

ISLAMIC CROWDFUNDING AS A FINANCING  
ALTERNATIVE FOR MALAYSIAN YOUTH  
ENTREPRENEURS AND THE PERCEIVED  
ACCEPTANCE

BY

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## ABSTRACT

Access to financing is a critical challenge faced by entrepreneurs, especially youth entrepreneurs in Malaysia. Youth entrepreneurs are the next growth engine for the nation; hence effective measures need to be taken to overcome this issue by finding several alternative financing sources. Crowdfunding is a fast-growing and innovative model that has attracted considerable attention among academicians, leading it to become essential research topics globally. Hence, the current study proposes a specific Islamic crowdfunding model tailored to youth entrepreneurs' needs as high-risk borrowers. Mainly, the current research objectives are: (i) to examine the challenges experienced by Malaysian youth entrepreneurs to access financial institutions' financial assistance (ii) to identify the Malaysian youth entrepreneurs' perception of the Islamic crowdfunding existence and its model suitability, (iii) to assess the factors affecting Malaysian youth entrepreneurs' acceptance of the Islamic crowdfunding model, and (iv) to design an Islamic crowdfunding youth-focused model for Malaysian youth entrepreneurs and evaluate its suitability as the alternative financing mechanism. The current study adopted a sequential explanatory mixed-method approach conducted in two phases, qualitative and quantitative. The quantitative phase involved data collection using questionnaires to achieve the first, second, and third objectives. Meanwhile, in the qualitative phase, data were obtained through experts' interviews to achieve the fourth objective. The descriptive analysis employed the Statistical Package for the Social Sciences (SPSS) to achieve the first and second objectives. Simultaneously, Structural Equation Modeling (SEM) was adopted to achieve the third objective. Finally, the study conducted a thematic analysis to meet the fourth objective. The respondents for the quantitative phase were selected from three prominent organisations, namely Majlis Amanah Rakyat (MARA), Malaysian Global Innovation and Creativity Centre (MAGIC), and Perbadanan Usahawan Nasional Berhad (PUNB). In this case, 260 questionnaires were useful for data analysis. On the other hand, six experts, including academicians, industry players, policymakers, and *shariah* experts, participated in the interviews to obtain more in-depth information. Descriptive findings showed that track record, long loan processing time, and business plan were the most cited challenges youth entrepreneurs experienced with the financial institutions financing. In contrast, youth entrepreneurs were discouraged from applying the financial institutions financing due to the financing rate. Youth entrepreneurs viewed Islamic crowdfunding as a possible alternative financing mechanism, and the results indicated strong preferences for Islamic Donation-Based Crowdfunding. In assessing youth entrepreneurs' intention towards Islamic crowdfunding acceptance, following the Extended Theory of Acceptance Model (TAM), it was hypothesised that Perceived Usefulness (PU), Perceived Ease of Use (PEOU), Self-Efficacy (SE), Islamic Platform (IP), and Financial Accessibility (FA) significantly impact youth entrepreneurs' intention to use Islamic crowdfunding. The Community Based Crowdfunding Model for Youth Entrepreneurs (CBC4YE), using the quantitative approach findings, was conceptually designed to assist youth entrepreneurs in having better access to financing. Subsequently, experts further validated the CBC4YE model. The interview results noted that the experts have a favourable opinion that the CBC4YE model is appropriate in providing youth entrepreneurs with better access to financing. A serious commitment between the government, private sector, and youth entrepreneurs is crucial. It is to ensure the CBC4YE model can be implemented to achieve the target to improve youth entrepreneurs financing problems, leading to job creation and reduced unemployment rates.

