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Financial management practices in Islamic donation-based crowdfunding (DCF) platforms in Malaysia

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Abstract

This study aims to explore current financial management practices covering governance and financial operation aspects in Islamic donation-based crowdfunding (DCF) in Malaysia. A series of interviews with six Islamic DCF platforms in Malaysia were conducted. For reporting purposes, this study employed a single-case study approach. The interview was conducted and completed at the end of August 2022 via an online approach through Google Meet. The findings highlight the governance background in terms of legal establishment as well as monitoring the function of Islamic DCFs in Malaysia. In addition, for financial operation, several findings related to the funding management process model, income generation, financial sustainability and financial disclosure of Islamic DCFs in Malaysia were discussed. This study is among the pioneer studies that explore financial management practices in Islamic DCF platforms in Malaysia. The study findings and recommendations are useful for Islamic DCF platforms as well as related parties like regulators, funders, potential project managers and the public in general to understand financial management practices in Islamic DCF platforms in Malaysia.

Keywords Financial management, Governance, Financial operation, Islamic crowdfunding, Donation-based crowdfunding (DCF)

Introduction

Crowdfunding is an internet-based funding method that utilizes online distributed contributions of small monetary amounts by a large pool of people within a limited timeframe [1]. In other words, crowdfunding is an online fundraising application used for specific purposes [2]. With the advancement of technology, crowdfunding not only allows the public to participate through investing, lending, obtaining rewards and donating but also through

chatting, interacting and collaborating, anywhere and at any time [3].

Similar to other financial-related products or services, crowdfunding also can be divided into conventional and Islamic models. Unlike the conventional crowdfunding model, Islamic crowdfunding must adhere to and comply with *shariah* principles. This includes intentions of crowdfunding projects (*halal*) as well as being free from prohibited activities (*riba'*, *maysir*, *gharar* and other *haram* activities) [4, 5]. Besides, Islamic donation-based crowdfunding (DCF) is normally involved with Islamic social finance funds like *zakat*, *waqf* and *sadaqah* in crowdfunding activities [6].

Since crowdfunding become a phenomenon around the world as an alternative source of funding, the Muslim community has been practically conducting crowdfunding activities through Islamic social finance funds.

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In this case, before technological advancement, Islamic countries established *zakat* and *waqf* institutions as one the mechanisms for wealth creation and distribution, especially to address socio-economic problems and well-being [7]. These institutions were collecting *zakat*, *waqf* and other Islamic social finance funds from the public and distributing them back to the Muslim society through various socio-economic activities and projects.

With technological advancement, the emergence of crowdfunding is not only for socio-economic purposes, but also used to raise capital to support innovations, entrepreneurial ideas, and ventures [1]. In this case, crowdfunding helps in providing seed capital, testing the unique ideas by the public as well as establishing engagement with consumers [8].

Despite the potential and growth of crowdfunding, several issues such as abuse of funds, breach of commitment, loss of privacy and fake campaigns are growing concerns for crowdfunding [1, 9, 10]. For instance, DCF is facing the risk of fund management's transparency and moral obligations. Meanwhile, reward-based crowdfunding is exposed to the risk of receiving the promised product, violation of intellectual property rights and misrepresentation. On the other hand, equity-based crowdfunding is surrounded by recapitalization and realignment issues, equity pricing, unskilled investors and the potential of an economic bubble. While lending-based crowdfunding is threatened with broken promises issue.

The above ethical issues can be exposed to all crowdfunding models including Islamic crowdfunding. One way to ensure ethical concern is by ensuring good financial management practices in Islamic crowdfunding platforms. Previously, the discussion on Islamic crowdfunding was only focused on financial sustainability [11], application of *shariah* contracts [12–14], public awareness and acceptance [15, 16] as well as risk mitigation strategy [17]. However, there is limited discussions were made on financial management practices for Islamic crowdfunding platforms. Therefore, there is a need to investigate the current financial management practices in Islamic crowdfunding platforms to ensure that they are managed properly and in good practice.

Thus, this study focuses on the financial management practices of six Islamic DCFs in Malaysia. Islamic DCF is chosen as this crowdfunding model is currently becoming the trend in the Malaysian context. After this section, this study has focused on the background of DCF, Islamic DCF and its practices in Malaysia. Further, this study continues with an explanation of the methodology employed. Next, a presentation of the research findings and discussion on financial management practices in Islamic DCF in Malaysia covering governance and financial operation aspects are being covered. Finally,

a summary, recommendations and implications of the findings are highlighted in the last section.

Literature review

Overview of crowdfunding

Based on the literature, there are four crowdfunding models which are: (i) donation-based crowdfunding (DCF), (ii) reward-based crowdfunding (RCF), (iii) lending-based crowdfunding (LCF), and (iv) equity-based crowdfunding (ECF) [1, 2]. Under DCF, no compensation is granted to funders. Meanwhile, under RCF, participants commit to offering funders some kind of reward, ranging from immaterial acknowledgements to the delivery of an early version of the product or service that is produced using the money raised through the crowdfunding campaign. While, under LCF, the compensation normally takes the form of interest or profit payments. Lastly, under ECF, the compensation consists of equity shares, dividends and or voting rights in the funded venture [18].

