

MEASURING THE WILLINGNESS TO USE SHARIAH  
COMPLIANT CROWDFUNDING MODEL BY THE  
ENTREPRENEURS IN MALAYSIA THROUGH  
LOGISTIC REGRESSION

BY

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A dissertation submitted in fulfilment of the requirement for  
the degree of Master of Economics

Kulliyyah of Economics and Management Sciences  
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## **ABSTRACT**

Crowdfunding is a method of raising fund among entrepreneurs. A recent study has shown that crowdfunding has exceeded venture capital in providing funding to entrepreneurs. This paper discussed the possibility of the entrepreneurs adopting shariah-crowdfunding platforms as their personal preference of gaining businesses capital on top of accessing the entrepreneurs' level of understanding of the shariah crowdfunding concept. The study has collected primary source of data from 411 questionnaire distribution and detailed analysis was done by performing logistic regression modelling. Findings have managed to reveal and identify the overall awareness, understanding and entrepreneurs' level of acceptance of the shariah crowdfunding concept. On top of that, the regression analysis managed to point out the main factor in creating demand for Islamic crowdfunding platforms, especially in Malaysia, by enhancing the platforms' efficiency to ease the experience of using the platform for the benefits of the entrepreneurs. As the data collection is conducted in the Klang Valley area, the research does not cover all province in Malaysia. The study also provides insight for the supply side (campaign creators) understanding and willingness on the adaptability of crowdfunding as alternatives businesses financing option. It also adds to the literature on the probability intention of the entrepreneurs to use crowdfunding specifically in Malaysia and helps to gives a general view on the Malaysian entrepreneurs' perception towards crowdfunding activities.

## ABSTRACT ARABIC

أن ،مؤخرا أجريت دراسة أظهرت وقد .الأعمال رجال بين الأموال لجمع جديدة وسيلة الجماعي التمويل ن ناقشنا قد ،الورقة هذه في .المشاريع لأصحاب التمويل توفير في الاستثماري المال رأس تجاوز الجماعي التمويل المال رأس لزيادة الشخصي تفضيله باعتبارها للشريعة الجماعي التمويل المشاريع منظم يعتمد أن احتمالية بيانات من استبياننا ٤١١ الدراسة جمعت وقد .للشريعة القائم الجماعي التمويل لمفهوم الفهم المستوى إلى والوصول لمنظور أفضل فهم على للحصول الدراسة هذه وتركز .اللوجستي الانحدار نموذج باستخدام مفصلا تحليلا وتقدم واستعدادها والمنصة للشريعة القائم الجماعي التمويل لمفهوم الحجم المتوسطة الصغيرة المشاريع أصحاب تحديد من الورقة هذه تمكنت وقد .أعمالهم تمويل في الشريعة مع المتوافقة الجماعي التمويل منصة من للاستفادة تحليل يشير ،ذلك إلى إضافة .الشريعة مع الجماعي التمويل لمفهوم الأعمال رجال قبول ومستوى الشامل الفهم من ماليزيا في خصوصا الإسلامي الجماعي التمويل منصات على الطلب خلق في الرئيسي العامل إلى الإنحدار التمويل غرض على باستخدامها لتسهيل المنصات كفاءة تعزيز خلال

## APPROVAL PAGE

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
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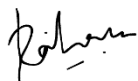
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*This thesis is dedicated to my parents for their sincere prayers and unconditional love.  
To my beloved husband for his endless support throughout the longest journey of my  
life, without it is just not possible. To my two beautiful daughters, thank you for their  
understanding throughout the struggle.*

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## LIST OF ABBREVIATIONS

SME	Small Medium Enterprises
USD	United State Dollar
OIC	Organisation of Islamic Cooperation
UAE	United Arab Emirates
USA	United State of America
ICT	Information and Communication Technology