## ملخص البحث

يشكل الحصول على التمويل تحديًا بالغ الأهمية يواجهه رواد الأعمال، ولا سيما الشباب منهم في ماليزيا، فإنَّ رواد الأعمال الشباب هم المحرك القادِم لنمو البلد؛ ومن ثم يجب اتخاذ تدابير فعّالة للتغلب على هذه المشكلة من خلال إيجاد عدة مصادر تمويلية بديلة. ويُعدُّ التمويل الجماعي أنموذج سريع النمو ومبتكر تميّز بالاهتمام الكبير بين الأكاديميين، مما أدى به إلى أن يصبح موضوعًا بحثيًا أساسيًا على الصعيد العالمي. ومن هنا فإنَّ الدراسة الحالية تقترح أنموذجًا إسلاميًا محددًا للتمويل المشترك مصمم خصيصًا لتلبية احتياجات رواد الأعمال الشباب باعتبارهم مقترضين ذوي مخاطر عالية. تتمثل أهداف البحث الحالي بشكل أساسي في: (1) دراسة التحديات التي يواجهها رواد الأعمال الشباب الماليزيون للحصول على المساعدة المالية من المؤسسات المالية. (2) تحديد تصور رواد الأعمال الشباب الماليزيين لوجود التمويل الجماعي الإسلامي ومدى ملاءمته النموذجية. (3) تقييم العلاقة بين العوامل التي تؤثر على قبول رواد الأعمال الشباب الماليزيين لأنموذج التمويل الجماعي الإسلامي كآلية تمويلية بديلة. (4) تصميم أنموذج تمويل جماعي إسلامي يركز على رواد الأعمال الشباب الماليزيين وتقييم مدى ملاءمته. اعتمدت الدراسة الحالية منهجًا مختلطًا توضيحيًا متسلسلاً تم إجراؤه على مرحلتين، نوعية وكمية. تضمنت المرحلة الكمية جمع البيانات باستخدام الاستبيانات لتحقيق الهدف الأول والثاني والثالث. وفي نفس الوقت، تم الحصول على البيانات من خلال مقابلة الخبراء لتحقيق الهدف الرابع في المرحلة النوعية. استخدم التحليل الوصفي الحزمة الإحصائية للعلوم الاجتماعية (SPSS) لتحقيق الهدفين الأول والثاني. وفي نفس الوقت، تم اعتماد أنموذج المعادلات الهيكلية (SEM) لتحقيق الهدف الثالث. وأخيراً أجرت الدراسة تحليلاً موضوعياً لتحقيق الهدف الرابع. تم اختيار المستجيبين للمرحلة الكمية من ثلاث منظمات بارزة، هي: مجلس أمانة رعيت (MARA)، والمركز الماليزي العالمي للابتكار والإبداع (MAGIC)، وفرادند دان اوسهاوان ناسيونال برهد (PUNB). وكان (260) استبياناً صالحاً لتحليل البيانات. من ناحية أخرى، شارك في المقابلات ستة خبراء، من بينهم أكاديميون، وممثلي الصناعة، وواضعو السياسات، وخبراء في الشريعة، للحصول على مزيد من المعلومات المتعمقة. أظهرت النتائج الوصفية أن سجل الإنجاز، وطول مدة تجهيز القرض، وخطة العمل كانت أكثر التحديات التي واجهها رواد الأعمال الشباب الماليزيين في تمويل المؤسسات المالية. وفي المقابل، فإنَّ رواد الأعمال الشباب الماليزيين لا يتم تشجيعهم على تطبيق تمويل المؤسسات المالية بسبب معدل التمويل. اعتبر رواد الأعمال الشباب الماليزيين التمويل الجماعي الإسلامي آلية تمويلية بديلة ممكنة، وأشارت النتائج إلى وجود تفضيلات قوية للتمويل المشترك القائم على التبرعات الإسلامية. أما في تقييم رغبة رواد الأعمال الشباب لقبول التمويل الجماعي الإسلامي باتباع أنموذج نظرية القبول الموسعة (TAM)، كان من المفترض أنَّ الفائدة المتصورة (PU)، والشعور بسهولة الاستخدام (PEOU)، والكفاءة الذاتية (SE)، والمنصة الإسلامية (IP)، وإمكانية الحصول على القروض (FA)

