

AN ANALYSIS OF FINTECH CROWDFUNDING AMONG NGO-I

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Abstract

Crowdfunding is an internet supported way to run businesses or raise money either in the form of donations or various investments from multiple individuals. This new form of fundraising technique has emerged since the wake of the 2008 financial crisis and its popularity has accelerated due to the impact of COVID 19 pandemic. With various constraints in obtaining financing from financial institutions, entrepreneurs started to look for capital generated from the other sources. The resources are still limited, but the Muslim crowdfunding ecosystem is diversifying from the most basic reward based to social lending, with an eye to the fintech. Using a quantitative research methodology, this paper uses secondary data research method to gain a broader understanding on the linkage between crowdfunding, fintech and NGO-I. This article firstly explores the current development of fintech usage for crowdfunding platform. This is followed by an analysis of the crowdfunding methods used by Islamic Non-Governmental Organization (NGO-I). Finally, it presents the Shariah governance aspect of fintech crowdfunding. This article encapsulates the potential of fintech in catalysing Islamic crowdfunding among Islamic Non-Governmental Organization (NGO-I) in Malaysia and the need for a Shariah governance framework for Islamic fintech.

Keyword: *crowdfunding, fintech, Islamic finance, NGO, social finance*

INTRODUCTION

Financial technology, also known as fintech, is a type of online financial services that is rapidly growing because of the rapid growth and changes in technology. Fintech was first established in Malaysia in 2015, where it was pioneered by the country's three (3) largest banks, namely Maybank, RHB, and CIMB (Majalah Labor, 2017). Fintech is now recognized by financial institutions as a software solution that improves the public's access to financial services (Majalah Labor, 2017). Today the usage of fintech is not constrained to financial institution services only. It has gradually been used by charity linked

NGOs to raise money for their causes and one of the increasingly popular method is by using crowdfunding platforms.

Crowdfunding plays an important role as an innovative financial assistance mechanism that enables and assists those in need for funds and those who working on certain projects to get funded through the utilization of small amounts of capitals from the society. This charitable crowdfunding is frequently used to fund certain projects, non-profit organizations (NGOs) and individuals. Among the factors that contributed to the funders interest to participate in this type of fund-raising are the transparency, accessibility, traceability, security and certainly the fast transaction of the crowdfunding platforms (World Bank, 2013). According to Maya Puspa, Nasrol & Jarita (2016), Malaysia is not excluded in the crowdfunding practices. This concept of crowdfunding had long been introduced, back in 1982 when the radio television Malaysia (RTM) hosted the fund-raising for a live telecast of the World Cup by using the national television broadcast. The effort was very successful as the amount received had exceeded the target.

This article shall examine further on fintech crowdfunding among Islamic NGOs by using secondary data analysis through examining documents such as relevant article journals and news articles, First, the article will elaborate the current development of fintech usage in Malayia for crowdfunding platform. Following this, the practice of fintech crowdfunding among NGO-I would be examined. Finally, the article suggests the implementation of Shariah governance in Islamic Fintech as it implicates the crowdfunding activity that NGO-I does.

THE CURRENT DEVELOPMENT OF FINTECH USAGE FOR CROWDFUNDING PLATFORM

According to Cheah et al., (2011), fintech adaptation among Malaysians is still in its infancy. Studies have shown that almost 74% of Malaysians are still sceptical of fintech and it is not fully used by most consumers (Tun- Pin et al., 2019; Venkatesh & Bala, 2008). Comparatively, in Western countries, the development and change of fintech in financial services are moving very fast (Tun- Pin et al., 2019; Khraim, Al-Shoubaki & Khraim, 2016). Malaysia should follow suit and capitalise the huge potential from fintech usage.

The usage of fintech is more prominent in the banking and finance sector. In 2019, the banking landscape has changed with everything moving towards the era of digitization (Berita Harian, 2019). Hence, community education must be provided continuously as fintech eases the public and business services as there is no longer the need to visit banks or other financial institutions using mobile phones, laptops, and other devices. Technological advancements and societal lifestyle changes have resulted in the evolution and growth of traditional industries into modern industries based on financial

technology. Mobile payments, cryptocurrency, crowdfunding platforms, digital insurance, and digital investments are some of the most well-known fintech applications in Malaysia, accounting for a significant portion of its applications and users (Majalah Labor, 2017).

