



## Equity-Crowdfunding in Malaysia: The Needs for A Comprehensive Shariah Governance

<sup>1\*</sup>Habibah Solehah Ramli <sup>2</sup> Muhammad Shahrul Ifwat Ishak

<sup>1,2</sup> Faculty of Business and Management,

Universiti Sultan Zainal Abidin (UniSZA), Terengganu, Malaysia

\*Corresponding Author E-mail: [habibahsramli@gmail.com](mailto:habibahsramli@gmail.com)

**Received: 1<sup>st</sup> February 2022**

**Accepted: 05<sup>th</sup> May 2022**

**Published: 10<sup>th</sup> May 2022**

### ABSTRACT

In recent years, crowdfunding has emerged as a viable alternative channel for entrepreneurs to fund their early-stage businesses. The rapid development of the internet worldwide has turned crowdfunding into a mechanism that can pool resources from people to people without financial intermediaries. This unique alternative finance could support Islamic finance as far as its practices comply with Shariah since crowdfunding philosophy has already in line with the spirit of Shariah in terms of promoting wealth distribution, encouraging transparency and supporting socio-justice. Nevertheless, the current regulatory requirements for Shariah aspects seem to be lenient, unlike Islamic financial institutions. In fact, without a proper Shariah monitoring process, it could lead to serious issues in terms of public confidence, the status of funds and the outcome of crowdfunding practices. In this regard, this paper aims to propose a special Shariah governance model for equity-based crowdfunding in Malaysia. As this research is a conceptual study, the data are based on literature review, including books, articles, theses and related academic and non-academic items. Based on library research, it is essential to establish a comprehensive Shariah governance framework or equity crowdfunding to ensure all its activities in line with Shariah rulings and principles. This includes to appoint several committees including Shariah review, Shariah audit and Shariah risk management. Since this study is based on literature, future studies are suggested to expand into empirical research. At the same time, several crowdfunding websites are explored to closely analyse their practices. Even though library research is limited in some aspects, it is sufficient as an exploration as well as to theoretically propose a special Shariah governance model for Islamic equity crowdfunding in Malaysia.

**Keywords:** Crowdfunding, Islamic Crowdfunding, Shariah governance.

### OPEN ACCESS

### INTRODUCTION

Despite the global recognition, modern Islamic finance is accused that they did not contribute enough to socio-economic development, resulting their identity has no difference from conventional finance (Asutay, 2012; Habib Ahmed, 2011; Marzban et al., 2014). In other words, their practices look similar to their conventional counterpart by emphasizing high net individuals and big cooperation rather than supporting poor and micro semi micro businesses. In addition, their financial instruments are designed in debt-based for the sake of secured return for shareholders and depositors, rather than equity-based financing that promotes a spirit of risk-sharing between involving parties. Nevertheless, many efforts have been promoted to ensure Islamic financial institutions are more concerned, for example, the introduction of Value-Based Intermediation (VBI) by the Central Bank of Malaysia to re-orient Islamic finance towards realizing the objectives of Shariah by generating positive and sustainable impact to the economy, community and

environment through practices, processes, offerings and conduct.

While Islamic finance is struggling with its identity, crowdfunding seems to be new hope for this purpose. To begin with, crowdfunding is designed to link society and project initiators. This unique fundraising has been widely recognized as alternative finance to support start-up businesses, SMEs and welfare-based projects. Unlike shareholders and depositors in banking institutions, funders or backers in crowdfunding are directly channelling their funds to the project that is launched in the form of the campaign through a crowdfunding platform, so as they are aware of their supported projects. Since crowdfunding is designed in the form of donation, reward, equity and lending, it is more community-based support, rather than profit orientation.

In terms of Shariah aspects, there may no serious Shariah issues for donation-based and reward-based crowdfunding

(Saiti et al., 2018). Nevertheless, some equity and lending crowdfunding instruments must be modified to ensure they are free from *riba* (interest) (Hendratmi et al., 2019). Unlike Islamic financial institutions that are strictly monitored by the Central Bank of Malaysia, crowdfunding regulations on Shariah aspects are more lenient. For example, in terms of Shariah monitoring process, the current regulation does not specify the requirement of Shariah advisors, which make their power are less authoritative (Haniff et al., 2019). At the same time, some crowdfunding platforms like Ata Plus is not formally registered as Shariah-compliant platform, but it prefers to be a Muslim-focused crowdfunding platform that supports Shariah-based business (Mahmoodul Hasan, 2021).

Even though crowdfunding philosophy is in line with the spirit of Shariah in terms of promoting wealth distribution, encouraging transparency and supporting socio-justice, without a proper Shariah governance framework, it could lead to different outcomes. In other words, the project run could possibly involve non-Shariah elements that could threaten the status of the fund. The previous studies have focused on the models and contracts as there is still a lack in terms of Shariah governance aspects. In this regard, this paper aims to propose a special model of Shariah governance for equity crowdfunding in Malaysia. In terms of methodology, as this research is conceptual, the data are based on literature, including books, articles, theses and related academic and non-academic items. At the same time, several crowdfunding websites are explored to closely analyze their practices. Even though library research is limited in some aspects, it is sufficient as an exploration as well as to theoretically propose a special Shariah governance model for Islamic equity crowdfunding in Malaysia.