تؤثر بشكل كبير على رغبة رواد الأعمال الشباب الماليزيين في استخدام التمويل الجماعي الإسلامي. تم تصميم أنموذج التمويل الجماعي القائم على المجتمع لرواد الأعمال الشباب (CBC4YE) باستخدام نتائج المنهج الكمي من الناحية المفاهيمية لمساعدة رواد الأعمال الشباب في الحصول على التمويل بشكل أفضل. بعد ذلك، قام الخبراء بالتحقق من صحة أنموذج (CBC4YE). أشارت نتائج المقابلة إلى أن الخبراء لديهم رأي إيجابي نحو أنموذج CBC4YE حيث أنه مناسب لتزويد رواد الأعمال الشباب بفرص أفضل للحصول على التمويل. وفي النهاية يُعدُّ الالتزام الجاد بين الحكومة والقطاع الخاص ورواد الأعمال الشباب أمراً بالغ الأهمية، فهو ضمان لإمكانية تنفيذ أنموذج CBC4YE لتحقيق الهدف المتمثل في تحسين مشكلات تمويل رواد الأعمال الشباب، والذي يؤدي إلى خلق فرص عمل وخفض معدلات البطالة.

## APPROVAL PAGE

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## DECLARATION

I hereby declare that this thesis is the result of my own investigation, except where otherwise stated. I also declare that it has not been previously or concurrently submitted as a whole for any other degrees at IIUM or other institutions.

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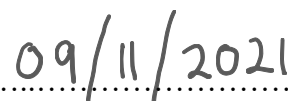
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## LIST OF ABBREVIATION

AON	All-or-Nothing
AVE	Average Variance Extracted
Bis	Banking Institutions
BNM	Bank Negara Malaysia
CB-SEM	Covariance-Based Structural Equation Modelling
CBC4YE	Community-Based Crowdfunding Model for Youth Entrepreneurs
CBC4YEP	Community-Based Crowdfunding for Youth Entrepreneurs Platform
CER	Corporate Entrepreneurship Responsibility
CGC	Credit Guarantee Corporation
CMB	Common Method Bias
CMV	Common Method Variance
CSR	Corporate Social Responsibility
DFIs	Development Financial Institutions
DOSM	Department of Statistics Malaysia
FA	Financial Accessibility
GDP	Gross Domestic Product
HOCs	Higher Order Constructs
ICT	Information Communication Technology
IDT	Innovation Diffusion Theory
IPMA	Importance-Performance Map Analysis
IPMa	Institusi Pendidikan MARA
IP	Islamic Platform
IS	Information System
IT	Information Technology
KIA	Keep-it-ALL
LOCs	Lower Order Constructs
MaGIC	Malaysia Global Innovation and Creativity Center
MARA	Majlis Amanah Rakyat
MEDAC	Ministry of Entrepreneurs Development and Cooperatives
NEP	National Entrepreneurship Policy
NSDC	National SME Development Corporation
P2P	Peer to Peer
PEOU	Perceived Ease of Use
PLS-SEM	Partial Least Squares Structural Equation Modelling
PR	Perceived Risk
PUNB	Perbadanan Usahawan Nasional Berhad
PU	Perceived Usefulness
SC	Securities Commission
SDGs	Sustainable Development Goals
SE	Self-Efficacy
SEM	Structural Equation Modelling

SI	Social Influence
SMEs	Small and Medium Enterprises
SPV	Shared Prosperity Vision
TAM	Technology Acceptance Model
TPB	Theory of Planned Behaviour
TRA	Theory of Reasoned Action
UTAUT	Unified Theory of Acceptance and Use of Technology
VC	Ventures Capital
VIFs	Variance Inflation Factors
YRF	Youth Regenerating Fund

# CHAPTER ONE

## INTRODUCTION

### 1.1 BACKGROUND OF THE STUDY

Youth have become the focus of several nations in the world due to their high unemployment rate. Youth unemployment also is regarded as a significant issue in Malaysia. According to Lean et al. (2018), the unemployment rate among youth hit 10.92% in 2018, which is three times higher than the 3.30% national unemployment rate in 2018. More worryingly, as reported by Cheng and Mohamad (2020) in Figure 1.1, the ratio of youth unemployment to total unemployment has been rising in tandem with the world average. It indicates that, on average, it has become more and more difficult for young people today to find a job than it was 20 years ago. Further, TalentCorp Malaysia (2018) reported that unemployed youth contribute about 60 percent of 508,200 unemployed people.