Crowdfunding platform is an initiative to assist small businesses in raising funds. It serves as an alternative solution to the difficulty of obtaining bank loan for a small business. Long waiting periods, collateral, and financial records to demonstrate creditworthiness are just a few of the obstacles that prevent banks from making loans. In Malaysia, Equity Crowdfunding (ECF) and peer-to-peer (P2P) equity financing are new smart ways to raise funds. ECF allows investors to purchase shares, whereas P2P allows the company to borrow money from investors. Both platforms are regulated by the Securities Commission (SC), and Malaysia was the first ASEAN country to regulate crowdfunding in 2015, followed by P2P financing regulations in 2016. Malaysia currently has ten ECFs and eleven registered P2P platforms (Malay Mail, 2020).

Examples of crowdfunding platforms include Kickstarter, GoFundMe, and Patreon. They became important mediums which allow businesses to raise funds globally and across borders. The use of fintech in crowdfunding platforms in Malaysia has helped thousands of entrepreneurial and business ideas become a reality by obtaining financial assistance from the public (Majalah Labor, 2017). Nevertheless, more informative and awareness campaigns are needed as there are entrepreneurs particularly those in Small and Medium Enterprise (SME) who are unaware of the existence of fintech crowdfunding as an alternative financing option (Haniff, Ab Halim & Ismail, 2020).

THE CROWDFUNDING METHODS USED BY ISLAMIC NON-GOVERNMENTAL ORGANIZATION (NGO-I)

Initially, crowdfunding has been introduced as a donation-based or reward-based platform. However, currently this fund-raising technique has expanded to also include equity-based, debt-based and litigation based. In other words, crowdfunding is expanding globally and becoming the growing choice of fund raising all over the world. This technique rapidly developed via internet platform as the main platform of funding. It could be seen as a mechanism of news spreading and advertising for fund-raising especially for the project and charity (Shofiyyah, Aisyah & Shifa, 2019).

Since the 1990s, the rapid growth of national and internationally linked NGOs in Malaysia are notable (Wan Nur Zuratina, 2015). Even though not all the NGOs in Malaysia are registered, it is actually a requirement for them to register their respective organizations with the Societies Department of Malaysia in accordance with the Registrar of Societies Act 1966 (ROS) or

Registrar of Companies (ROC) (Laila Surya, Mohd Dino & Nik Nor Suhaida, 2016).

In Malaysia, NGOs are important key players that are run by volunteers with the mission of society development. The roles of NGOs are very important as a platform to the society speak up and as a supporting body for society welfare including social concerns such as human rights and humanitarian actions. Therefore, it is important for NGOs to ensure that their credibility as the voice of the people is not disputed especially in terms of institutional legitimacy and self-assessment. Most NGOs are non-profit groups and financially independent in running their projects or organizational operations. In reality, majority of the NGOs need financial support from the society and rely on their donations to contribute to the vulnerable communities (from communities to communities). However, in the current economic situation, especially with the impact of the COVID 19 pandemic, it is not easy to get funded. Thus, given the effectiveness of crowdfunding mechanism, it has become one of the NGOs alternative platform for donors and beneficiaries.

Islam provides unique mechanisms to improve the social security and welfare of the community. The mechanisms can be divided into two: compulsory and voluntary charitable giving concepts. The religion ordains those who have sufficient wealth (through certain calculations) to give alms or zakat and this is made compulsory to those who are able. Islam also encourages voluntary charitable giving through the system of waqf, hibah, infaq and sadaqah.

There are several numbers of Islamic non-governmental organization registered in Malaysia such as Islamic relief Malaysia (IRM), Islamic Aid Malaysia Allied Coordinating Council of Islamic NGOs (ACCIN), Muslim Volunteer Malaysia, Persatuan Ulama Malaysia, Pertubuhan Kebajikan Islam Malaysia (PERKIM), Hidayah Centre Foundation Hidayah (HC) and others. Most of this organizations are funded by the public, especially Muslims. In this digital era, they would initiate crowdfunding by creating a crowdfunding website. Usually, the process used by NGOs in ensure the crowdfunding is successful are by strategizing and planning the campaign program, good marketing and communication to the group target and utilization of all digital communication platform.