## **CROWDFUNDING: AN OVERVIEW**

Crowdfunding is practised when someone seeks for funding to run a project. It can be defined as a new term of financing activities that can gather a pool of money, connecting investors and business owners (S. Abdullah & Oseni, 2017). Thus, it represents a mode of collective funding activities which originally rooted in a broader concept of crowdsourcing and microfinancing (Poetz & Schreier, 2012). Mollick (2014) has concluded that crowdfunding is an innovative element that financially supports individuals and groups from a small to a huge amount of money using the internet as intermediaries.

Starting as an online extension of financing by a small group of individuals, such as family and friends, which initially takes the form of a donation intention, to the collective effort by a large pool of individuals explicit for a larger fund, such as a business or social intention, crowdfunding has evolved (Aderemi and Ishak, 2020a). Professional parties such as a bank, venture capitalist, or business angels have been attracted by the appearance of crowdfunding between those who have money and those who need money, according to Schwienbacher & Larralde (2012).

In fact, crowdfunding is a potentially powerful tool that focuses on funding projects with limited resources. (Kamaruddin & Ishak, 2020). Crowdfunding fits the funding lifecycle for entrepreneurs that could improve access capital for high-

growth financing based on donation, reward, peer-to-peer, or equity (The World Bank, 2013). It is essential to appreciate the transparency between both entrepreneurs and investors, including other advantages of crowdfunding in terms of its accessibility, fast transaction, security, and traceability. These special characteristics make crowdfunding an efficient financing mechanism (Mohd Nor & Hashim, 2020).

Based on history, the first crowdfunding project website has appeared in 2003 known as Artist Share: special crowdfunding to support entrepreneurial artist (Artist Share, n.d.). Essentially, the number of online crowdfunding platforms is increasing, showing that this great technique of funding is successful, although it is new (Wahjono & Marina, 2017). Many countries are taking the necessary regulatory and governance steps to support crowdfunding growth, such as the United States, the United Kingdom, the Kingdom of Saudi Arabia, Qatar, China, Australia, Singapore and Malaysia. The prior discussion among the experts in Malaysia has brought this country to be the first Southeast Asian country to establish a regulatory framework for crowdfunding in 2015 (A. Abdullah, 2016).

Thus, it is crucial to provide a comprehensive regulatory framework and specific governance for general requirements such as registration, procedure, and operation of the platform to have a better customer acceptance and perception (Schwienbacher & Larralde, 2012). In addition, this can strengthen the trust value among the investors (Mohd Nor & Hashim, 2020). Also, a proper regulatory framework can reduce the moral hazard risk associated with entrepreneurs that may misuses the funds after investment (Testad et al., 2019).

## **EQUITY CROWDFUNDING: BENEFITS AND CHALLENGES**

In general, there are four types of crowdfunding namely: donation-based, reward-based, equity-based and lending-based. Massolution (2015) has identified the crowdfunding models to the non-financial return forms of donation-based crowdfunding is when the funders donate without any expectation to gain anything because of philanthropic gesture. Meanwhile, the reward-based crowdfunding is a contribution in an exchange where the funders fund a project to gain capital for perquisites.

Other types of crowdfunding are known as lending-based and equity-based crowdfunding where the models typically offer investors or funders to enjoy a financial return in the future. The first one sometimes is referred as Peer-to-peer (P2P) lending, operates based on credit contracts to generate their revenue as the return. In the end, funders will receive their income on each loan (Aderemi and Ishak, 2020b). While another financial return crowdfunding, equity-based is in a form of investment based on specified terms in the campaign whereby investors obtain a percentage of ownership and future earnings from the project (Ishak, Kamaruddin and Aderemi, 2021).

In terms of practice, crowdfunding starts with a fundraiser initiating funds needed, usually, for supporting their projects with the offered in exchange. Potential investors can

find the preference offered and if they are interested, they can invest from the smallest amount to accumulate the money to become a huge financial target (Biancone & Secinaro, 2016). In terms of operation, S. Abdullah and Oseni (2017) stated for each crowdfunding campaign run by the platform as an intermediary need to set the amount of money and fix the number of days completing the target. Usually, the platform would receive about 25-40% of their revenue on the successful campaign.

Crowdfunding has the potential to play several important roles in the developing world's entrepreneurial and venture finance ecosystem. It occurs when funders place their trust in entrepreneurs because their progress on the project will be tracked via social media. According to Mohd Nor and Hashim (2020), trust becomes an important part to encourage social interaction especially for business marketing and reputation.

Meanwhile, Lutfi & Ismail (2016) stated crowdfunding can efficiently exploit the advantages of community, proximity, innovation, and disintermediation to boost economic activity and employment, especially in sectors where finance is difficult to obtain. It can be realized with the recent pandemic COVID-19 outbreak globally, the acceptance of equity crowdfunding in Malaysia is still being used as the concept refers to halal investment, profit sharing, and avoidance of interest (Abdul et al., 2021).