It is undeniable fact that the main reason why crowdfunding was chosen by creators or owners of the project is to raise the fund. Besides, crowdfunding is also conducted in order to seek public attention and strengthen the commitment to an idea through feedback on projects and activities [19]. While, from the funders' perspective, crowdfunding was chosen to consume products or services as well as to gain experiences by being indirectly involved with the projects and activities. Moreover, funders are also involved with crowdfunding in order to have feelings of connectedness to a community with similar interests and ideals [20].

There are three success factors for crowdfunding which are: (i) societal (macro) perspective; (ii) organizational (meso) perspective; and (iii) individual (micro) perspective. From a societal perspective, the social obligation to help others arise within the public which turns the supportive environment into the success of crowdfunding. Besides, digital literacy and infrastructures are also significantly contributed to the success of crowdfunding. Meanwhile, from an organizational perspective, activities or projects funded as well as organizational legitimation have significantly contributed to the success of crowdfunding platforms. While, from an individual perspective, it is about the favor of funders as well as the benefits received by beneficiaries which contributed to the success of crowdfunding [3].

Apart from these success factors, several other elements were also contributing to the success of crowdfunding. This includes the difficulty to raise capital especially by start-ups, the evolution of technological advancement especially in Fintech and the success of the companion crowdsourcing phenomenon [21]. In

addition, crowdfunding readiness, platform trust, crowd familiarity, privacy protection, perceived security, information quality as well as website reputation were also found in contributing toward the success of crowdfunding [22].

Moreover, based on an analysis of the existing crowdfunding projects, it is found that crowdfunding mostly succeeds by narrow margins or else fails by large amounts. Besides, projects that signal a higher quality level are more likely to be funded as compared to others. Furthermore, a large number of friends on online social networks are also significantly associated with success in fundraising through crowdfunding. Next, the geographic area also plays a significant impact on the success of crowdfunding, especially for cultural-related products. Similarly, several socio-demographic attributes such as gender, race, religion and age are believed to contribute to the success of crowdfunding activities [23].

In terms of the establishment of crowdfunding platforms, it is found that national boundaries play a significant role. Besides, the existence of supportive legal environments as well as certain cultural traits is also significant in shaping the creation of crowdfunding platforms. In addition, crowdfunding platforms are also different based on crowdfunding models (DCF, RCF, LCF and ECF). Lastly, the role played by crowdfunding platform owners in promoting their platforms and projects is also significantly increasing the acceptance of the crowdfunding platform themselves [18].

Islamic crowdfunding

In general, the concept of conventional crowdfunding and Islamic crowdfunding is similar. However, Islamic crowdfunding is bound by *shariah* principles and must be free from prohibited activities including *riba*' (interest), *maysir* (gambling), *gharar* (uncertainty) and other *haram* (prohibited) matters [4, 5]. Besides, transactions under Islamic crowdfunding need to apply an 'asset-backed' mechanism as well as a profit-loss margin in order to avoid interest which leads to *shariah* non-compliant [24].

In addition, like other Islamic financial institutions, it is suggested for Islamic crowdfunding platforms have *shariah* board or *shariah* advisor to advise on *shariah* matters and to ensure *shariah* compliance [4]. Moreover, as part of Islamic organizations, Islamic crowdfunding platforms are also expected to adhere to *maqasid shariah* and other moral values which are in congruence with the Quran and Sunnah [5].

Furthermore, in order to ensure that Islamic crowdfunding is *shariah* compliant, several related *shariah* contracts are suggested to be used in transactions. For instance, for Islamic DCF, it is suggested to utilize Islamic

social finance funds like *zakat*, *waqf* and *sadaqah* in crowdfunding activities. Meanwhile, for RCF, it is recommended to adopt bay *as-salam* in order to provide returns to crowdfunding investors. On the other hand, for LCF, several sale-based contracts can be used such as *murabaha* (cost plus), *tawarruq* and/or *ijarah*. Lastly, for ECF, profit-sharing contracts like *mudharabah* and *musyarakah* where funders are treated as the owner of the fund while the Islamic crowdfunding platform is the one who manages the funds [5, 6, 14, 25, 26].

It is believed that Islamic crowdfunding will able to attract the emotional interest (religiosity) of donors, donations across geographic areas, as well as a new source of funding with low cost for community projects [27]. Besides, Islamic crowdfunding also can benefit especially for micro-, small- and medium-sized enterprises (MSMEs) sectors under the socio-economic development [28].

However, like conventional crowdfunding, there are also several issues and challenges pertaining to Islamic crowdfunding. First, in terms of regulation, there are limited regulations related to Islamic crowdfunding. In fact, some related crowdfunding regulations were not in favor of Islamic crowdfunding, especially for credit risk mitigation. Second, in terms of *shariah*, there is no specific guideline for *shariah* screening for crowdfunding projects and activities which can lead to *shariah* non-compliant risks. Third, like conventional crowdfunding, Islamic crowdfunding also is facing fraud issues especially in crowdfunding campaigns. Fourth, there is still a challenge for Islamic crowdfunding to select innovative and out-of-the-box projects as at present Islamic crowdfunding mainly uses the banking concept of financing [26]. Therefore, it can be concluded that the Islamic crowdfunding ecosystem still has a long journey to growth.