Examples of NGO-I includes Islamic Relief Malaysia (IRM) which operates using fund that were collected through zakat, sedekah, hibah and infaq (Iqmal H.K. at.al, 2016). Annually, every Ramadhan, IRM will conduct charity project called Rezeki Ramadan to help vulnerable people in 32 countries including Malaysia by using online donation. Similarly, Hidayah Centre is also using the crowdfunding platform through online banking or credit/debit card by running a donation campaign called 'Sedekah Ramadan' during this holy month to support their organization in conveying Islam and supporting under

privileged reverts in Malaysia (Hafiza Abu Bakar, 2021). These examples have proven that NGO-I are not afraid to use fintech crowdfunding platform to raise money for their cause, and the method has proven to be successful.

SHARIAH GOVERNANCE OF ISLAMIC FINTECH

This article proposes that given the advantages of the usage of fintech crowdfunding platform by NGO-Is and it's increasing popularity as well as acceptance by the public, it is important that the Shariah governance of Islamic fintech is adhered to. Shariah is the backbone and the foundation for establishment of Islamic Financial Institutions including Islamic fintech. Hence, it is important for Islamic fintech players and stakeholders to work together in handling the shariah issues in the light of the emerging new financial technology and products.

The evolution of technology in finance requires the Islamic fintech to restructure the existing framework of Islamic finance, and such innovation on the system, operations, and contract are permitted as long as it does not contradict with the principles of shariah. Whilst the technology solution should comply to principles of shariah, it should uphold the accountability, integrity, responsibility, and transparency prohibit Islamic fintech from engaging in fraudulent activities.

The Shariah governance framework for Islamic fintech is still in further discussion among academic scholars and industry. In this regard, Islamic fintech is needed to establish a dedicated shariah governance to oversee all Shariah aspects, including the transactions, model and framework, and operations of the industry. The lack of standards and regulation, issues related to data security, and the inferiority of the knowledge and skills involved are among barriers to the development of Islamic fintech.

Shariah governance is the most essential and unique portion of the Islamic financial system, which aims to legitimatise financial products in line with shariah principles and the suitability of muamalat contract and increases the disclosure and transparency in order to improve oversight of the Islamic finance which would lead to strengthen stakeholders' confidence in the industry (Hilmy, H. M. A. and Hassan, R. 2019).

The Islamic Financial Service Board (IFSB) through IFSB-10 defined shariah governance in as: "A set of institutional and organizational arrangements through which Islamic financial institutions ensure that there is an effective independent oversight of Shariah compliance over the issuance of relevant shariah pronouncements, dissemination of information and an internal shariah compliance review" (IFSB, 2009, p.2).

Generally, the Shariah governance consist of shariah board and other committee such as shariah audit, shariah review and shariah compliance. The shariah governance also provide independent shariah assurance on Islamic

fintech operations, similar to the role performed by the external auditor. The establishment of Shariah governance boards may facilitate Islamic fintech in developing Islamic finance smart contracts and agreements that fulfil shariah law and other guidelines stipulated by the regulators and authority. Hence, it is important for the Islamic fintech to take initiatives in building up their capacity and human capital in relation to financial technologies in order to offer newer areas of facilitating on automated shariah-compliant fintech operation.

CONCLUSION

This article has shown how fintech crowdfunding platform is increasingly being used whether by Islamic financial institutions, businesses or NGOs. By focusing on NGO-I, their connection with charitable giving and the current inclination to use fintech crowdfunding, it is clear that a Shariah governance framework on Islamic fintech needs to be developed. It is important that the NGO-I fundraising method should also be Shariah compliant in line with their Islamically inclined motivation and causes. Equally important is to maintain the trust of the public as the donors, which could be safeguarded should there be a Shariah governance framework in place.

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Penafian

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