ADOPTING QARD AL-HASAN AND MUDARABAH CROWDFUNDING FOR MICRO ENTERPRISE

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ABSTRACT

This paper aims to explore the viability of *Qard al-Hasan* and *Mudarabah* as crowdfunding instruments to support microenterprise. It is learned that microenterprise have experienced challenges in terms of funding their project as well as to expend their operations, due to strict procedures from traditional financial institutions. Also, the current practices of crowdfunding are not fully *Shari'ah* compliant, thus alternative is needed. However, the study utilizes secondary data with descriptive and comparative approaches. The findings indicate that both models could be an alternative *Shari'ah* financing for entrepreneurs. While *Qard al-Hasan* can focus on business start-up, *Mudarabah* can play more significant in expending the current business to be more competitive. Though both models are associating with several risks including risk of non-payment, risk of miss-management, and inflation risk, these risks can be mitigated through proper reviewing of the proposal by crowdfunding platforms before the campaign is launched as well as closely monitoring the project.

Keywords: Crowdfunding, Islamic crowdfunding, Microenterprise Qard al-Hasan, Mudarabah

INTRODUCTION

A new method for obtaining capital known as crowdfunding has emerged in financial market as a response to limited funds from traditional financial institutions, particularly banking institutions. Practically, crowdfunding is carried out through accumulating small amounts of money from a large number of crowd, as the money raised is meant for financing or re-financing businesses (Schwienbacher & Larralde, 2012) In recent years, crowdfunding has gained more attentions from entrepreneurs as a result of evolution and globalization of social media and financial technology. Utilizing internet, crowdfunding has created a power of mass to accumulate capital in an open and transparent way. As a consequence, crowdfunding nowadays has become an alternative fund for SMEs in terms of funding their project as well as to expend their operation, instead of facing the tiresome procedures from banking institutions.

Like other segments of modern financial practices, crowdfunding platforms must ensure that their financing instruments are fully *Shari'ah* compliant so as Muslim entrepreneurs can benefit them to fulfil their needs. Even though, donation-based and reward-based

crowdfunding seem to be no *Shari'ah* issues, some of equity and lending crowdfunding instruments should be modified to ensure they are in line with *Shari'ah* principles and rulings. Lending crowdfunding for example, some of their instruments are interest-based loan even though the interest charged is lower than traditional financial institutions (Suleiman, 2016).

Therefore, Islamic crowdfunding should be considered as the next financial innovation in Islamic Finance, with various *Shari'ah* based models can be suggested. These include *Zakat*-based model, *Infaq*-*Sadaqa*-*Waqf*-based model, *Qard al-Hasan*-based model, and *Shrikah*-based model. As for lending–based model, *Murabahah, Ijarah,* and *Istishna'* can be developed as its instrument. Nevertheless, Islamic crowdfunding is still in the beginning of its development as there is a lack of awareness and understanding regarding this area (Achsien & Purnamasari, 2016). At the same time, Islamic crowdfunding mechanisms are still facing some problems, including to develop relevant crowdfunding models for SMEs (Hassan, 2017). Also, there is still no a clear theoretical framework that can guide Islamic crowdfunding start up (Hanim, et al, 2018). Thus, it can be concluded that the current Islamic crowdfunding practices need to be improved, particularly by exploring various *Shari'ah* contracts that can strengthen its framework.

Therefore, this study aims to explore the potential of Islamic crowdfunding as an alternative financing for micro enterprises. In this regard, it attempts to conceptually analyse *Qard al-Hasan* (benevolent loan) and *Mudarabah* (Silent partnership) as potential crowdfunding models from *Shari'ah* perspective. It is learned that both contracts have a great potential in terms of socio-economic development in Muslim society, however, in reality *Qard al-Hasan* and *Mudarabah* contract is less practiced by financial institutions for the reason of moral hazard problems and various risk associated to these two contracts. To achieve its objectives, this study utilizes secondary data with conceptual framework. This study could contribute in terms of providing new *Shari'ah* financial models for entrepreneurs who are in need, by mobilizing wealth between societies. Also, it can create new occupations and trades, as well as to remove social and economic discrimination in the society.

