be solved with this model. The contract will be benevolent loan or *qard al-hasan* which no interest shall be imposed. The management costs will be covered by charity funds collected from the public and the cost is charged with fixed amount instead of percentage rate. Next, in order for this model to be implementable, we need a platform.

*Sadaqah*-based crowdfunding platform is created to monitor and promote SME projects that comply with Shariah. Based on our literature review, there are no past studies that have discussed on crowdfunding with respect to the issues of Shariah. In fact, there are some projects that have been carried out that do not benefit the community and at the same time violates Shariah laws such as pornography. In contrast, there is a market demand for Shariah-compliant products. This is an urgency issue as many are in need to receive the Shariah-compliant funds. Muslim population in Malaysia forms the largest population, about 61 percent of the total population (IndexMundi 2016). As Muslims, they are prohibited from engaging in any transactions that contain elements of *riba* (Morsid & Abdullah, 2014). Currently, the microfinance services offered by AIM and TEKUN still have debatable elements of back door of *riba*.

Additionally, Muslims are also forbidden from any transaction that contains elements of *gharar* and *maysir*. Besides, they are prohibited to take part in any business that involves forbidden activities in Islam. For instance, any project or business that contains pornography and alcohol must be avoided. The platform such as Kickstarter does not take this element of forbidden activities into account as it was promoting a pornography filming, *Subtle Angels: Cassie Vol. 1 Fine Art Nudes* in requesting funds to release a series of art nude (Kickstarter 2016). It is crucial for Muslims, whether entrepreneurs or investors to subscribe to Shariah-compliant products. Thus, the proposed *sadaqah*-based crowdfunding platform offers and promotes Shariah-compliant projects and contracts.

The proposed model will also incorporate a number of ancillary contracts like *Wakalah* (agency) and *Wa'ad* (promise). *Wakalah* is an agency contract between the platform and the funders. It gives financial returns to the platform that acts as an intermediate service to link an entrepreneur to potential crowdfunders (Grivenics et al. 2014). In this study, the proposed platform also acts as a manager.

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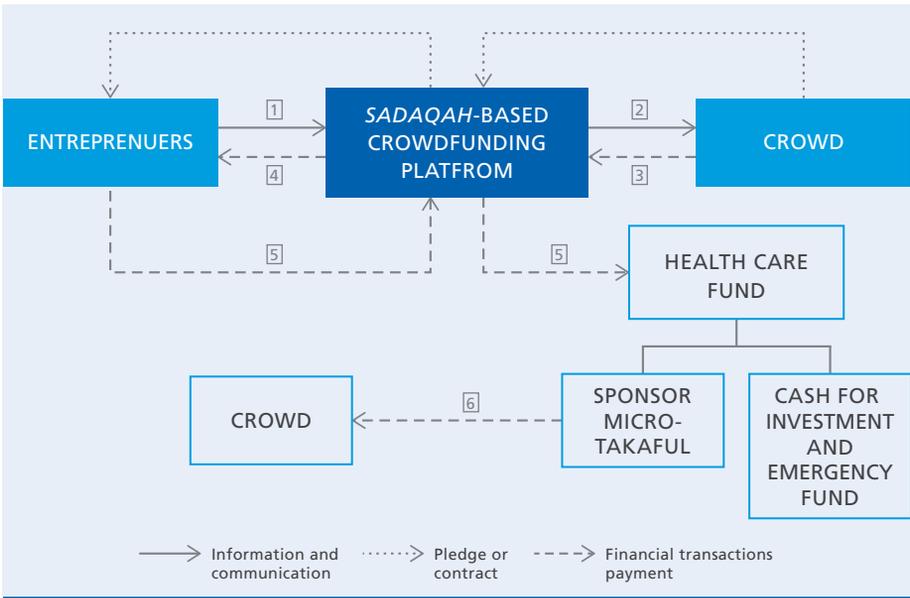
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As a Shariah-compliant platform, one of its duties is to ensure that the business idea presented or pitched to them is Shariah-compliant. If the platform wants to offer Islamic products, this framework suggests that the platform to appoint a Shariah advisor in order to ensure that the proposed activities comply with Shariah laws as it is a prerequisite in peer-to-peer and equity based models to be approved by the Security Commission of Malaysia. As well, the Shariah advisor ensures that to be approved projects operate according to Shariah laws, such that any ideas which passes the screening or due diligence process will then be promoted to the crowd or the public.

Figure 2:

Illustration of *sadaqah*-based crowdfunding model



Thus, *wa'ad* contract will take place between the platform and ventures on compliance with the conditions specified and in line with Shariah. *Wa'ad* is considered as a monitoring tool on business or an ongoing project. Any misconduct committed by ventures will be penalized by the platform.

