

# Chapter 7

## Crowdfunding: New Form of Both Investment Opportunities and Source of Capital

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### ABSTRACT

*Crowdfunding is a new form of both investment opportunities and source of raising capital. The aim of this chapter is to explore the understanding of the newly invented crowdfunding, types of the existing platforms of the industry. Authors investigated crowdfunding platforms that are registered in securities commission Malaysia and Kapitalboost platform of Singapore and their mode of investment. Authors also looked in depth and reviewed a current literature on crowdfunding. An investment model of crowdfunding that will be suitable for the Muslim investors who are looking into an ethical investment that will contribute to the wellbeing of the societies as whole through Mudharabah and Musharakah investment. The findings explored that equity crowdfunding could bring more benefit and less harm to entrepreneurs. Consequently, there are two types of models that are based on equity-in and equity-out; hence, the chapter recommends the equity crowdfunding over the debt-based through Islamic investment method of Musharakah and Mudharabah investment.*

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## **INTRODUCTION**

History is a witness as if human civilisations have relied on business and natural resources for economic development and to increase productivity. Economic development needs to find a virtuous cycle mode, be it the financial system or the physical/real economy. Every elements of the economic development process should be scrutinized rigorously with in-depth analysis of long-term consequences and their accompanying considerations.

Crowdfunding is an emerging internet-based type activity to raise capital by the collection of small amounts of capital from the crowd. One of the types of this newly invented technology is equity crowdfunding, which is a kind of entrepreneurial finance that has been quickly developing in the past couple of years throughout the world. It has given hope to newly established businesses that faced difficulties in raising capital from the traditional financial institutions. This phenomenon worsened in the wake of the financial crisis of 2008, where financial institutions decrease the advancement of loans and investments, consequently initiating the frustration of business owners and entrepreneurs on the access to capital.

Due to the newness of the equity crowdfunding in the world in general and Southeast Asia specifically, not much research been done on it. Although some studies have been made primarily aiming at describing these new types of financing and its contributions, the common focus has been other types of crowdfunding mainly on the donation-based crowdfunding and the reward-based financing.

In this chapter, authors explore the function of six existing platforms of crowdfunding that are registered under the Securities Commission of Malaysia, in addition to the assessment of the types mostly used, and whether it is debt financing or equity-based. Through our study, authors try to contribute to the previous works that have been done in the field by looking into new areas that have not been given any attention yet, which is on how Islamic investment can contribute to the currently practiced equity crowdfunding. The chapter analyzed the Malaysian equity crowdfunding and the Kapitalboost of Singapore and review their activity as the case study by studying their method of financing and assessing their methodology in financing start-up companies.

*Mudharabah* and *musharakah* are the most encouraged practice with regard to the investment behavior among people and it was even practiced in the early Islamic history. However, in the current worldwide Islamic banking system, this practice seems impossible to be implemented due to less concern given by the governments, central banks, and industry players even in Muslim countries. Islamic banks come into place as the alternative to the conventional banking system. Islamic banks perform the similar essential functions as banks do in the conventional system, except the need for them to carry out their transactions in compliance with the rules and principles of Islam (Dusuki & Abdullah, 2007). The selection of potential customers based on the creditworthiness also resulted in the existence of an un-bankable group of the community who were in need of capital assistance to start a business or improving day-to-day life. Due to this scenario, people are demanding for the establishment of a specific financial institution that can provide acceptable profit rate of financing, probably with no interest and profit at all.

Equity crowdfunding is one of the examples of a financial institution established with the purpose to provide capital to entrepreneurs and small businesses without charging any interest. It only charged a service fee, which is the main source of income to support the administration cost of the crowdfunding platforms. Therefore, there is a need to further study on this newly emerged equity crowdfunding platform to understand how feasible this kind of platform to be implemented here in Malaysia.

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