METHODOLOGY

Qualitative research was adopted in this study for the achievement of the research objective, secondary data was utilized together with conceptual framework. Qualitative research approach is a way and means serving to validate and intend to provide a perceptiveness of knowledge, it cantered around words, viewpoint, and feelings. Qualitative approach comprise interviews, focus groups, and experiment (Creswell, 2012). In accordance to Saunders & Lewis (2012) the secondary data can be classified into three categories: documentary, multiple source and surveys, the researcher will review documentary secondary data such as books particularly Shariah sources, published journal, seminar proceeding, document, thesis and internet sources which are related to the scope of study.

MICRO ENTERPRISE

The meaning or classification of micro, small and medium enterprises (MSMEs) vary among countries. In other words, there is no standard definition or classification for MSMEs. Also, writers, researchers and institutes have various thoughts to categorize MSMEs in terms of principal expenses, sales, the number of employees' turnover , available plant and machinery, fixed capital investment, the share of market as well as the level of progress (Dar, Ahmed, & Raziq, 2017). For example, developed countries like the U.S.A, U.K and other European countries, MSMEs are defined with regard to the amount of income as well as the number of

workers. The European Commission classifies MSMEs as any business in which its workers are less than 250, self-governing (with 25% shareholding at maximum) and the annual income of the business at most £50 million or annual budget of £43 million (Oyedepo, et al, 2016).

In Asia, MSMEs are described differently from one country to another country. The gauge for the classification of MSMEs in some countries is based on the capital, while others refer the number of workers (Yoshino, 2016). In Malaysia, MSMEs is divided into three core sectors like manufacturing, common business, and agriculture. According to Small and Medium Enterprises Corporation Malaysia (SMECORP, 2008), any business that hires full time workers within a range of 50-150 is treated as medium whereas those hires full time workers within the range of 5-50 is considered as small. At the same time, a business with less than 5 workers is categorized as micro enterprise (Muhammad Khalique, et al, 2009). Meanwhile, in Sub-Saharan Africa, the classification of SMEs is based on capital employed, income and number of workers (Gbandi & Amissah, 2014). In Nigeria for example, according to Gbandi, E C, (2014), any business that has an asset base (exclusive of land) within the range between N5 million and N500 million as well as labour force between the range of 11 and 300 is considered as Small and Medium enterprises.

Consequently, MSMEs are argued to be the most significant pillar for the growth and development in global economy (Bagh, et al, 2017). In accordance to the World Bank, (2018), not less than 90% of businesses worldwide are represented by MSMEs as well as about 50% of employment are created by this segment of business. Additionally, in developing economies, 40% of national incomes (GDP) are contributed by formal MSMEs. Therefore, the roles of this sector can widely contribute - as a driven force- to the nationwide economy by creating employments, reducing poverty in the society, and providing provision of good and services needed in the community. In other words, micro enterprises can serve as a tool for wealth distribution within the society. However, even though this sector has significantly influenced the national economy, a considerable number of empirical studies show that micro enterprises are still going through financial constraints to establish, to nurture and to sustain their businesses. This financial constriction is caused by global financial crises particularly in 2008 would make obtaining a loan from banking institutions becomes a big challenge for SMEs because of strict loan requirements, limited amounts offered and high interest rates. (Hendratmi, A., Sukmaningrum, P. S., Ryandono, M. N.H, & Ratnasari, 2019). It was reported that in the developing market, out of the estimated 400 million SMEs, 180 to 220 million SMEs are still witnessing unmet credit needs adding up between US$2.1 to US$2.6 trillion (Owens & Wilhelm, 2017).

ISLAMIC CROWDFUNDING

To begin with, Ordanini,et al., (2011) defines crowdfunding as an act of raising fund for a project by gathering little to medium-size speculation from different individuals. Nonetheless, Schwienbacher & Larralde, (2012) suggests the definition of crowdfunding based on its characteristic as it is an internet mode of funding by public to the capital or entrepreneurs who are seeking for investment for the motive of expecting reward or pure charity. In other words, the basic elements of crowdfunding rely on the intensity of crowd, technology and capital financing, which permit numerous little endeavours to accumulate into a huge financial related result.