In addition, a novice entrepreneur may not automatically know who to tap into for investments. Typically, the traditional networks of friends and family take a long time and effort to reach out to. With investment through crowdfunding, each platform should have a sizable pool of accredited investors that has already lined up and ready to invest. Nevertheless, crowdfunding simply set the idea of spreading the news using the internet to talk and raise funds via social media and crowdfunding platforms which leverage the networks ultimately for greater reach and exposure (Wahjono & Marina, 2017).

According to The World Bank (2013), the advancement of telecommunication contributes to the success of crowdfunding. The new advancement and technology have increased the speed of the internet facilities for online funding. Hence, nowadays people, mostly prefer to use online services and interactive social communication venues to help crowdfunding platforms to find potential funders and promote the project. This enhances the potential of crowdfunding platforms to support the business cycle in the future.

Nevertheless, crowdfunding has limitations. While crowdfunding may be considered a powerful tool to fund small budget projects, it is difficult to achieve the targets of big-scale projects, despite having a large number of funders, because their contribution is relatively small and takes a lot of time and effort (Javier Ramos & Stewart, 2014). At the same time, Manchanda & Muralidharan (2014) identified three major disadvantages regarding crowdfunding, including limited funds, ideas not protected from imitation, and delayed or the possibility of failed campaigns.

## SHARIAH GOVERNANCE FOR ISLAMIC FINANCIAL INSTITUTIONS

Islamic finance industry has increased the interest in Muslim or non-Muslim populations across the world. The development of this industry has made a considerable niche area for international markets. The values of Islam as an alternative to interest-free has attracted western financial institutions and markets (Kayadibi & Güçlü, 2021). As a system that is founded on Islamic principles, and all activities in Islamic finance must adhere to Shariah law.

In general, corporate governance is a big and a core system in any related business or institution by which entities are directed and controlled. The presence of good governance will lead to a better image and virtuous perception in the long run timeframe for each institution or body (Mohd Nor & Hashim, 2020). According to Grassa (2013), the existence of corporate governance in Islamic financial institutions (IFIs) will accrue much value and benefits with additional aspects of Shariah governance. Hence, the good credibility in Shariah corporate governance can derive a higher perception in the national and global level of the economic sector. The overwhelming interest of academic researchers in Shariah governance can be seen and understood the importance of Shariah governance is a vital sector that needs to ensure all the activities in every part of the business are in line with Shariah principles involving finance, accounting, management, law, ethics, review process, and politics.

To begin, Shariah governance has been broadly defined as the structure and process adopted by financial regulators for IFIs in order to concern and ensure compliance with Shariah rules and principles. There are two international standard-setting bodies where Shariah governance structure can be traced and issued from the governance standard, the Islamic Financial Services Board (IFSB) and the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) (Hilmy & Hassan, 2019). By referring to IFSB (2009), the Shariah governance system refers "to the set of institutional and organizational arrangements through which an institutions offering IFIs ensures that there is effective independent oversight of Shariah compliance over the issuance of relevant Shariah pronouncements, dissemination of information and an internal Shariah compliance review (Mizushima, 2014).

In 2009, IFSB has set up the guiding principles to initiate on industry related to Shariah governance systems for institutions offering IFIs based on the guiding principles that are divided into five parts as the following:

1. The basis of the general approach to the Shariah governance system processes should be commensurate, complex, and natural with its business. The Shariah board should also ensure the well-defined operating procedures and Shariah governance reporting, internal Shariah review, the professional code of ethics, conduct, and responsibility to strengthen the Shariah governance system.
2. The competence of any person mandated by the Shariah board must be ensured by reasonable expertise, proper criteria, professional

development, and performance with overseeing the Shariah governance system by any formal assessment, individual evaluation, and contribution.

3. The internal review and audit, particularly for the management of IFIs must address and rectify various issues of Shariah compliance. Therefore, it is recommended to appoint those who are adequately trained in Shariah backgrounds.

4. The internal information obtained in the course is kept confidential by all members of the Shariah board including the development of a new product, the substance of the draft of decision, the content of the conversation in the meeting, the business transaction or action not yet finalized and any subject matter that indicated should not be revealed.

5. IFIs should fully improve the consistency of the professionalism of the Shariah board and follow the legal and regulatory framework for Shariah pronouncement and resolution to enhance their credibility and promote convergence of the Shariah governance standard (IFSB, 2009).

With rapid development and expansion in Islamic financial institutions across the world, the establishment of a comprehensive and holistic Shariah governance structure by ISFB-10 provides a clear definition and guidance for these institutions (Hilmy & Hassan, 2019). In addition, the process is being continually enhanced by each authority to remain dynamic and relevant at all times, including banking, financial institutions, capital markets, and the insurance sector.

A dynamics Shariah governance in fact is essential for the rapid development of Islamic financial institutions in Malaysia. This country is claimed to be one of the major Islamic countries that have drawn attention to the enthusiastic development of Shariah governance (Kayadibi & Güçlü, 2021). In 1983, the first Malaysia's Islamic bank, Bank Islam Malaysia Berhad (BIMB) was started to accommodate the growth of expansion. In 1993, Bank Negara Malaysia (BNM) introduced a policy known as Interest-free banking scheme which allowed conventional banks to set up their Islamic windows by appointing selected Muslim Scholars to manage Shariah issues in their operations (Zulkifli Hasan, 2007).