Crowdfunding and Islamic crowdfunding in Malaysia

Malaysia is the first country in Southeast Asia that has put in place a regulated framework for crowdfunding [29]. In 2015, the Securities Commission Malaysia (SC) issued the *Guideline on Recognized Markets* which became the main reference for the establishment of the registered ECF. In 2019, the SC revised its crowdfunding initiative by introducing the Malaysia Co-Investment Fund (MyCIF), which combines both ECF and LCF together. Currently, there are nine (9) ECF and 10 LCF platforms in Malaysia.

To date, the Malaysian government already allocated RM180 million for co-investment with private investors through both ECF and LCF platforms under MyCIF initiative. Over RM357 million have been invested through more than 16,000 crowdfunding campaigns that benefit

2280 MSMEs. Overall, more than RM1.36 billion have been co-invested from private investors [30].

For Islamic crowdfunding, at present there is no specific criteria or guideline for recognizing Islamic crowdfunding in Malaysia. However, several existing crowdfunding platforms in Malaysia claimed that they are Islamic or *shariah*-compliant crowdfunding. This includes Ethis Ventures Sdn Bhd, LaunchGood, PitchIN, Microleap PLT and Ata Plus Sdn Bhd [31]. Besides, Islamic crowdfunding with the DCF model in Malaysia, normally they are utilizing Islamic social finance funds such as *zakat*, *waqf*, *sadaqah*, *hibah* and *qard hasan* in funding various sectors such as book publishing [32], heritage sites [33], agriculture [34] and health care [35].

It is believed that Islamic crowdfunding can benefit the Islamic economy ecosystem, especially in the Malaysian context. For instance, several Eureeca SEA Sdn Bhd and Ethis Ventures Sdn Bhd were found to be ready to involve with *halal* MSMEs [36]. Besides, several scholars have also proposed a *waqf* crowdfunding model to develop *waqf* lands and projects in Malaysia [27, 37, 38]. In fact, the first *waqf*-based crowdfunding, Waqfworld.org, was officially launched in 2016 to realize a *waqf*-based crowdfunding initiative [39]. Lastly, Islamic crowdfunding is becoming part of Islamic finance, acting as an alternative financing instrument to facilitate the implementation of projects for Malaysian borrowers who are facing difficulties raising money through mainstream financial institutions [40].

Financial management practice in crowdfunding

Based on the literature, the most concern with crowdfunding platforms is their ability to assure financial sustainability [41]. Apart from that, financial return is also becoming another concern as crowdfunding is seen as a financial instrument, especially for LCF and ECF [42]. Besides, risks for crowdfunding investment also becoming another concern especially for LCF as it facilitates loan originations outside the traditional banking model [43].

It was notified that crowdfunding becoming an alternative option especially for MSMEs and start-ups to raise their capital. This is because these organizations are not yet bankable, either due to the absence of transparent financial management or lack of managerial and financial capability [44]. Moreover, crowdfunding platforms are also able to reduce the rigors of regulatory compliance with financial management authorities. For instance, funders are allowed to interact with project managers without lawyers and bulky verification documents. Besides, funders are also able to lend to borrowers without financial intermediaries [45].

Moreover, crowdfunding funders tend to pay little attention to financial information contained in campaigns such as projections of costs and revenues or potential returns as it is difficult to evaluate [46]. In this situation, crowdfunding funders tend to look at the project owners more than the financial disclosure as they put their trust in the project owners more than promised returns [47].

On the other hand, the probability of financial fraud in the current crowdfunding platforms has deterred some fundraisers not to use crowdfunding as an alternative to raising capital. Besides, the lack of capabilities to be accountable to a crowd of different funders also prevents some fundraisers from using crowdfunding [48]. Moreover, unlike ECF and LCF models, the absence of regulation for both DCF and RCF brings the potential for fraud and malpractice. For this, regulating both DCF and RCF by governance mechanism with reporting requirements is needed in order to keep track of the fund and to provide timely information [49].

In addition, financial reporting is also able to support raising capital [50]. For this, project owners must provide adequate financial information like future plans and financial statements to enhance the funders' trust in them [51]. This is especially when monetary returns are involved like in ECF and LCF [52].

For Islamic crowdfunding, several discussions related to financial management practices were made. [40] proposed a *shariah* governance framework for Islamic crowdfunding. Based on the existing *shariah* governance framework for Islamic financial institutions, they proposed for Islamic crowdfunding platforms to have similar *shariah* functions including *shariah* review, *shariah* audit and *shariah* management. Besides, hiring *shariah* advisors also will increase the trust of funders and the public [53].

In terms of risk mitigation especially for Islamic LCF, several risk mitigation processes were implemented. This includes *shariah* screening process on project owners' background and the project itself in terms of legality, financial capacity, compliance with the *shariah* and so on. Besides, there is a need to have a guaranteed system for borrowers and also a mechanism to ensure the project must exist as part of *shariah* reputational risk mitigation. Moreover, to prevent IT risk, it is suggested for Islamic crowdfunding platforms always check the platform system, conduct maintenance testing and use strong firewalls for data security [17].

Next, in terms of performance, it was found that Islamic DCF will be able to promote better utilization of Islamic charity donation funds such as *zakat*, *waqf* and *sadaqah* [6]. Besides, there is a study by [24] found that MSMEs who received funding through Islamic

crowdfunding namely Kapital Boost have better financial performance than before they received the funding.