Practically, raising funds is not the only benefit of crowdfunding as it can also be used to reach people (business men), to promote the project, and to gain validation on the project (Mayer, M., & Giving, 2018). At the same time, crowdfunding does not come with a single practice. Instead, there are various models created based on founders, backers, outcome and

benefit. Such models are donation based crowdfunding, reward based crowdfunding, lending based crowdfunding and equity based crowdfunding (Massolution, 2015).

Meanwhile, crowdfunding can be modified to ensure it is *Shari'ah* compliant. Conceptually, realizing justice and achieving public interest are the basic concept of *Shari'ah* in finance. This has created the appeal of Islamic finance significantly, also it has driven this industry rapidly, specifically after the 2008 global financial crises (Saiti, Musito, & Yucel, 2018). Since crowdfunding also embodies these attributes, both *Shari'ah* and crowdfunding can conceptualize costumers as financial specialists. In expansion, the two of them place a solid accentuation on straightforwardness, shared contribution, and trust. *Shari'ah* and crowdfunding have comparable objective and philosophical establishment, which are aimed to construct societies, energize risk sharing, democratize riches, and channel funding to real economic activity (Achsien&Purnamasari,2012).

Thus, Islamic crowdfunding can be practiced by applying *Shari'ah* principles including to avoid *Riba* (interest), *Gharar* (uncertainty) and *Maysir* (gambling), as well as not involving in *haram* businesses such alcohol and pork industry. According to Ibrahim, et al, (2018) *Shari'ah* through Islamic finance and crowdfunding are characteristically companionable and equally reinforcing to elevate *maslahah mursalah* (unregulated public interest). To act in accordance with *Shari'ah*, Islamic crowdfunding can only be applied for halal projects as well as its instruments must be free from *Riba, Gharar* and *Maysir*. Therefore, *Shari'ah* could accept three types of crowdfunding including reward, donation and equity-based without any significant amendments. However, conventional lending-based crowdfunding in which it charge interest for borrowers is not permissible due to *Riba* (Saiti et al., 2018).

As a final point, there are many *Shari'ah* contracts that can be utilized in financing-based crowdfunding. Among them are *Qard al-Hasan* and *Mudarabah* that can link between a surplus group who has additional money and a deficit group who needs capital. Both contracts could promote circulation among societies, encourage charitable deeds, create new occupations in market and trade, as well as remove social and economic discrimination in the society.

PREVIOUS RESEARCH

Owing to the newest of Islamic crowdfunding there are little research concerning the models that can be established on. However, As among the earliest studies in this area, Achsien & Purnamasari, (2012) conducted their research on Islamic crowdfunding as the next financial innovation in Islamic finance in Indonesian. In their study, they manifested crowdfunding into five models based on *Shari'ah* Contract: (1) *Zakat*-based model (2) *Infaq-Sadaqa-Waqf*-based model, (3) *Qard al-Hasan*-based model, (4) *Shrikah*-based model (*Mudharabah and Musharakah*) and (5) Lending–based model (*Murabahah, Ijarah, Istishna,* etc.). As a result, they concluded that Islamic crowdfunding is still in the beginning of its development as well as there is lack of awareness and understanding about Islamic crowdfunding. Hence, regulation aspect must be improved immediately.

Meanwhile, Marzban, & Asutay,(2014) in their study: **"***Shari'ah*-compliant Crowdfunding: An Efficient Framework for Entrepreneurship Development in Islamic Countries", have proposed a *Shari'ah*-compliant crowdfunding based on conventional crowdfunding models as well as potential beneficiary for each proposed model. As for donation-based crowdfunding he proposed three possible instruments: *Hibah*, *Qard al-Hasan*, and *Murabahah*. At the same time, sale instrument would be suitable for reward-based model, while *Murabaha*h and *Ijarah* could be more appropriate instrument to be employed for lending-based model. Diminishing *Musharakah* and *Musharakah* are preferable for equity-based model. They concluded that the combination of main principles of *Shari'ah*, crowdfunding,

globalization, and developments of the technology could signify an opportunity to the improvement of the business ecosystem in Islamic countries.