The positive significance of policy and regulatory developments by BNM has posited Malaysia as the first place in the Islamic finance industry, according to the Islamic Finance Country Index (IFCI) by the Global Islamic Finance Report 2016. Kayadibi and Güçlü (2021) stated Malaysia has assessed the unique Shariah governance in four stages, which are as follows:

1. The phase between 1983-1992: The Government Funding Act (1983), the Islamic Banking Act (1983), the Takaful Act (1984), and in 1989, the Banking and Financial Institutions Act (1989) have been proclaimed.
2. The phase between 1993-2000: Islamic Interbank Money Market (1994) and Shariah Advisory Council (SAC) (1997) have been established.

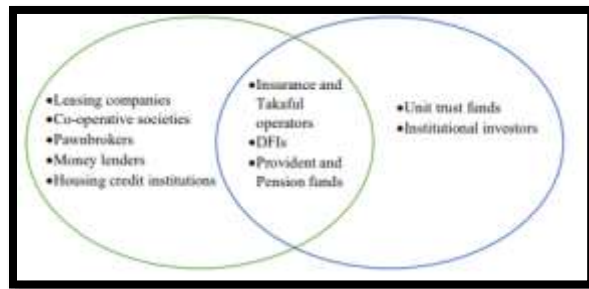
3. The phase between 2001-2013: Six different institutions were established including the Islamic Financial Service Board (IFSB) in 2002, INCEIF (The Global University of Islamic Finance) in 2005, the Malaysia International Islamic Financial Centre (MIFC) in 2006, the Shariah Governance Framework (SGF) for IFS in 2010, the Islamic Financial Service Act (IFSA) in 2013 and International Islamic Liquidity Management (IILM) in 2014.

4. The current phase between 2014 – onwards: The Securities Commission of Malaysia (SC) has issued the new Malaysia Code on Corporate Governance (MCCG) in 2017, while BNM has introduced the Shariah Governance Policy Document (SGPD) in 2019.

Thus, it is essential to discuss Shariah governance in the Islamic finance industry to ensure that the entire financing industry's activities are Shariah-based, and the latest SGPD 2019 issued by BNM on 19 September 2019 is the most comprehensive Shariah governance guideline as compared to SGF 2010 and IFSA 2013 (A. A. Ahmad & Ishak, 2021). The main parts are highlighted in 6 categories covering the BOD, the SC, the senior management, the control function, the Shariah compliance, culture and remuneration, transparency, and disclosure. Furthermore, all of these highlighted in SGPD 2019 aim to strengthen the oversight of the board's, the Shariah committee's, and senior management's accountability, as well as to promote a good balance of corporate governance role players from the non-compliance risk as well as the Islamic perspective within the IFIs. Nevertheless, IFIs should assess whether their Shariah governance fits their size, nature of business, complexity of activities, and operational and administrative structure (BNM, 2019).

Nevertheless, there is a different story for Non-Banking Financial Institutions (NBFIs) in Malaysia. With the greater deployment and advancement of technology, both industries have stimulated new sources of financing to meet a necessity demand, and the purpose of financing activity has shifted toward being more knowledge-based. This has led to the ability to generate economic value by maximizing the cost of credit evaluation as well as improving its financing enforcement (Abd Rahman & Lee, 2016).

Turner (2014) stated the NBFIs is a financial institution that does not have a full banking licence and is not supervised by a banking regulator. Among the financial services given shown as illustrated in figure 1. In essence, NBFIs are vital sector of financial development as they can enhance social-economic welfare which makes them a potentially large source of capital investment. In Malaysia, Islamic NBFIs have achieved a considerable level of development in the financial system and reached the highest change in GDP ratio record over the period in 1976-2004. This indicates it is growing faster and channeling them to productive investment with good governance.



**Figure 1: Non- Banking Financial Institutions in Malaysia**

In addition, Shariah governance plays an important role in promoting transparency in terms of Shariah aspects, which it can enhance public confidence among the public, investors, and stakeholders to participate in NBFIs (Ahmad & Ishak, 2021). Although NBFIs are not subjected to compliance with the SGF by BNM, the current implementation such as appointing an internal Shariah committee to manage Shariah compliance issues is a good effort that could support the depth and breadth of Shariah deliberation. Generally, each Islamic NBFIs must comply with the respective act and guidelines, and Table 1 shows the requirements of each institution.