# CHAPTER ONE

## INTRODUCTION

### 1.1 INTRODUCTION

There are many ways for an established entrepreneur to acquire funds. They may seek the public through stocks offering, the banks for a loan or issue private bonds certificate. Unfortunately, these options may not apply to start-up or SME entrepreneurs. This is due to the financial gap is bigger in smaller sizes of enterprises compared to their counterparts (Megersa, 2020). The entrepreneurs are quickly turned down by the bankers due to the higher risk profile and questioned the business stability in the long run (Peprah 2016; Erdogan 2018; Waked 2016). Therefore, SMEs have limited choices with a higher cost of getting funded. The easiest way to get funding for them will be through family members and friends (Kotha & George 2012; SME Corp 2019). But what if they are coming from a lower-income family with poor friends. Do the entrepreneurs be able to get their capital needed and proceed with the business ideas as non-bank financing is said to be more limited in providing financing (Koreen et al, 2018).

Crowdfunding comes with a solution to this problem. This type of funding is everyone's favourite choice when one is stuck with ideas to generate a capital source as it is having little to no charges to start crowdfunding campaigns or projects. This funding applies to various funding types from SMEs' capital funding, one's educational fee to community efforts.

According to Wahjono et al. (2015), Malaysia is one of the fastest countries in response to the crowdfunding industry growth worldwide, as the first country in

Southern Asia to establish a proper framework on the governance of crowdfunding activity. The move made by the Bank Negara of Malaysia is to cater to the estimated RM25.1 million shortage of funds for the SME industry in 2015 due to multiple financing issues from the bank and venture capital. Since the establishment of crowdfunding guidelines for equity and peer-to-peer lending in 2015 and 2016 respectively, 21 crowdfunding operators (10 for equity crowdfunding and 11 for P2P crowdfunding) managed to secure crowdfunding licensed to establish their platforms in Malaysia. Security Commission in its Corporate Governance Strategic Priorities 2017-2020 reports has also emphasized crowdfunding as part of its critical priorities under the Crowdfunding and Financial Technology segment. SMEs are a vital force towards developing the economy in Malaysia as SMEs are comprised of 98.5% of business establishment in Malaysia and contributed 38.9% of total GDP in 2019 based on SME Corp official website. Thus, the government is willing to prioritize a unique toolkit to cater to SME companies' technological progress. The initiatives aim to support the development of SMEs and reduce the cost of raising funds through digitalization. Consequently, crowdfunding growth is rising as the demand for crowdfunding increases from 3 requests per month to 10-20 requests for funding.

In order not to be left out from the economics of the latest financial digitalization technology, the Security Commission of Malaysia (SC) in its initiatives has set up an Alliance of Fintech Community (aFINity) to promote mutual collaboration, innovations, and ideas to spur the Fintech industry in Malaysia. SC's support is to provide better communication for their policy and regulatory issues, facilitate discussion with relevant parties, and explore an opportunity for the industry's future. Given the bright possibility of this industry, there is a need to enhance the crowdfunding

ecosystem to be more synergised towards fulfilling the crowdfunding platforms and entrepreneur potential.

Globally, crowdfunding has exceeded venture capitalists in assisting the entrepreneur. The market size of crowdfunding has seen keep increasing over the years. Statista website reported that in 2013 the market size of crowdfunding is USD 0.62 million. However, based on a study conducted by Cambridge Centre for Alternative Finance 2020, the total crowdfunding volume in 2018 is increased to USD 304.5 billion for all 171 countries involved. Crowdfunding transaction growing by 48 per cent year on year from USD 60 billion in 2017 to USD 89 billion in 2018 (Ziegler et al. 2020; Schmidt 2020). China leading as the largest alternative financing volume by country as the accumulated total transaction for China crowdfunding financing reached USD 215.4 billion in 2018 amounting to 70.73 per cent of the global market share. The list of top 30 crowdfunding volume by countries are presented in Table 1.1.1 as below:

Table 1.1.1: Global top 30 crowdfunding Volume by Country

<b>Rank</b>	<b>Country</b>	<b>Volume (USD)</b>	<b>Market Share</b>	<b>Yearly Growth Rate</b>
1	China	215,396,387,848	70.73%	-39.88%
2	United States	61,134,356,480	20.07%	42.93%
3	United Kingdom	10,367,889,408	3.40%	32.04%
4	Netherlands	1,806,298,624	0.59%	480.72%
5	Indonesia	1,451,228,928	0.48%	1711.43%
6	Germany	1,276,201,472	0.42%	92.90%
7	Australia	1,166,546,048	0.38%	1.57%
8	Japan	1,074,756,864	0.35%	208.26%
9	France	933,132,928	0.31%	26.98%
10	Canada	909,255,296	0.30%	4.80%
11	South Korea	753,380,992	0.25%	-33.32%
12	Israel	725,827,200	0.24%	145.21%
13	Brazil	672,192,768	0.22%	149.30%
14	India	547,428,160	0.18%	103.82%
15	Italy	532,583,424	0.17%	99.16%
16	Singapore	499,653,248	0.16%	162.12%
17	Spain	419,040,224	0.14%	134.99%

18	Finland	379,191,529	0.12%	73.44%
19	Poland	333,293,184	0.11%	110.55%
20	Sweden	298,038,528	0.10%	36.58%
21	Chile	289,255,456	0.09%	91.95%
22	New Zealand	276,205,248	0.09%	5.57%
23	Latvia	254,535,808	0.08%	148.45%
24	Mexico	233,390,656	0.08%	54.47%
25	Georgia	193,016,992	0.06%	0.25%
26	Colombia	192,467,200	0.06%	280.15%
27	Armenia	184,032,032	0.06%	8227.24%
28	Estonia	159,526,080	0.05%	76.72%
29	Peru	158,461,440	0.05%	441.40%
30	Denmark	144,745,360	0.05%	232.98%
<i>Other countries (combined)</i>		1,769,210,575	0.58%	n/a
<b>Total</b>		<b>304,531,530,000</b>	<b>100.00%</b>	<b>100.00%</b>

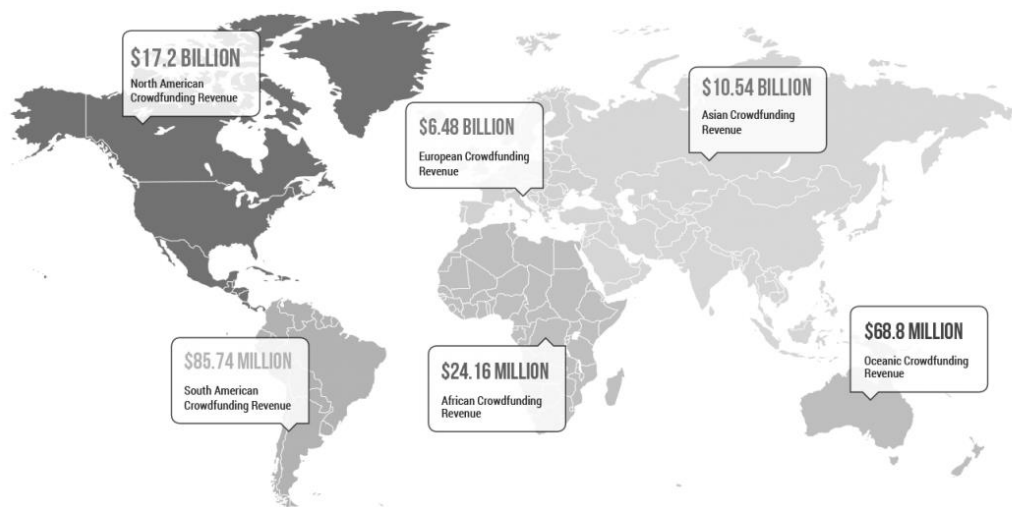
Source: [www.p2pmarketdata.com](http://www.p2pmarketdata.com)