Subsequently**,** Wahjono et al.,(2015) in their research of Islamic Crowdfunding : Alternative Funding Solution, stressed that *Musharakah* and *Qard* are the most Islamic crowdfunding appropriate models in the sense that Islamic crowdfunding *Musharakah*-based are designed for the purpose of investment. In contrast, Islamic crowdfunding *Qard*-based is meant to finance a project with a loan which has to be refund at given time.

Additionally, Lutfi & Ismail, (2016) conducted their study on *Sadaqah*-based crowdfunding model for microfinancing and health care. They conclude that this proposed model will serve as a platform to finance entrepreneurial projects through the concept of microfinance as well as to create a relief fund for health care treatment. The model proposed uses *Shari'ah* contracts, namely *Sadaqah* and *Qard al-Hasan*. However, *Qard al-Hasan* was not fully explained in this study. Contextually, Hanim, et al, (2018) in their study claimed that Islamic crowdfunding start-up does not have a clear theoretical framework that can guide it. They further emphasis that Islamic crowdfunding are also under-exploration of study on what type of crowdfunding features would be in favour of the potential contributor and the behaviour of the contributor**.**

Similarly, Saiti et al., (2018**)** in their study of Islamic Crowdfunding: Fundamentals, Developments and Challenges, have proposed two different Islamic P2P models, namely *Mudarabah* (equity-based) and *Murabahah* (sale-based) based crowdfunding models. They suggested that future research should explore Islamic crowdfunding in greater depth since the resources of these particular issues are limited whereas its potential is significant. Mohd Thas Thaker,(2019) categorize Islamic crowdfunding into four models in accordance to mainstream models: *Sadaqa*-based crowdfunding (Donation-based crowdfunding), *Hiba*-based crowdfunding (reward-based crowdfunding), *Murabahah*-based crowdfunding (peer-to-peer crowdfunding), and *Mudarabah*-based crowdfunding (equity-based crowdfunding).

ADOPTING *QARD AL-HASAN* AND *MUDARABAH* CROWDFUNDING

Qard al-Hasan and Mudarabah can be applied as Islamic crowdfunding models. In more details, they can be proposed as follows: -

Qard Al-Hassan-Based Crowdfunding

Qard al-Hasan is made of two Arabic words: Qard and Hasan. As for Qard, literally it means "to cut something off", referring a cut off from lender's property by giving out the loan to the borrower. As for Hasan, it is originated from Ihsan which simply means benevolence or beautiful(Arifin & Adnan 2011). As for technical meaning, Qard al-Hasan can be defined as a virtuous loan giving out with the clause of returning the principal sum to the owner in the same condition without any increase in the stipulated time (Arifin & Adnan 2011). In other words, it is the act in which the owner of an asset or money transfers his money or asset to with the clause of given it back to the owner in the same state and value as when it was initially received by the borrower from the owner (Abdul Rahman 2006). Therefore, it is understood that Qard al-Hasan is purely a non-profit loan which is aimed at helping the needy n the society. However, Abdullah, (2015) stressed that arguably, from the prism of Shari'ah, Qard al-Hasan is neither certainly a transaction nor a gift, nonetheless, it occurs within the two, which implies that Qard al-Hasan merge the two features together; the features of being a transaction and that of a gift (Abdullah, 2015).

In terms of its legitimacy, Qard al-Hasan has legal basis from Qur'an, Hadith and ijma' (Consensus of Scholars). As for the Qur'an, it is encouraged for humankind to carry out Qard al-Hasan (2:245,5:12, and 73:20). As for the Hadith, it was narrated as the Prophet (PBUH) said: "There is no Muslim who lend something to another Muslim twice, but it will be like giving charity once." (Ibn Majah, Hadith no 2430). As for ijma, all scholars have recognized the permission of Qard al-Hasan practice, based on human nature that they cannot live without helping each other. (Kudamah, 1997).

In terms of the role of Qard al-Hasan as a financial instrument, this contract has a potential as a mechanism to assist social and financial inclusion in the community. In the process of giving out credit to the poor, it can be carried out into the proper and standard monetary division as they are alleviated from poverty, thereby integrating them into the society. In light of this, Qard al-Hasan tends to be a mechanism that support social and economic justice as envisaged by Islamic economics. Comprehensively, this can be comprehending with the aims of Qard al-Hasan in terms of helping those who are in need, mobilizing treasure between societies, practicing a good deed, enabling the poor to come up with new occupations market and trade venture by utilizing their skills, expertise and merits and removing economic and social bias in the society (Junaidi; et al., 2017). However, there are some risk in Qard al-Hasan including risk of non-payment, risk of poor management, inflation risk and low risk of revenue (Khidher, 2014).