However, [54] analysis of Ethis, one of the well-known Islamic crowdfunding in the world, it was found that from four *shariah*-compliance parameters (*aqad*, *maqasid shariah*, financial reporting and legal documentation) set by [55], Ethis still not fulfilling financial reporting parameter. In this case, the financial reporting parameter is needed as it serves to eliminate uncertainty (*gharar*) and fraud in financial contracts through factual reporting of the said transaction. Thus, there is a need for Islamic crowdfunding to disclose adequate financial information in order to comply with *shariah*-compliant as well as to answer accountability toward their stakeholders.

Research methodology

This study aims to explore current financial management practices in Islamic donation-based crowdfunding (DCF) in Malaysia. This includes the existing governance, financial operation and accountability. For the data collection, it can be gathered in several ways such as by interviews, observation or analysis of documents. Sometimes, all three methods can be used together to gather information. However, this study uses the interview method as it is the best approach to gain information regarding current financial management practices in selected Islamic DCFs. This is because interviewing people who are directly involved with the financial management practice is the best method for identifying the details of the real activities happened [56].

In terms of data population and sampling, at present there is an absent of any listings that can serve as sampling frames for Islamic DCFs in Malaysia. Therefore, data were collected through a series of interview sessions with six Islamic DCF platforms in Malaysia known as Islamic DCF A, Islamic DCF B, Islamic DCF C, Islamic DCF D, Islamic DCF E and Islamic DCF F. These six selected Islamic DCF platforms were chosen based on their similar characteristics which are:

1. Legally registered either as a company under the Companies Commission of Malaysia (CCM) or as a non-profit organization (NPO) under the Registry of Society (ROS);
2. Located in Malaysia and operated by Muslims;
3. Adopting the DCF model for its crowdfunding activities;
4. Involve with Islamic social finance funds like *zakat*, *waqf*, *sadaqah*, *hibah* and *infaq*;
5. Projects and activities conducted are free from prohibited activities (*riba*, *maysir*, *gharar* and other *haram* activities).

This study employs the case study method in order to explore current financial management practices by six selected Islamic DCF platforms. This is because the case study method is able to explore a specific system practiced in an organization [57]. Specifically, this study adopted an exploratory case study approach for the data collection process and a single-case study approach in reporting the findings.

For the data collection process, a series of interviews focused on financial management practices were conducted to the representative of each selected Islamic DCF platform and lasted around 1–2 h for each session. The interview was focused on two aspects, which are: (i) governance practices; and (ii) financial operation practices. The series of interview sessions were conducted and completed at the end of August 2022 via an online approach through Google Meet. All the findings were analyzed and combined into a single case study writing.

Findings

This section will explain the profile and governance mechanism of all six selected Islamic DCFs in Malaysia. In terms of legal establishment, Islamic DCF A is a Malaysian DCF platform founded and created in 2015. At first, Islamic DCF A was registered as an enterprise and later in 2020 it was upgraded into a private limited company (Sendirian Berhad) under the Companies Commission of Malaysia (CCM), which is bound by the Companies Act 2016. Meanwhile, Islamic DCF B is a Malaysian DCF platform founded and created in 2015. In 2017, Islamic DCF B is recognized as one of the social enterprises by the Malaysian Global Innovation and Creativity Centre (MaGIC). Later on, it was acquired by one of Asia's biggest DCF platforms in 2019.

Islamic DCF C is a Malaysian DCF platform founded and created in 2020. All Islamic DCF A, Islamic DCF B and Islamic DCF C are established as a private limited company (Sendirian Berhad) under the Companies Commission of Malaysia (CCM), which is bound by the Companies Act 2016. While Islamic DCF D is a Malaysian DCF platform created by an Islamic university in 2020. As Islamic DCF D is fully owned by an Islamic university that is fully owned and funded by the Malaysian Government, Islamic DCF D is bound by the Universities and Universities Colleges Act 1971.

On the other hand, Islamic DCF E is a Malaysian DCF platform created by a social club in 2020. As Islamic DCF E is fully owned by a social club who are registered under the Registry of Society (ROS), Islamic DCF E is bound by the Societies Act 1966. Lastly, Islamic DCF F is a Malaysian DCF platform created by a Malaysian foundation in 2021. This foundation is established in 2018 under the Department of Law (BHEUU), Prime Minister's

Department of Malaysia, which is bound by the Foundation Act 1952.

In terms of the purpose or objectives of the establishment, Islamic DCF A is to promote the practice of contributing to the community whether for themselves, organizations, or for anyone who needs help. Islamic DCF B started as a web platform for students, especially the ones in need, to crowdfund their scholarships for higher education. At present, Islamic DCF B's focus is on medical, educational and humanitarian needs and emergencies.

Meanwhile, the objective of Islamic DCF C aims to help NPOs to receive donations transparently, easily and systematically without any elements of breach of trust and exploitation. While, Islamic DCF D's objective is to facilitate the channelling of donations, especially for the university welfare and education projects/programs.

On the other hand, the Islamic DCF E aims to help book writers raise funds systematically, creatively and transparently in an effort to publish their works. As a community-based project, it started from the outcome of a related crowdfunding research project. Later on, this research concept has been realized into a real platform known as Islamic DCF E. In addition, Islamic DCF E has also applied the RCF model apart from the DCF model. In this case, the funders contribute their money to the book project, and after the book is successfully printed the authors will gift part of their book to the funder. The remaining books will be sold, donated to certain institutions or given as gifts by the writers. Lastly, Islamic DCF F aims to help NPOs and communities that have good ideas and projects for helping the community but do not have a platform to raise funds, or do not know how to publicize the campaign to the public.