**Table 1: Islamic NBFIs Act and Guidelines**

Islamic NBFIs	Regulator	Act and guideline
Islamic Fund Management	Security Commission	1. Capital Markets and Services Act 2007 (CMSA) 2. Shariah Advisor Guideline 3. Islamic Fund Management Guideline
Islamic Equity Crowdfunding	Security Commission	Guideline on Recognized Markets 2019
Islamic Non-Equity Crowdfunding	The Registry of Societies Malaysia	Societies Act 1966
Islamic Cooperative	<i>Suruhanjaya Koperasi Malaysia</i>	1.1 Cooperative Societies Act 1992 2.1 Shariah Governance framework (SKM)
Ar Rahn (Corporation)	Bank Negara Malaysia (BNM)	Rahn Policy Document 2018
	Malaysia Co-operative Societies Commission	Guidelines for Islamic Pawn Tax Activities (GP25)
	The Ministry of	Islamic Mortgage Guidelines

	Housing and Local Government	
	State government	<i>Tatacara Pengurusan Skim Ar-Rahn, Majlis Agama Islam dan Adat Melayu Terengganu (MAIDAM)</i>
PNB	The Ministry of Finance	Minister of Finance (Incorporation) Act 1957
EPF	The Ministry of Finance	EPF Act 1991
Tabung Haji	Prime Minister's Department (Religious Affair)	TH Act 1995

Source: Author's compilation

Given the fact, Islamic NBFIs in Malaysia are relatively developed and play important roles as alternative finance to fund the need in new economic perhaps their potential role influencing the economic performance. Despite the current implementation of governance in NBFIs based on each regulator, the establishment of an association among the members of the Shariah Committee is suggested by Ahmad and Ishak (2021) to ensure consistency and promote coordination also to strengthen the governance. Through this platform, policymakers can also promote the NBFIs as an integrated part to be the predominant provider in the financial system.

### SHARIAH GOVERNANCE FOR ISLAMIC EQUITY CROWDFUNDING

Islamic crowdfunding has emerged as a Shariah compliant funding option to support startups, particularly for Muslim entrepreneurs. In running an Islamic crowdfunding platform, trust is one of the successful determination thus it must be structured the good Shariah-compliant model (Mohd Nor & Hashim, 2020). Shariah models and contracts in Islamic crowdfunding can be listed as similar to Islamic finance products such as *Mudharabah* (profit sharing), *Musharakah* (joint venture), *Murabahah* (cost plus finance), *Qard Hassan* (loan without interest), *Bai Salam* (forward contract), *Sadaqah* (charity), *Waqf* (endowment) and *Hibah* (gift).

In addition, crowdfunding generally seems to be Shariah-friendly when the value of wealth circulation is easier to get from funders. However, close monitoring and support are needed to ensure the transparency of the contract is legit with its governance. Nevertheless, two types of crowdfunding: donation-based and reward-based should have no Shariah issues, while the other two, equity-based and lending-based, need to be revised in terms of their instrument by following the main Shariah jurisprudence which is strictly forbidden in interest and eliminating the non-halal business. Alternatively,

many contracts that are compliant with Shariah can be implemented in Islamic crowdfunding as the following:

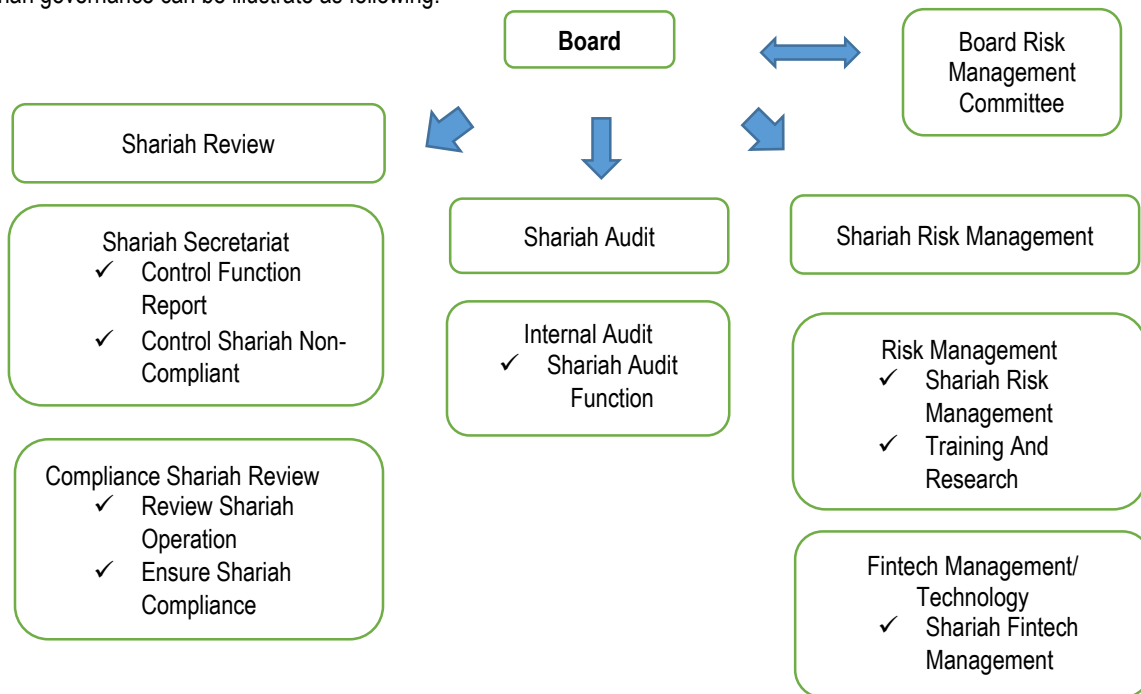
**Table 2: Crowdfunding models and their Islamic alternative contract.**