Since riba is highly prohibited in Islam, Qard al-Hasan becomes an alternative (Abidin, Alwi, & Ariffin, 2011). Moreover, Qard al-Hasan usually involves a simple procedure due to its nature which is small in size. Hence, it is accessable for capital contributors and borrowers due to its local standard (Iqbal & Shafiq, 2015). At the same time, the creditor is encouraged to forego the payment if the borrower's effort to repay prove abortive due to economic difficulties. The Qur'an categorical state in numerous verses on the rate of return for Qard al Hasan (57:11, 18), (64:17), (2:245), providing believers with utmost certainty that they shall be rewarded in multitude in the present life and the hereafter. Therefore, the incentive for believers to initiate Qard al-Hasan thus requires an attention for the reward promised in the hereafter as part of their long-term return. Consequently, Qard al-Hasan is regarded as a risk-free asset having perceived certain return in the believers' wealth portfolio (Sadr, 2014).

Qard al-Hasan can be adopted as loan-based crowdfunding. The model is proposed as the following: -

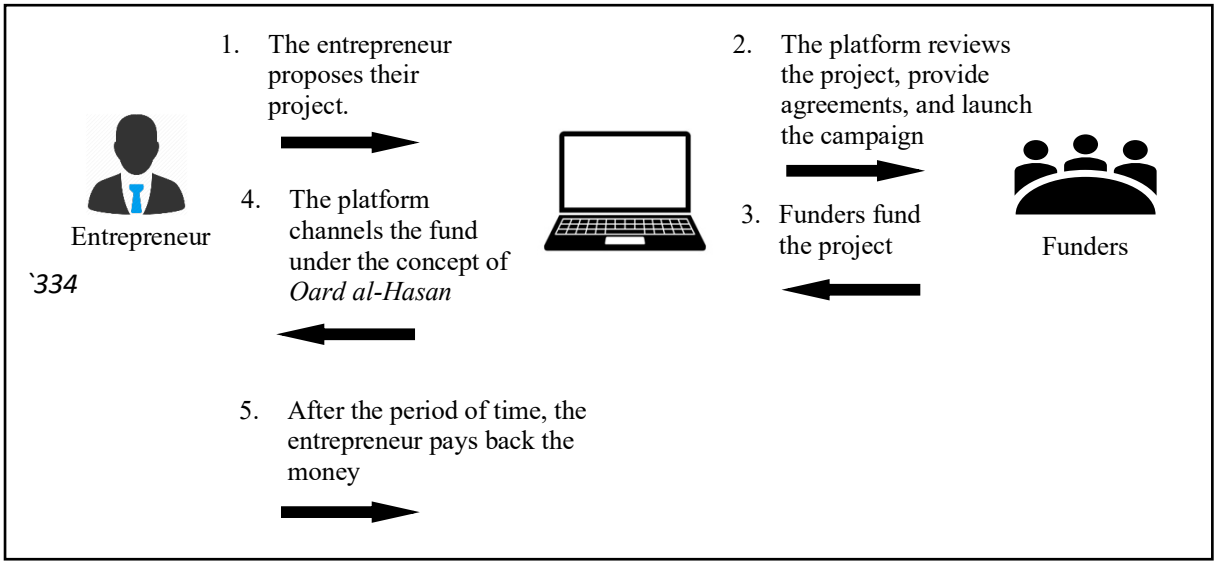

Figure 1 Qard al-Hasan Based Crowdfunding

Explanation:

1. The entrepreneur applies a fund under *Qard al-Hasan* through this platform. In proposing his project, he must provide details, including the benefits of this project towards society, the amount needed, and the most important the schedule for repayment. On top of that he must make sure its business is *Shari'ah* compliant.
2. The platform acts as *wakil* (agent) on behalf funders to deal with the entrepreneur in reviewing the proposal of the project and its suitability. This include from perspective of *Shari'ah* in which a special committee would ensure that the proposal applied by the entrepreneurs complies with *Shari'ah* rulings.
3. If the proposal is accepted, the platform would launch the campaign. Because of *wakalah* contract, the platform could charge *ujrah* (fees) paid using a part of the fund contributed by the funders.
4. The platform begins to channel the money. Nevertheless, the entrepreneur is obliged under *wa'ad* (promise) contract, to repay the loan without imposing any interest to the platform within a certain time frame. The contract will be incorporated with *kafalah* (guarantee) to ensure that the entrepreneur repay the loan at the given time.
5. After the period of time, the enterprenuer would pay the amount in lum sum or instalment. Every repayment is affordable depending on the agreement.

Mudarabah-Based Crowdfunding

Linguistically, the word *Mudarabah* is etymologically comes from an Arabic word "*Darb fi al-ard*" which literally means "hitting on the ground" (ibn manzur, n.d.). Technically meaning, *Mudarabah* is a partnership contract, involving two parties whereby one of them called *rab ul-maal* (capital provider), contributes capital while the other known as *Mudarib,* provides labour (ISRA, 2010). Nevertheless, this contact is popular among Hanafi scholars as *muqaradhah* (Nidaussalam, 2016).

In terms of its legitimacy, *Mudarabah* was widely practised among the Arabs before Islam, and was later recognised by this religion. According to history, the Prophet Muhammad (PBUH) acted as a *Mudarib* for Khadijah's investment as he managed her goods in Syria for trading (ISRA, 2010). It is argued that *Mudarabah* seems to be a popular commercial association among the Arabs before and after Islam, particularly as a long-distance trade (Rahman, 2018). Therefore, considering it was widely practised at the early time in Islam, it is not surprising that the status of the permissibility of *Mudarabah* is unanimously agreed by all scholars (Ibn Munzir, 1999).

It should be understood that *Mudarabah* is a contract between two or more parties, where the first party (investor) is responsible for business capital, while the other offers skills and labour provided that the generated profits will be distributed amongst parties with some greed ratios which they have set together (Awad, et al, 2019). Hence, the profit generated should be divided according to the primary agreement while the loss will be borne by the capital owner (investor) provided that the loss does not occurred due to capital manager's carelessness. However, the loss will be the borne by fund manager when the loss is caused by the fund manager slackness or fraud. (Nidaussalam, 2016). *Mudarabah* contract may consist more than two parties encompassing the *rab ul-maal* (investor), who provides capital and develops a partnership with the *Mudarib* (working partner), who contributes skills and labour in other to earn profit (Bhatti, 2016).

According to the basic rules of the *Shari'ah*, *Mudarabah* can be generally divided into two types: *Mudarabah Mutlaqah* (Unrestricted Silent Partnership) and *Mudarabah Muqayyadah* (Restricted Silent Partnership) (Ayu, 2019). As for *Mudarabah Mutlaqah*, it does

not specify any conditions or restriction to his partner *Mudarib* (fund managers). In other *words rab ul-maal* gives *Mudarib* the freedom to invest in any activity it deems profitable (Hasan, 2010). This type of *Mudarabah* practiced by Islamic Banks, allowing customers who deposit their money not to impose limitations over the banks in utilizing the funds they keep with them as it gives more flexibility for the banks (Ayu, 2019).

As for *Mudarabah Muqayyadah*, investors establish restrictions with certain prerequisites for funding manager in regard to location, manner and or object of investment or business sector. A situation whereby the fund manager performs conflicting these conditions provided by the investor; then the fund manager is held accountable (Mazuin, 2015). This form of *Mudarabah* also adopted by Islamic banks to allow customers or depositors to issue a number of restrictions to Islamic Banks in utilizing the available funds. In the light of this principle, the customer establishes one or several restrictions like the nature of business to finance (Ayu, 2019).