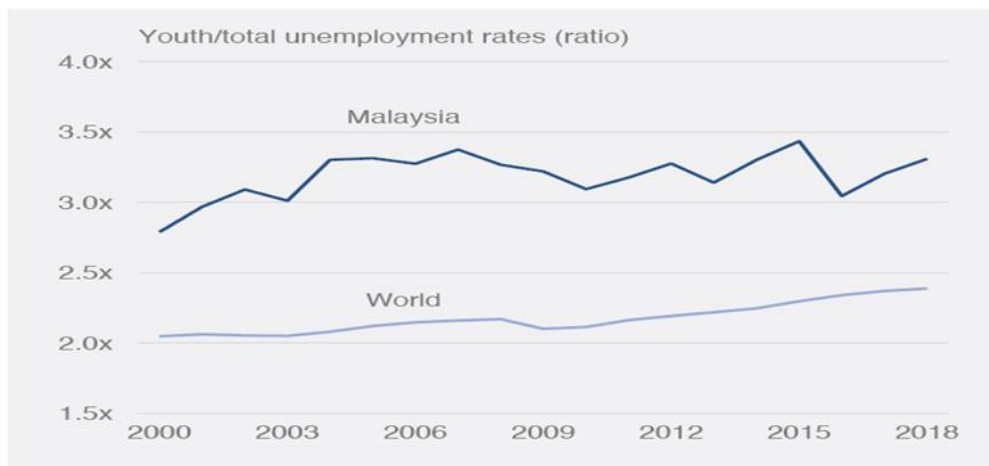


Figure 1.1 Youth Unemployment- to-Total Unemployment Rates Ratio  
Source: Cheng & Mohamad (2020)

Various factors contribute to the higher unemployment rate among youth. It includes the current technological revolution, the youth labour force's characteristics, and the mismatches between the labour market demand and supply-side (Cheng & Mohamad, 2020). Unemployment among youth can have serious long-term effects if not curbed. These can lead to widespread adverse effects on the country's economy and social landscape, significantly increasing the income disparity and poverty (CBL Economic Review, 2012). Therefore, it is essential to create new employment opportunities, fulfilling youth needs.

One of the suggested solutions in addressing the youth unemployment issue is by developing proper entrepreneurship programmes. It is believed not only capable of solving the youth unemployment issue but also contributing to job creations in the economy (Vogel, 2013; Bokhari, 2013; Green, 2013; Chidiebere, Iloanya, & Udunze, 2014; Chik et al., 2015; Rahman, Yaacob & Radzi, 2016; Alani, Algodah, & Alshwaiyat, 2016; Ibrahim & Mahyuddin, 2017; Shamsudin et al., 2017). According to Goal 8 of Sustainable Development Goals (SDGs), encouraging youth employment through entrepreneurship is fundamental in achieving sustainable decent work and economic growth (United Nations, 2018). Thus, the Malaysian government has been continuously encouraging youth entrepreneurship, following the realisation that entrepreneurship is a feasible option to ensure stable economic development. They were assisted in various supports, such as business advisory, capacity building, and financing (Khan, Noor, Anuar, & Mansor, 2016). As reported in the Malaysian Budget 2020, over RM1 billion was allocated to boost entrepreneurship in Malaysia. Programs such as Tunas Usahawan Belia Bumiputera (TUBE) are government initiatives to encourage youths to get involved in the business. A total of RM10 million has been allocated to SME Corp in Malaysia to help young people. Since its inception, 5766 entrepreneurs have gained extensive exposure in respect of the business world as well