Crowdfunding Model	Islamic contract	Financing Objectives	Potentials Entities
1. Donation-Based crowdfunding	Hibah Sadaqah Zakat Waqf	Charity	NGO
2. Reward-Based Crowdfunding	Bay Salam Hibah	Charity and production	NGO Enterprise
3. Lending-Based or Debt-Based Crowdfunding	Murabahah Tawaruq Qard Hassan	Lending	Enterprise
4. Equity-Based Crowdfunding	Mudharabah Musharakah Murabahah	Investment	Enterprise

Sources: (Jamaluddin et al., 2019)

According to table 2, there are several Islamic contracts that can be utilized in crowdfunding such as *hibah*, *sadaqah*, *zakat*, and *waqf* where the donor can transfer the amount of funds without any consideration based on pure heart charity and gift (Lutfi & Ismail, 2016). However, lending and investment financing projects, refer to contracts with profit and loss sharing objectives where the underlying structure is conceptual and Shariah compliant (Muneeza et al., 2018).

Shariah governance can be illustrate as following:



**Figure 2: Shariah Governance Framework for Equity Crowdfunding**

Source: Author's compilation

In Malaysia, Islamic crowdfunding is becoming part of Islamic finance, acting as an alternative financing instrument to facilitate the implementation of projects for Malaysian borrowers who are facing difficulties raising money through the mainstream financial institutions. In addition, Islamic crowdfunding is considered an alternative fund to conventional crowdfunding as the former complies with Shariah. Among the established Islamic crowdfunding platforms are Ethis.co, *Waqf World*, *GlobalSadaqah.com*, and *Nusa Kapital* (Mohd Nor & Hashim, 2020).

Nevertheless, Islamic crowdfunding is open to everyone who is concerned about choosing a Shariah investment and the selected examples of Islamic crowdfunding platforms in Malaysia namely Ethis.co, have the best instruments and adheres to the Shariah jurisprudence and principles. Ethis.co operates a Shariah-compliant equity-based Islamic crowdfunding platform. It is based in Singapore and the investment platforms are approved by regulators in Malaysia, Indonesia, and Dubai. Ethis.co is considered as the first investment Islamic crowdfunding platform in the world and was recently awarded Malaysia's first Shariah-compliant equity crowdfunding licence by SC Malaysia in 2020 (Faudzi et al., 2021).

In this regard, a Shariah Governance framework is proposed for equity crowdfunding operators in Malaysia which comprises an entire structure, process, and other aspects of Shariah governance. This seems appropriate in the Malaysia context whereby crowdfunding is expected to be able to become another piece of the ideal Islamic financial system that will benefit at every level of consumer (Hilmy & Hassan, 2019).

Figure 2 illustrates the Shariah governance framework carried by operators of equity crowdfunding. In terms of the potential of this framework, it can be summarized as the following:

1. The key responsibilities of the board are to promote sustainable growth and financial soundness as determined by the Shariah Review, Shariah Audit, Shariah Management, and Board Risk Management Committee under his supervision.
2. The Shariah Review is divided into two sections: Shariah secretariat and compliance Shariah review, must have responsibilities related to Shariah matters, including for control function reports, controlling Shariah for non-compliant decisions, reviewing Shariah operations, and ensuring Shariah compliance.
3. A function that provides an independent assessment of the quality, audit methodology, and effectiveness of Shariah audit is referred to as the Shariah Audit Committee.
4. The management may consider including the risk management and fintech management or technology. For risk management have to manage the Shariah risk management and manage the training and research matters. In addition, to evaluate Shariah fintech management.

Islamic crowdfunding is typically independent and unique to discover because of authentic and purest intention among users. However, the next generation of Islamic financial institutions has to introduce and explore the elements of crowdfunding that could offer more benefit and profit in the future (Wahjono & Marina, 2017). Islamic crowdfunding might be perceived as a substitution for conventional funding offered by banks, finance companies, private equity, and venture capitals, but it can become a complement that empowers others to get benefit from its value.

## CONCLUSION

This study aims to propose a special Shariah governance model for equity-based crowdfunding in Malaysia. Recently, crowdfunding has been widely recognized as a viable alternative fund for entrepreneurs to begin their early-stage businesses. The rapid development of the internet worldwide has turned crowdfunding into a mechanism that can pool resources from people to people without financial intermediaries. This unique alternative finance could support Islamic finance as far as its practices comply with Shariah since crowdfunding philosophy has already in line with the spirit of Shariah in terms of promoting wealth distribution, encouraging transparency and supporting socio-justice. Nevertheless, the current regulatory requirements for Shariah aspects seem to be lenient, unlike Islamic financial institutions. In fact, without a proper Shariah monitoring process, it could lead to serious issues in terms of public confidence, the status of funds and the outcome of crowdfunding practices.