As of October 2020, the largest crowdfunding platform in the United States, Kickstarter has recorded 500,439 projects launch, USD 5.34 billion raised for successful campaigns with 18.6 million backers as per the statistic report on the Kickstarter website<sup>1</sup>. Based on Forbes<sup>2</sup>, in 2015, crowdfunding platforms were estimated, raising over USD 34 billion worldwide. The estimated fundraised is beyond the ability of the venture capital industry to churn out the investment of only USD 30 billion on average each year as highlighted by Yong, Huayu, Chen and Le Wu (2017). Fundly, a crowdfunding platform website illustrates the estimation of total crowdfunding revenue per year all around the globe as below:

<sup>1</sup> Kickstarter website (<https://www.kickstarter.com/help/stats>)

<sup>2</sup> Barnett.C. (Jun 9,2015). Trends Show Crowdfunding To Surpass VC In 2016. Retrieved from <https://www.forbes.com/sites/chancebarnett/2015/06/09/trends-show-crowdfunding-to-surpass-vc-in-2016/?sh=21292c194547>

Figure 1.1.1: Total Revenue per year of crowdfunding industry worldwide (USD)



(source: Fundly website <https://fundly.com/>)

Based on the estimate above, the most prominent revenue earned from crowdfunding is North American with USD 17.2 billion, followed by Asia with USD 10.54b billion and Europe USD 6.48billion. The least estimated revenue earned by the African shows that African crowdfunding's market size is the smallest among all the region.

Industry players in Muslim majority countries are also keen to establish crowdfunding in their countries. Based on the Islamic Financial Services Industry Stability Report 2017, OIC countries owned around 80 crowdfunding platforms, with only four active and one pre-launch can be classified as Islamic crowdfunding platforms.<sup>3</sup> The four active Islamic crowdfunding platforms are AtaPlus (Malaysia), Liwwa (Lebanon), Beehive (UAE), Shekra (Egypt) and Danadidik (Indonesia). Interestingly some active Islamic Crowdfunding Platforms are founded not in Muslim

<sup>3</sup> Islamic Financial Services Industry Stability Report 2017.(<https://www.islamicfinance.com/2017/07/ifsb-view-islamic-crowdfunding/>)

majority country which are EthicCrowd (Singapore), KapitalBoost (Singapore), LaunchGood (USA), FundingLab.net (Scotland), and BlossomFinance.com (USA).

One of the Islamic platforms that are very successful today is LaunchGood. LaunchGood established in the United States in 2013. Based on their website, as of February 2019, LaunchGood had managed to beat established crowdfunding platforms such as Kickstarter, GoFundMe, and Indiegogo in terms of campaign success rate recorded at 51 per cent in LaunchGood compared to only 37 per cent in Kickstarter, less than 10 per cent in GoFundMe and Indiegogo. While the average total fundraised was also higher for LaunchGood with USD 10,000 collected per campaign compared to USD 7,400 in the Kickstarter platform.

In 2016, CrowdfundInsider (2016) reported an effort made by nine initiators of Islamic Crowdfunding Platforms to gather and create the first Islamic Fintech (IFT) Alliance. This alliance's objectives are to impose a standard, developing and analyse the impact and provide insight into the industry to establish a reliable and sustainable Islamic Crowdfunding ecosystem. This move has enhanced the industry by increasing the networking of 2400 investors, especially in real estate finance to mutually benefiting from each other on the latest development and opportunity in the industry.

Based on Security Commission statistics June 2020, since the establishment of crowdfunding in Malaysia, Malaysian has successfully funded a total of 106 equity crowdfunding campaign with a total fund generated of RM110.26 million from 102 issuers. As for Peer-to-Peer lending, investors' demand seems to be very substantial as about 10,824 campaign successfully funded with RM798.32 million total fundraised. The investor profile comes out strong, with 88 per cent for P2P and retail investors contribute 60 per cent of the fund for equity crowdfunding. The majority of the investors in P2P and equity crowdfunding are below the age of 35, articulating a

promising future for crowdfunding activities to be the most attractive investment tool for Malaysia's youth. The total fund raised for equity crowdfunding in Malaysia is also growing over the years as reported by the Security Commission Malaysia website as below:

Table 1.1.2: Total Crowdfunding Fund raised in Malaysia from 2017 to 2020

Year	Total Fund Raised (RM '000)	Total Cumulative Fundraised (RM '000)
June 2020	36.52	110.26
Dec 2019	25.16	73.74
Dec 2018	15.84	48.58
Dec 2017	n/a	32.74

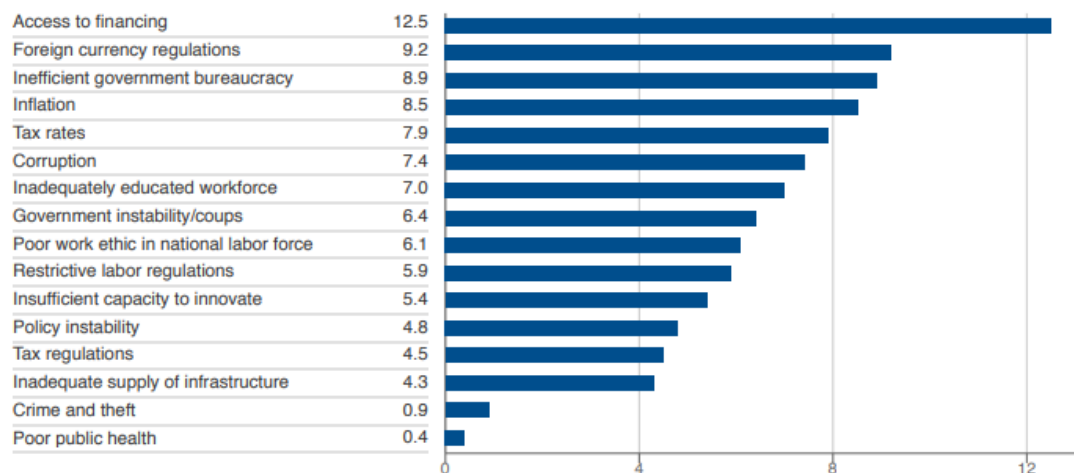
Source: Security Commission website (<https://www.sc.com.my/>)

Based on Fintech Malaysia news, PitchIN has the most significant market share in Malaysia, owning 72 per cent of the total fundraised and 53.8 per cent of campaigns in 2019. Conversely, the most prominent successful crowdfunding campaign done in Malaysia recorded at RM 3 million were commerce.asia, Fundaztic and Qeos Led with Fundaztic recorded as the fastest successful funded campaign when the total maximum fund was collected only 38 minutes after it launched.

## 1.2 PROBLEM STATEMENT

According to The Global Economic Competitiveness Report 2017–2018 published by The World Economic Forum, access to financing, foreign currency regulations, and inefficient government bureaucracy are among the top barrier in doing business in Malaysia as illustrate in Figure 1.2.1 below:

Figure 1.2.1: Top barrier of doing business in Malaysia 2017



Source: World Economic Forum, Executive Opinion Survey 2017

These issues are not only prevalent in Malaysia but also in other countries as well. Lussuamo & Serrasqueiro (2020) also mentions financial restriction is the main concern for SMEs entrepreneurs in Angola. In Finland and Ghana, SMEs are denied loan application owing to poor business credit rating, insufficient collateral guarantee, weak solvency and seen as unprofitable business as a result of the weak business proposal (Peprah, 2016). These reasons are also rampant in Saudi Arabia on top of reasons such as high interest rates, challenging loans criteria and application bureaucracy by the financial institution. (Waked, 2016). In Turkey, bank loan approval is depending on factors such as the firm's relationship with the bank, business industry, age of the firms and the bank site visit condition. The businesses in the manufacturing sector with a long-term relationship with the bank has a higher chance to gain funding from the bank (Erdogan, 2018). This makes it harder for young entrepreneurs in their early business cycle to get financial supports from financial institutions.

Financial applications are also rejected mainly due to insufficient documentation, insufficient cash flow and an unviable business plan (SME Copr, 2019).