In terms of crowdfunding project or program categorization, Islamic DCF A divides its crowdfunding projects into six categories which are marriage, charity, education, natural disaster, Islamic institutions and health. Meanwhile, Islamic DCF B projects are focused on health, education and humanitarian needs and emergencies. Islamic DCF C platform divides its crowdfunding projects into 12 categories which are worship houses, charity organizations, *tahfiz* education, health, child, natural disaster, animal, disability people, repair, education, business assistance and social activities.

While, crowdfunding projects under the Islamic DCF D platform can be divided into *waqf*, *infaq* and endowment. On the other hand, Islamic DCF E is focused solely on the book publication. Lastly, Islamic DCF F divides its crowdfunding projects into four which are education, welfare, health and Islamic preaching (*da'wah*).

In terms of governance function, Islamic DCF A, Islamic DCF B and Islamic DCF C are monitored by the

Board of Directors. In addition, a few director members of Islamic DCF C have *shariah* backgrounds which help them to ensure their operations are in line is *shariah*-compliant. This is also to increase the trust of funders and the public as stated by [53].

Meanwhile, Islamic DCF D has a specific committee on *zakat*, *waqf* and endowment that monitor the operation of Islamic DCF D. For Islamic DCF E, the management of Islamic DCF E is operated by the Club Committee of Islamic DCF E which is elected from the annual general meeting. This also means that there is no monitoring function in Islamic DCF E as there is no board existing in Islamic DCF E.

Lastly, as the Islamic DCF F platform is owned by a foundation, all operation of Islamic DCF F is operated by that foundation. In this case, two officers from the foundation are assigned to manage the Islamic DCF F platform. All decision made by Islamic DCF F is monitored by the Trustee Board of the foundation. Besides, Islamic DCF F also has its own *shariah* advisor who oversees *shariah* matters. Having a proper monitoring function is important as Islamic DCFs generally raise funding from individuals, small and often 'unsophisticated' donors who may lack the knowledge, incentives and power to conduct due diligence and monitor project owners [58].

The summary of the governance practices of these Islamic DCFs is shown in Table 1.

Discussions

This section will discuss the financial operation of all six selected Islamic DCFs in Malaysia. In terms of fund management, Islamic DCF A, Islamic DCF C and Islamic DCF D act as an intermediary between project owners and donors in fundraising. It started when the project owner requested these Islamic DCFs to campaign for their projects and donors will fund the project through these Islamic DCFs' platforms. Then, these Islamic DCFs will transfer the fund collected to the project owner.

However, the fund management process will end once the project owner received the fund raised from donors. They act as a technology enabler, and the responsibility to ensure crowdfunding projects are executed is not within their scope. The flow of fund management by Islamic DCF A, Islamic DCF C and Islamic DCF D is shown in Fig. 1.

Meanwhile, Islamic DCF B acts as a fund manager. Similarly, it started when the project owner who also as the beneficiaries requests to raise funds via the platform. Then, donors will donate to the project. However, instead of disbursing the fund to the project owner/beneficiaries, Islamic DCF B will transfer the fund directly to the third parties which these project owners/beneficiaries will eventually pay for the projects. For example, if the project

Table 1 Summary of governance practices in Islamic DCFs

Practices	Islamic DCF A	Islamic DCF B	Islamic DCF C	Islamic DCF D	Islamic DCF E	Islamic DCF F
Legal establishment	Year 2015 Private limited company Registered under CCM Bound by the Companies Act 2016	Year 2015 Private limited company Registered under CCM Bound by the Companies Act 2016	Year 2020 Private limited company Registered under CCM Bound by the Companies Act 2016	Year 2020 Fully owned by a public Islamic university Bound by the Universities and Universities Colleges Act 1971	Year 2020 Social club Registered under ROS Bound by the Societies Act 1966	Year 2021 Fully owned by a foundation Registered under BHEUU Bound by the Foundation Act 1952
Purpose/objective	Promote the practice of contributing among the community whether for themselves, organizations, or for anyone who needs help	Started crowdfund student scholarships for higher education Currently focus is on medical, education and humanitarian needs and emergencies	Help NPOs to receive donations transparently, easily and systematically without any elements of breach of trust and exploitation	Facilitate the channelling of donations especially for the university welfare and education projects/ programs	Help book writers raise funds systematically, crea- tively and transparently in an effort to publish their works	Help NPOs and communi- ties to raise funds, or to publicize the campaign to the public
Project/program categorization	Six (6): marriage, charity, education, natural disaster, Islamic institutions and health	Three (3): health, educa- tion and humanitarian needs and emergencies	Twelve (12): worship houses, charity organiza- tions, <i>tahfiz</i> educational, health, child, natural disaster, animal, disability people, repair, education, business assistance and social activities	Three (3): <i>waqf</i> , <i>infaq</i> and endowment	One (1): book publication	Four (4): education, welfare, health and Islamic preach- ing (<i>da'wah</i>)
Governance function	Monitored by the BOD	Monitored by the BOD	Monitored by the BOD Few BOD members with <i>shariah</i> background	Monitored by the specific committee for <i>zakat</i> , <i>waqf</i> and endowment	Operated by the Club Committee No monitoring function	Two officers from the foundation are assigned to manage the platform Monitored by the Trustee Board Have <i>shariah</i> advisor who oversees <i>shariah</i> matters