In terms of conditions to practice *Mudarabah*, *rab ul-maal* entrusts his capital as the subject of *Mudarabah* to the fund manager who contribute his skills and expert as the object of the *Mudarabah*, in which without these two, *Mudarabah* contract will not be valid (Ayu, 2019). However, according to some scholar capital could be either in money form or another thing that has value of money like gold or silver, while most Islamic scholar forbade the capital to be in form of goods equivalent to value of money for the reason that price of good could be varies which may result in *gharar* (Mazuin, 2015). However, the amount must be specified and as for the business (labour), it must be halal as well as managed by entrepreneur only (Sector & Enrichment, 2010).

Interestingly, many contemporary Islamic economic scholars encourage the usage *Mudarabah* due to its absence of *riba* for the development of current economic activities. However, in reality the *Mudarabah* contract is less practiced by financial institutions for the reason of moral hazard problems and various barriers such as legal requirements (Mazuin, 2015).

In this regard, *Mudarabah* can be adopted as model for crowdfunding as follows:

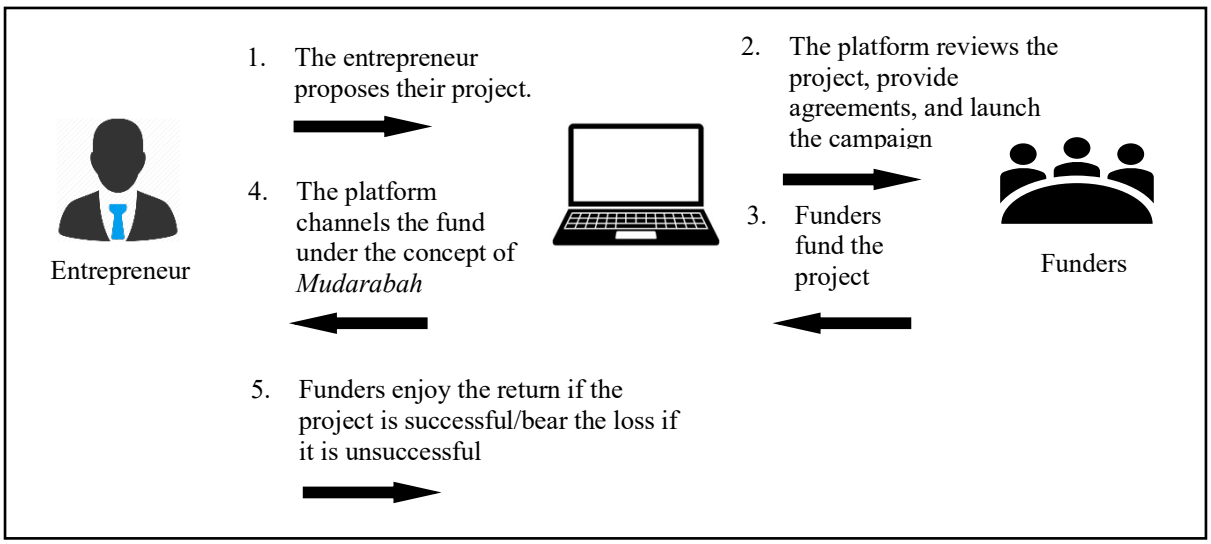

Figure 1 Mudarabah Based Crowdfunding

Explanation:

1. The entrepreneur proposes his project, by providing details, including the details of the project he wants to establish including, the benefits of this project towards society, and the amount needed for this project.

2. The platform acts as *wakil* (agent) on behalf funders to deal with the publisher. It plays a vital role in reviewing the proposal of the project in terms of its marketability as well as *Shari'ah* perspective. Also, since *Mudarabah* is an investment that is expected to give a return for funders, the platform must review in terms of the risk. If the proposal is accepted, the platform would launch the campaign.
3. The funders act as *rab ul-maal* that provide the fund to the project. Thus, they should be clear regarding the regulation of *Mudarabah,* particularly in the case of loss in which if *rab ul-maal* must bear the loss unless it is proven that the loss occurred due to negligence or breaching the agreement by *Mudarib*. At the same time, they deserve to know the details and the progress of the project.
4. Fundraising is launched within a period of time. If the amount successfully meets the target, it would be channelled phase by phase to the enterprenuer. Otherwise, the platform may extend the period. If the amount still below the target, then the platform will return back the money to funders. Because of the *wakalah* contract, the platform would obtain the fee based on the *ujrah* from funders. The entrepreuner must be aware that this money must be managed according to the agreement. Any loss resulting from breaching of the agreement means he has to bear the loss.
5. After the period of time, if the project is succesful, the return must be divided according to the agreement. If it ends up with loss, funders must bear on it except if the loss is resulting from neglegence. However, it is encouraged for both parties to continue discussion if the project has yet to meet its target. For example, to consider the extent of time if it is needed by *Mudarib.*