A significant difference between this proposed model to the existing ones is this *sadaqah*-based model values health care as one of the elements to be focused in eradicating poverty. As been mentioned earlier, health care is one of the major issues in poverty (WHO 2005). Thus, the proposed model combines a concept of microfinance and crowdfunding that will create additional charity fund for health care in the community. The poor are not only given the opportunity to be an entrepreneur by receiving funds, but also they are given the opportu-

nity to get good health care. A microfinance fund in this model must be repaid because it is based on the concept of *qard al-hasan* (benevolent loan), but the health care fund is not required to be repaid. Furthermore, the health care fund is funded by the repayment of the microfinance loans. The fund works to protect the poor from financial risks due to the high costs of payment for health care services. This happens in the event of an emergency, suffering from chronic disease or an accident that requires immediate surgery. Another role of the fund is it may be given to the poor as a payment to micro-takaful.

Obviously, the fund is not currently implemented by the existing models of crowdfunding. The existing platforms such as Kickstarter and Skolafund only practiced one-off donation, whereas *sadaqah*-based model offers continuous benefits. Another difference is that a *saqadah*-based model

also does not completely use up the donated asset as in the previous model. The proposed model takes some parts of the total debt repayment for investment purposes so that the initial amount of fund may be increased and reusable. This model has the potential to grow because it involves public funds, therefore it does not have the bureaucratic process that occurred in banks and other microfinance institutions. Another potential for this model is that it is Shariah-compliant. The indictment may attract Muslim entrepreneurs using their services. To conclude, this model offers two benefits in one model. The entrepreneurs gain the opportunity to get funding and the poor gets the sponsorship for micro-takaful and medical assistance. The potentials possessed by the model can boost the model to the market in no time. **Figure 2** shows how the model works.

## Description of **Figure 2**

### 1. **Entrepreneurs:**

The entrepreneurs are the first actors as well as the initiators in crowdfunding mechanism. This group is less capable financially, but they have entrepreneurial skills. In Malaysia, these people are usually those who graduated from entrepreneurship programs such as TUBE, 1AZAM Program and 1MET. The *sadaqah*-based crowdfunding platform could be an opportunity for graduates to obtain Shariah-compliant funds to start their business.

### 2. ***Sadaqah*-based crowdfunding platform:**

The platform provides an intermediate service to act as a link between an entrepreneur and potential crowd-funders (Grivenics et al., 2014). In this study, the proposed platform is also acting as a manager. The platform is

based on Shariah, in which one of its duties is to ensure that the business idea presented or pitched to them is Shariah-compliant. Any idea which passes the screening or due diligence process will be promoted to the crowd or the public. This platform operates with the same legal framework as Skolafund and SosialSharity in Malaysia that practice donation and reward-based crowd-funding; except that the difference among them is that the *sadaqah*-based platform is suggested to be monitored by an authorized Shariah advisor.

### 3. **Crowd:**

Crowd is the last actor and the most important actor among three actors. The crowd is a large group of ordinary people, who can make small contributions for the ideas they find promising (Valancien and Jegeleviciute, 2013). There are several names for the crowd: funders, investors, backers, or donors. The crowd will donate to fund the project within a certain time of period. The contract between the crowd and the platform is pure charity or *sadaqah* for two purposes, funding the entrepreneurs and for health care fund. In the meantime, the crowd will give a portion of the charity to pay the fee to the platforms under *wakalah* contract. In this model, the crowd also represents those who are less fortunate financially.

### 4. **Health Care Fund:**

The fund aims to provide assistance relating to medical and health care. Examples of existing charitable fund for health care are TKPM, TBP, TBIP, MAKNA, MACAS and JKM. This health care fund from *sadaqah*-based crowdfunding works like the other existing charitable funds, which is recognized by JKSP as one of the sources of medical assistance to poor patients.

## 5. Micro-Takaful:

Some part of the accumulated amount through the repayment of debts by the entrepreneurs will be included in the fund and used to finance micro-takaful for the poor.

## 6. Investment and Cash for emergency:

Another part of the accumulated amount will be used for investment and emergency purposes. The objective of investment is to ensure that the money donated is regenerated into the fund. The platform acts as the manager who invests money in investment portfolios that are safe and profitable.

### Flow of Figure 2

1. The entrepreneurs present or pitch their business ideas to the platform. In this stage, Shariah advisor appointed by the platform will ensure the idea complies with Shariah law (no alcohol, gambling, usury activities, speculation, *gharar*, illegal items, etc). A due diligence group ensures business owners are eligible for the service.
2. The platform promotes the selected ideas to the crowd or public as an agent for the entrepreneurs. Because of the agency contract (*Wakalah*), the platform will get paid. It is known as the *wakalah* contract that involves a fee (*Wakalah bil Ujrah*). The fee is paid using funds donated by the donor.
3. The crowd or investors give donation or *sadaqah* to the project via platform. After the funding period expired, the fund collected will be given to the entrepreneurs under the contract *qard al-hasan* between the entrepreneurs and the platform.
4. The entrepreneurs are obliged under *Wa'ad* contract, to repay the loan

without imposing any interest to the platform within a certain time frame.