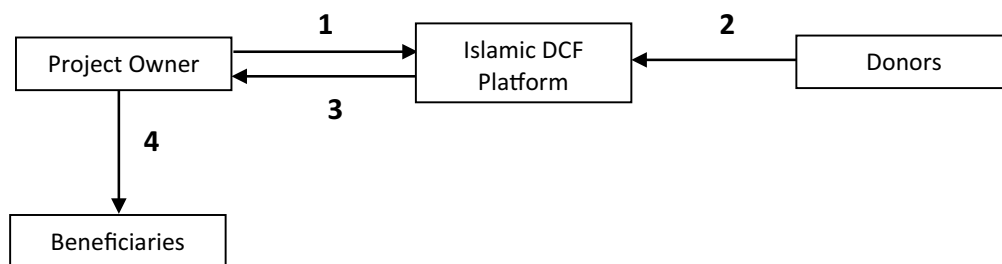


Fig. 1 Flow of fund by Islamic DCF A, Islamic DCF C and Islamic DCF D. Note: The sequence of the activity started from 1 to 4; fund flow involved between activity 2 to 4

is proposed by the student to help in paying his/her education fee, once they successfully raise the fund, Islamic DCF B will transfer the fund directly to the university or college where the student is studying. In the case of medical projects, the third party will be either a hospital or a clinic where the project owners/beneficiaries get their treatment. Figure 2 illustrates the flow of fund management by Islamic DCF B.

Next, as Islamic DCF E's purpose is to help the book writers raise funds to publish their books, the project owner normally will be the one who will be benefited from crowdfunding activities. In this case, it started when the book writer as the project owner requested the Islamic DCF E to campaign for their projects. Then, donors will fund the project through the Islamic DCF E platform. Next, Islamic DCF E will transfer the fund collected to the project owner who also acts as the beneficiary. The flow of fund management by Islamic DCF E is shown in Fig. 3.

On the other hand, Islamic DCF F has a similar fund management process to Islamic DCF A, Islamic DCF C and Islamic DCF D. However, instead of limiting by only transferring the fund collected to the project owner, Islamic DCF F will also monitor the execution of crowdfunding projects by the project owner to ensure the beneficiaries will benefit from the fund raised. The flow of fund management of Islamic DCF F is shown in Fig. 4.

In terms of income generation, all six Islamic DCFs stated that they impose a charge on funds collected to cover the operation costs. For instance, Islamic DCF A informed that they impose 5.5% as a services fee from the fund received plus RM1 for payment gateway (Toyyibpay) cost per transaction. In addition, Islamic DCF A also stated that the disbursement is free for the first time. However, subsequent disbursement will be charged RM1 for each transaction. Meanwhile, for Islamic DCF B, it stated on its platform to charge an additional 5% of the donation amount as a services fee

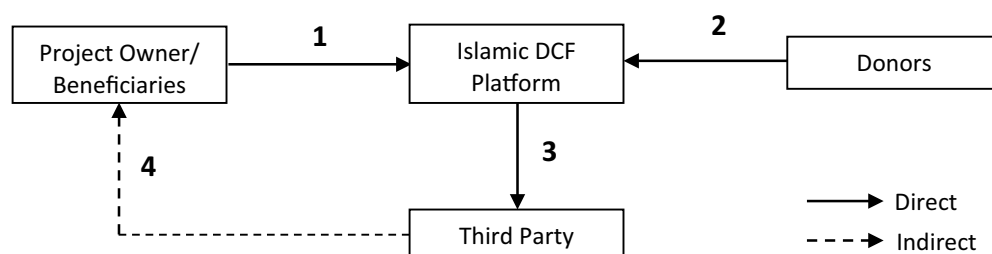


Fig. 2 Flow of fund by Islamic DCF B. Note: The sequence of the activity started from 1 to 4; fund flow involved between activity 2 and 3

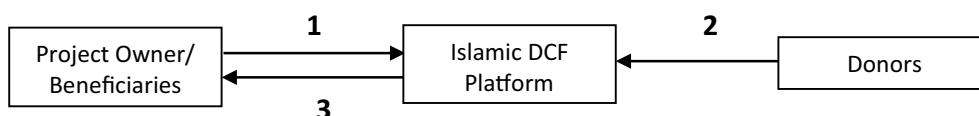


Fig. 3 Flow of fund by Islamic DCF E. Note: The sequence of the activity started from 1 to 3; fund flow involved between activity 2 and 3

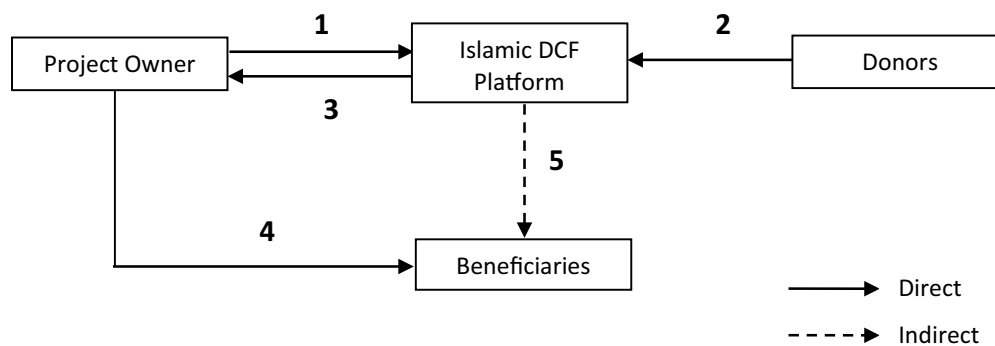


Fig. 4 Flow of fund by Islamic DCF F. Note: The sequence of the activity started from 1 to 5; fund flow involved between activity 2 to 4

plus RM1 per FPX transaction (internet banking) or 5% for MasterCard/Visa.