COMPARATIVE DISCUSSIONS

Qard al-Hasan and Mudarabah-based crowdfunding platform is proposed to support micro enterprises ventures that is in compliance with Shariah. Practically, as a Muslims, it is forbidden for them to engage in any transactions that contain some elements like Gharar, Riba and Maysir, at the same time, it is also illegal for them to take part in any transaction that consist of outlawed activities in Islam. For instance, any venture or trade that comprises pornography or alcohol must be avoided. Qard al-Hasan is a virtuous loan without interest, in which it should be clear that the loan here is a good deed that does not have any benefit other than deepening the individual's spiritual standards and to realize the internal compatibility of the individual as well as to accomplish compatibility between individual and his community. Therefore, Qard al-Hasan is suitable and applicable to all purposes in micro enterprises especially for the start-up, in which its capital cost is very low, and its flexibility can support the progress of any idea for the benefit of its assets without any pre-specified restrictions by the Shari'ah. To adapt with modern crowdfunding, Qard al-Hassan should be categorized under donation-based crowdfunding, instead of lending crowdfunding because its motive is more to a charitable support for entrepreneurs. Thus, if entrepreneurs experience difficulties, funders should be more tolerable, and it is appraisable for them to waive the debt.

On the other hand, Mudarabah based crowdfunding is one of equity Shari'ah contracts for investment. This model can be an alternative to conventional equity crowdfunding that is based on rate of interest. Conversely, equity financing involves mutual sharing of risks and profits, depending on the performance of the investment project. In the case of Mudarabah-based Crowdfunding, fund providers who supply the financial capital and entrepreneurs who contribute their expertise, would collectively take part in profit sharing venture. Profits derived from the project will be shared according to the predetermined profit-sharing ratio such as 60:40 or 70:30 by both parties. In the event of failure, all losses must be borne by fund providers

while entrepreneurs would have lost his time and effort. Apparently, Mudarabah-based Crowdfunding is suitable for micro enterprises specifically to extend the already existing project. This is due the nature of this contract which allows profits sharing between two parties, thus funders involve in this investment with the motivation to pursue the profit, not for the sake of charity like Qard al-Hassan.

On one hand, both models could be an alternative Shari'ah financing to traditional Islamic financial institutions as well as conventional crowdfunding for entrepreneurs so as they can support socio economic development in the country. While Qard al-Hasan can be a charitable financing for business start-up, Mudarabah can play more significant in expending the current business to be more competitive, thus both have different roles. However, it is undeniable that both models are associating with several risks such as risk of non-payment, risk of miss management, and inflation risk. Nonetheless, these risks can be mitigated through proper reviewing by crowdfunding platforms as well as closely monitoring by them.

CONCLUSIONS

Crowdfunding is an alternative funding option that has been thriving across the globe for the last decade with the help of internet specifically web 2.0, it supports society contribution to growing businesses, it provides remarkable flexibility for entrepreneurs to solicit for funds and it has come to stay. However, in the context of Islamic Finance crowdfunding is still in the beginning of its development and does not have a clear theoretical framework that can guide it yet. This study revealed that both *Qard al-Hasan* and *Mudarabah* can be a suitable contract for Islamic crowdfunding framework as an emergence means of financing and it can serve as an alternative *Shari'ah* financing for entrepreneurs. However, *Qard al-Hasan* can focus on business start-up, *Mudarabah* can play more significant in nurturing and expanding the current business to be more competitive.

LIMITATIONS AND RECOMMENDATION

This paper is conceptual paper where there is no empirical analysis conducted. Hence in other to improve this study in the future, the developed model should be authenticated using interview and investigations to measure the intentions of the investor in using this model. Theories such as philanthropic theory and agency theory can be very useful in this regard.

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