Based on library research, it is essential to establish a comprehensive Shariah governance framework or equity crowdfunding to ensure all its activities in line with Shariah rulings and principles. This includes to appoint several committees including Shariah review, Shariah audit and Shariah risk management. Since this study is based on literature, future studies are suggested to expand into empirical research.

## Acknowledgment

The Ministry of Higher Education Malaysia fully funds this research under the Fundamental Research Grant Scheme (FRGS) entitled "Developing 'MomprenuerFund' Model Based on Islamic Crowdfunding to Empower Single Mother Entrepreneurs in Malaysia" (FRGS/1/2021/SS02/UNISZA/02/1)

## REFERENCES

- Abd Rahman, Z., & Lee, S. (2016). The Role of Alternative Finance to Fund the Needs of a New Economy. *Bank Negara Malaysia*.
- Abdul, D., Rizal, S., & Dawami, Q. (2021). Customers' Perception on Islamic Crowdfunding as A Possible Financial Solution For The Pandemic Covid 19 Crisis in Malaysia. *Journal of Islamic Finance*, 10(1), 092–100.
- Abdullah, A. (2016). Crowdfunding as an Emerging Fundraising Tool: With Special Reference to the Malaysian Regulatory Framework. *ICR Journal*, 7(1), 98–119. <https://doi.org/10.52282/icr.v7i1.286>
- Abdullah, S., & Oseni, U. A. (2017). Towards a shari'ah compliant equity-based crowdfunding for the halal industry in Malaysia. *International Journal of Business and Society*, 18(S1), 223–240.
- Aderemi, A.M.R. and Ishak, M.S.I. (2020), "Adopting qard al-Hasan and mudarabah crowdfunding for micro enterprise", *International Journal of Islamic Economics and Finance Research*, Vol. 3 No. 2, pp. 26-38.
- Aderemi, A.M.R. and Ishak, M.S.I. (2020b), "Crowdfunding as an alternative mode of financing for micro and small enterprises: a proposed qard al-Hasan contract", *International Journal of Islamic Economics and Finance (IJIEF)*, Vol. 3 No. 3, pp. 95-118, doi: 10.18196/ijief.3235.
- Ahmad, A. A., & Ishak, M. S. I. (2021). Realizing Maqasid Al-Shari'ah In Shari'ah Governance: A Case Study of Islamic Banking Institutions Malaysia. *International Journal of Islamic Economics and Finance Research*, 3(2), 39–52.
- Ahmad, A., & Ishak, M. S. I. (2021). Shari'ah Governance of Islamic Non-Banking Financial Institutions in Malaysia: A Conceptual Review. *The Journal of Management Theory and Practice (JMTP)*, 2(1), 70–77. <https://doi.org/10.37231/jmtp.2021.2.1.91>
- Artist Share. (2015). *About Us*. <https://www.artistshare.com/v4/About>
- Asutay, M. (2012). Conceptualising and Locating the Social Failure of Islamic Finance: Aspirations of Islamic Moral Economy vs the Realities of Islamic Finance. *アジア・アフリカ地域研究 = Asian and African Area Studies*, 11(2), 93–113.
- Biancone, P. Pietro, & Secinaro, S. (2016). The equity crowdfunding Italy: a model sharia compliant. *The Equity Crowdfunding Italy: A Model Sharia Compliant*, 5, 1–10. <https://doi.org/10.13135/2421-2172/1797>
- BNM. (2019). Bank Negara Malaysia (Shariah Governance). *Bank Negara Malaysia*, iii, 1–22.
- Faudzi, M. S., Bakar, J. A., & Ahmad, S. (2021). The Relevance of Conventional and Islamic Crowdfunding as Financing Instruments for SMEs. *Journal of Islamic Finance*, 10(1), 59–64.
- Grassa, R. (2013). Shariah supervisory system in Islamic financial institutions: New issues and challenges: A comparative analysis between Southeast Asia models and GCC models. *Humanomics*, 29(4), 333–348. <https://doi.org/10.1108/H-01-2013-0001>
- Habib Ahmed. (2011). Maqasid Al-Shari'ah and Islamic Financial products: A framework for assessment. *ISRA International Journal of Islamic Finance*, 3(June), 149–160. [https://doi.org/10.1142/9789812569394\\_0005](https://doi.org/10.1142/9789812569394_0005)
- Haniff, W. A. A. W., Halim, A. H. A., & Ismail, R. (2019). Equity Crowdfunding in Malaysia: Legal and Sharia Challenges. *International Journal of Asian Social Science*, 9(8), 450–460. <https://doi.org/10.18488/journal.1.2019.98.450.460>
- Hendratmi, A., Sukmaningrum, P. S., Ryandono, M. N. H., & Ratnasari, T.