Next, Islamic DCF C imposes a 5% or RM2 (which is higher) charge for each fund transaction received. In this case, donors who donate RM40 and below will be charged RM2, while donors who donate more than RM40 will be charged 5% as a service fee. Islamic DCF D charges 5% on each fund transaction received from donors. However, any online transaction cost like FPX or MasterCard/Visa will be covered by its parent which is an Islamic university.

While, Islamic DCF E stated in their terms and conditions that they reserve the right to charge 10% administrative fees from the total fund collected, applicable to every campaign launched. However, it has been informed that they currently charge about 5% to the project owner on the total fund collected. Lastly, Islamic DCF F informed that they charge 6% of the total fund collected.

In terms of involvement with Islamic social finance, all six Islamic DCFs are involved with *sadaqah* or *infaq* funds. Moreover, there is also the involvement of *zakat* and *waqf* funds by these Islamic DCFs except for Islamic DCF E. For this, several *asnaf* programs and *waqf* projects are being launched on the platform. In addition, Islamic DCF B has a collaboration with an entity that has the *amil* authority from several state Islamic religious councils in Malaysia. In this situation, Islamic DCF B provides a platform for the entity to collect *zakat* funds and as an agent, Islamic DCF B will gain some commission. Thus, this supports previous findings that Islamic DCFs are normally involved with Islamic social finance funds [6, 59].

In terms of financial sustainability, all Islamic DCFs agreed that the services fee imposed on the fund collected is able to cover their operation cost. Meanwhile, Islamic DCF B received commissions from collaboration with other parties. Besides, there are also donations made

directly to Islamic DCFs to be used to support their operation. On the other hand, Islamic DCF C informed that they also promote other activities like *aqiqah* and *qurban* services through the platform which they can earn some income to cover their operation cost. In fact, they are also planning to provide *umrah* services in the near future which also will increase the revenue. This finding expands on previous findings on sustainability in DCFs which are more focused on project sustainability rather than platform sustainability [42].

In terms of operational costs, it has been informed that the staff salary and platform maintenance expenses are the main costs for all Islamic DCFs. For other administrative costs, normally Islamic DCFs do not incur many costs. For marketing costs, it is dependent on the project owners to promote their projects to raise the fund. Some of them will use influencers, artists or public figures with some payment, while others may also use social media advertising packages like Facebook Ads and Google Ads to promote their projects. These costs are normally borne by the project owners and are not associated with Islamic DCFs. This finding supports previous findings that crowdfunding platforms generally only have a small cost to be borne [60].

In terms of financial disclosure, annual financial reports of Islamic DCFs are not being disclosed on their website. For crowdfunding projects, the details of the project cost will be disclosed upon the information given by the project owners. For donation transparency, almost all Islamic DCFs have disclosed the recipient of donation based on each project launched on a real-time basis. Normally, project owners will be able to view fund disbursement transactions for their projects. Moreover, donors who are registered with the Islamic DCF C platform will also be able to view their financial transaction history made with the platform. Lastly, regarding the *shariah* contract used, almost all Islamic DCFs do not have a specific *shariah* contract to be used in their operation.

Table 2 Summary of financial operation practices in Islamic DCFs

Practices	Islamic DCF A	Islamic DCF B	Islamic DCF C	Islamic DCF D	Islamic DCF E	Islamic DCF F
Fund management process	Acts as an intermediary between project owners and donors Limited to only transfer the fund to project owners Project owners and beneficiaries are different parties	Acts as a fund manager Transfer the fund directly to the third parties (project owners/beneficiaries will pay to)	Acts as an intermediary between project owners and donors Limited to only transfer the fund to project owners Project owners and beneficiaries are different parties	Acts as an intermediary between project owners and donors Limited to only transfer the fund to project owners Project owners and beneficiaries are different parties	Acts as an intermediary between project owners and donors Limited to only transfer the fund to project owners Project owners and beneficiaries are the same party	Acts as a fund manager Transfer the fund to project owners and monitor the project through beneficiaries
Income generation	Service fee 5.5% from the fund received plus RM1 for payment gateway (Toyib-pay) cost per transaction Subsequent disbursement will be charged RM1 for each transaction	Service fee 5% from the fund received plus RM1 per FPX transaction (internet banking) or 5% for MasterCard/Visa Collect zakat fund and received commission from it	Service fee 5% or RM2 (which is higher) from the fund received	Service fee 5% from the fund received	Informed that they reserve the right to charge service fee 10% but currently just charge 5%	Service fee 6% from the fund received.
Involvement with Islamic social finance fund	Donation received in form of <i>zakat</i> , <i>waqf</i> , <i>sadaqah</i> and <i>infaq</i> funds	Donation received in form of <i>zakat</i> , <i>waqf</i> , <i>sadaqah</i> and <i>infaq</i> funds Collect zakat fund - collaboration with authorized entity (<i>amil</i>)	Donation received in form of <i>zakat</i> , <i>waqf</i> , <i>sadaqah</i> and <i>infaq</i> funds	Donation received in form of <i>zakat</i> , <i>waqf</i> , <i>sadaqah</i> and <i>infaq</i> funds	Donation received in form of <i>sadaqah</i> and <i>infaq</i> funds	Donation received in form of <i>zakat</i> , <i>waqf</i> , <i>sadaqah</i> and <i>infaq</i> funds
Financial sustainability	Service fee imposed able to cover operation cost	Service fee imposed able to cover operation cost Conduct other activities (<i>aqiqah</i> , <i>qurban</i> and <i>umrah</i>) to cover operation cost	Service fee imposed able to cover operation cost	Service fee imposed able to cover operation cost	Service fee imposed able to cover operation cost	Service fee imposed able to cover operation cost
Operational cost	Main cost: staff salary and platform maintenance expenses Marketing cost borne by project owners	Main cost: staff salary and platform maintenance expenses Marketing cost borne by project owners	Main cost: staff salary and platform maintenance expenses Marketing cost borne by project owners	Main cost: staff salary and platform maintenance expenses Marketing cost borne by project owners Online transaction cost like FPX or MasterCard/Visa covered by its parent	Main cost: staff salary and platform maintenance expenses Marketing cost borne by project owners	Main cost: staff salary and platform maintenance expenses Marketing cost borne by project owners