The amount of every repayment is small and affordable to the platform. During the project operation, *Shariah* advisor of the platform will monitor the project to always abide to the *Shariah* laws.

5. The repayment then will be incorporated into the health care fund. The platform manages the fund. The fund will be used for sponsoring the micro-takaful to the poor and some of it for times of emergency.
6. The accumulated repayment amount will be used to pay premium of micro-takaful for the poor. In addition, entrepreneurs have the chance to apply for financial aid in case of emergency. *Sadaqah* that is at the very beginning will return to the society at the end.

Through the *sadaqah*-based crowdfunding model, entrepreneurs can do business while increasing their quality of life. In return, their businesses will help the community in creating jobs and facilities. Then, with the establishment of the health care fund, *saqadah* again will return the help to the society in terms of health care financing. The concept of crowdfunding which are also known as friends and family financing (World Bank 2013) will indirectly form the spirit of mutual help in the community or altruism. Altruism is the pure intention in charity given to others for the sake of Allah (Ismail et al. 2015).

The altruistic practice cultivates strength and unity in the community. The entrepreneurs who are aided by society funding, feel the responsibility to help the poor. The responsibility and religious encouragement will bring the community to become practically a family that will not let any member to be

left behind from getting monetary assistance. The poor does not have to rely on the assistance of charitable organizations for help, they would feel completed with the existing helpful community around them. The process of mutual help and altruistic culture within a community will lead to economic growth in a country.

### Policy Implication

The study perceives that the entrepreneurs gain entrepreneurial skills through a program to manage their income and resources efficiently. Since this crowdfunding engages the public in social media, entrepreneurship programs should cooperate with the platform to provide the entrepreneurs with the skills and effective techniques to promote their business projects. The techniques which involves editing skills, wording, pitching the idea, video making, poster making as well as photoshop are often not mastered by the poor entrepreneurs. Therefore, the programs should guide them at least to be able to promote their ideas to the public. Social media skills and promoting techniques are important because some good ideas were not well received because of poor promotional techniques and technical errors.

Secondly, as for the establishment of medical treatment fund, it will provide Jabatan Kerja Sosial Perubatan (JKSP) additional option to connect patients with the welfare fund. How the model works to fund the health care has been explained in the previous section. Lastly, the findings of this study also indicate the importance of crowdfunding model in supporting the entrepreneurial culture in Malaysia as well as it helps the improvement of living standard and poverty reduction. In addition,

this study adds new model in crowdfunding which has two roles simultaneously.

In order to ensure the proliferation of crowdfunding, the policy maker should facilitate the process of obtaining a license by crowdfunding platform as well as reduce the license fee. In addition, Security Commission of Malaysia (SC) can put specific guidelines dedicated to crowdfunding platforms that comply with Shariah as Shariah aspects need to be strictly regulated. For the programs, this study suggests the policy makers to set up a special trust fund for entrepreneurial programs. As for the donors, the government could also provide tax exemptions for those making contributions as incentives.

## CONCLUSION

This study mainly discussed the use of crowdfunding, the trending model nowadays. Crowdfunding can be defined as a form of public funding via the internet to the entrepreneurs or capital seeking ventures which is driven by different motives either pure charity or expecting a reward. The form could be donation or in exchange for some form of reward and/or voting rights (Schwienbacher & Larralde, 2010). Among such instruments, crowdfunding emerged as an alternative that can help to find a balance between social development, profitability and robust entrepreneurial projects (Marzban & Asutay, 2012). In short, crowdfunding takes the inspiration from concepts like microfinance (Morduch 1999) which has been transformed as a new way to improve the sluggish economy (Comim, 2007). In addition, it follows the concepts of crowdsourcing (Poetz & Schreier 2012) as it commonly known as “friends and family financing” (The World Bank, 2013).

This study proposes a new model of crowdfunding. The model serves as a platform to finance entrepreneurial projects through the concept of micro-finance and also help create a relief fund for health care treatment. Both these targets have the potential to reduce the world's major problem, namely poverty. In addition, the model proposed uses Shariah contracts, namely *sadaqah* and *qard al-hasan*. *Sadaqah* or donations received from the public to assist projects that they see relevant and worthwhile to perform. *Sadaqah* fund is given to the

platform which acts as a manager. To move the fund from manager to entrepreneurs, the *qard al-hasan* contract is applied. At the end of this model, reimbursement made by the entrepreneurs will benefit them back in term of health care financing.

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