- (2019). The Role of Islamic Crowdfunding Mechanisms in Business and Business Development. *GATR Journal of Business and Economics Review*, 4(1), 10–23. [https://doi.org/10.35609/jber.2019.4.1\(2\)](https://doi.org/10.35609/jber.2019.4.1(2))
- Hilmy, H. M. A., & Hassan, R. (2019). Shariah Governance Structure of Islamic Financial Institutions in Sri Lanka. *International Journal of Management and Applied Research*, 6(4), 245–258. <https://doi.org/10.18646/2056.64.19-018>
- IFSB. (2009). *Guiding Principles on Shariah Governance Systems for Institutions Offering Islamic Financial Services*. December, 1–39.
- Ishak, M.S.I., Kamaruddin, M.H. and Aderemi, A.M.R. (2021), "Mudharabah based crowdfunding as an alternative source of funding book publications in Malaysia", *Journal of Islamic Marketing*, Vol. ahead-of-print No. ahead-of-print. <https://doi.org/10.1108/JIMA-05-2020-0147>
- Jamaluddin, F. A. A., Nasir, N. S. M., & Ikwat, M. S. (2019). *Mudharabah based crowdfunding models as an alternative fund for single mother entrepreneurs*.
- Javier Ramos, & Stewart, J. (2014). Crowdfunding and the Role of Managers in Ensuring the Sustainability of Crowdfunding Platforms. In *JRC Scientific and Policy Reports*. <https://doi.org/10.2791/76003>
- Kamaruddin, M. H., & Ishak, M. S. I. (2020). Islamic Crowdfunding Platform As an Alternative Book Fundraising in Malaysia. *International Journal of Islamic Economics and Finance Research*, 3(2), 11–25. <https://ijiefer.kuis.edu.my/ircieff/article/view/39>
- Kayadibi, S., & Güçlü, F. (2021). Shariah Governance for Islamic Financial Institutions in the Context of Malaysia. *Theoretical and Empirical Perspectives on Economic and Financial Issues*, August, 629–649.
- Lutfi, M. A., & Ismail, M. A. (2016). Sadaqah- Based Crowdfunding Model For Microfinancing And Health Care. *Journal of Muamalat and Islamic Finance Research*, 13(2), 31–51.
- Mahmoodul Hasan, S. (2021). *Islamic Crowdfunding Platforms in Malaysia*. <https://blog.ethis.co/islamic-crowdfunding-platforms-malaysia/>
- Manchanda, K., & Muralidharan, P. (2014). Crowdfunding: A New Paradigm In Startup Financing. *Global Conference on Business and Finance Proceedings*, 9(1), 369–374.
- Marzban, S., Asutay, M., & Boseli, A. (2014). Shariah compliant Crowd Funding : An Efficient Framework for Entrepreneurship Development in Islamic Countries Harvard Islamic Finance Forum 2014 Shariah. *Harvard Islamic Finance Forum*, April. <https://doi.org/10.13140/RG.2.1.2696.1760>
- Massolution. (2015). *Massolution-The Crowdfunding Industry Report - 2015CF*. Massolution, 1–97. <http://www.crowdsourcing.org/editorial/2013cf-the-crowdfunding-industry-report/25107>
- Mizushima, T. (2014). Corporate Governance and Shariah Governance at Islamic Financial Institutions : Assessing from Current Practice in Malaysia. *Reitaku Journal of Interdisciplinary Studies*, 22(1), 59–84.
- Mohd Nor, S., & Hashim, N. A. (2020). Trust motivates funders to participate in Shari'ah crowdfunding. *Malaysian Journal of Society and Space*, 16(2), 228–238. <https://doi.org/10.17576/geo-2020-1602-18>
- Mollick, E. (2014). The dynamics of crowdfunding: An exploratory study. *Journal of Business Venturing*, 29(1), 1–16. <https://doi.org/10.1016/j.jbusvent.2013.06.005>
- Muneeza, A., Arshad, N. A., & Arifin, A. T. (2018). The Application of Blockchain Technology in Crowdfunding: Towards Financial Inclusion via Technology. *International Journal of Management and Applied Research*, 5(2), 82–98. <https://doi.org/10.18646/2056.52.18-007>
- Poetz & Schreier. (2012). Journal of Product Innovation Management: Editorial. *Journal of Product Innovation Management*, 18(6), 355–356.
- Saiti, B., Musito, M. H., & Yucel, E. (2018). Islamic Crowdfunding: Fundamentals, Developments and Challenges. *Islamic Quarterly*, 62(3), 469–485.
- Schwienbacher, A., & Larralde, B. (2012). Crowdfunding of Small Entrepreneurial Ventures. *SSRN Electronic Journal*, April. <https://doi.org/10.2139/ssrn.1699183>
- Testad, I., Corbett, A., & Aarsland, D. et al. (2019). Equity crowdfunding and governance: Toward an integrative model and research agenda. *Journal of Cleaner Production*.
- The World Bank. (2013). *Crowdfunding's Potential for the Developing World*. In *Finance and Private Sector Development Department*.
- Turner, B. (2014). *Asian Development Bank Institute*. 860, 75–75. [https://doi.org/10.1007/978-1-349-67278-3\\_116](https://doi.org/10.1007/978-1-349-67278-3_116)
- Wahjono, S. I., & Marina, A. (2017). Islamic crowdfunding: alternative funding solution. *Paper Presented at 1st World Islamic Social Science Congress (WISSC 2015), Putrajaya, Malaysia, 1-2 December 2015.*, January, 2–13.