as being guided and monitored by SME Corp, Malaysia's Business Counsellors, and SME Advisory Panel. *Skim Pembiayaan Mikro* is a microcredit program provided to microenterprises. In 2018, a total of RM4.1 billion financing was approved to 230,082 microenterprises through ten participating financial institutions. *PROSPER Usahawan Muda* (PUMA) is another loan scheme in Malaysia run by Perbadanan Usahawan Nasional Berhad (PUNB) to assist youth entrepreneurs with financing and training.

Despite various incentives and programmes by the government for SMEs, The World Bank (2019) in their Doing Business Report reported that Malaysian ranked 122/192 in "starting a business". A survey conducted by Lean et al. (2018) revealed that only 1/5 of all job seekers under study wish to start their own business despite various government incentives to spur youth entrepreneurship. The Graduates Tracer Study (2018) conducted by the Ministry of Higher Education (MoHE) found that there are a total of 170,105 graduates, and only 6.5% are self-employed. Further, Ridzwan, Muhammad and Rahman (2017) stated that many SMEs run by youth entrepreneurs are still struggling, with a high failure rate. The performance of youth entrepreneurs in Malaysia is considered unsatisfactory because only 20% of young entrepreneurs survive in the SME markets (Ismail & Fabeil, 2019). The study by Samah, Omar, Bolong and Hassan (2018) indicates that youth involvement in entrepreneurial activity is not high as expected to bring an advanced development change in economic development and significant change in the social landscape. Youth entrepreneurs still face considerable challenges, interfering negatively with their contribution, development, and progress towards economic improvement despite such efforts from the government (Chik et al., 2015; Khan et al., 2016; Ridzwan et al., 2017; Lean et al., 2018).

Access to financing has been consistently reported as a big challenge faced by youth entrepreneurs running small or medium-sized enterprises (SMEs) (Wilson &

Silva, 2013; YBI Report, 2012; Kvedaraite, 2014; Schott, Kew & Cheraghi, 2015; Sharu & Guyo, 2015; Salamzadeh & Kawamorita Kesim, 2015; Chik et al., 2015; Sarkar, 2016; Khan et al., 2016; Rahman, Yaacob & Radzi, 2016; Mokhtarrudin, Masrurah & Muhamad, 2017; Lean et al., 2018). In Malaysia, a recent Ministry of Finance's (MoF) Economic Report 2019/2020 reported that access to financing continues to be a challenge among SMEs and start-ups. Similarly, another report by Schwab (2017/2018) reported that access to financing was ranked first among several other factors hindering entrepreneurial growth in Malaysia. The report reported that 12.5% of the business executives in Malaysia choose access to financing as the most problematic factor for doing business in Malaysia. Accordingly, access to finance in Asia and the Pacific has become more challenging in all markets for youth entrepreneurs, especially in Malaysia (Guelich & Bosma, 2018). Limited access to financing in the business early stage places significant pressure on meeting the operating costs as well as administrative expenses. As a result, the limited access to financing may lead to business failure, hindering SMEs to sustain and expand further and grow (Rahman, 2017; Sitoula, 2015; Leach & Melicher, 2012). SMEs maturity in Malaysia is the lowest compared to the other four countries (Singapore, Thailand, Indonesia and Philippines) which is less than nine years where 42% are under five years (Mehrotra, Tan & Jieqi, 2015)

A CENSUS Report 2016 reported that only 32.1% of SMEs in Malaysia obtained financing from financial institutions while 72.8% of SMEs relied on their internal fund. This scenario shows that financial institutions have not wholly entered the SMEs market. Therefore, only a limited portion of them benefited from the variety of financing options offered for SMEs in Malaysia. In Malaysia, most financial institutions adopt the 5'C's strategies (Capacity, Capital, Character, Collateral and Condition) as one of the standard evaluation techniques in assessing the entrepreneurs'