Table 2 (continued)

Practices	Islamic DCF A	Islamic DCF B	Islamic DCF C	Islamic DCF D	Islamic DCF E	Islamic DCF F
Financial disclosure	Annual financial reports are not disclosed publicly Project cost details are disclosed upon the information given by the project owners Donation recipients are disclosed on a real-time basis Project owners can view fund disbursement transactions for their projects Mention for using <i>ujrah</i> contract	Annual financial reports are not disclosed publicly Project cost details are disclosed upon the information given by the project owners Donation recipients are disclosed on a real-time basis Project owners can view fund disbursement transactions for their projects Mention for using <i>wakalah</i> contract	Annual financial reports are not disclosed publicly Project cost details are disclosed upon the information given by the project owners Donation recipients are disclosed on a real-time basis Project owners can view fund disbursement transactions for their projects Donors can view donation transaction history	Annual financial reports are not disclosed publicly Project cost details are disclosed upon the information given by the project owners Donation recipients are disclosed on a real-time basis Project owners can view fund disbursement transactions for their projects	Annual financial reports are not disclosed publicly Project cost details are disclosed upon the information given by the project owners Donation recipients are disclosed on a real-time basis Project owners can view fund disbursement transactions for their projects Mention for using <i>ujrah</i> contract	Annual financial reports are not disclosed publicly Project cost details are disclosed upon the information given by the project owners Donation recipients are disclosed on a real-time basis Project owners can view fund disbursement transactions for their projects Mention for using <i>ujrah</i> contract

However, Islamic DCF A and Islamic DCF F mentioned using *ujrah* contract, while Islamic DCF B mentioning on using *wakalah* contract. Therefore, more disclosures by Islamic DCFs are required especially on financial-related information to enhance the trust of the donors [51]. Besides, appointment of *shariah* advisor and disclosure of *shariah* contract used is also encouraged as it will ensure Islamic DCFs' are operating according to *shariah* [61, 62].

The summary of the financial operation practices of these Islamic DCFs is highlighted in Table 2.

Conclusion

The aim of this paper is to explore current financial management practices in Islamic DCF in Malaysia. This including on governance as well as financial operation practices. First, under governance practices, it is found that all Islamic DCFs are legally registered either under the foundation, private limited company or social club. Each of them has different legal binding based on their legal establishment. Moreover, each Islamic DCF has a monitoring function either by the board of trustees or the board of directors except for Islamic DCF E as there is no board exists. In fact, several Islamic DCFs have board members with *shariah* backgrounds to manage *shariah* matters.

Meanwhile, under financial operation practices, there are at least four models for the fund management process in Islamic DCFs. For the first model, Islamic DCF act as the technology enabler when it started from the project owners' request and ends with the fund transferred to them through the Islamic DCF platform. For the second model, Islamic DCF will act as an intermediary. It is similar to the first model; however, Islamic DCF will monitor the execution of crowdfunding projects through beneficiaries. On the other hand, the third model emphasizes Islamic DCF's role as a fund manager. In this case, instead of transferring the fund collected to the project owners who also act as beneficiaries, Islamic DCF will directly transfer the fund to the third party which indirectly completes the objectives of crowdfunding projects on behalf of beneficiaries. Finally, for the fourth model, Islamic DCF will act as a technology enabler; however, unlike model one, the project owner also acts as the beneficiary.

In terms of income generation, all Islamic DCFs impose certain service fees on the fund collected. Besides, all Islamic DCFs are involved with Islamic social finance like *zakat*, *waqf*, *sadaqah* and *infaq*. While, for financial sustainability, service fees are likely able to cover operational costs. In addition, several Islamic DCFs collaborate with other parties and receive commissions and donations to cover their operation cost. In fact, there

are also initiatives to offer other services through the Islamic DCF platform for income generation purposes. The operational costs, staff salary and platform maintenance expenses are the main costs for all Islamic DCFs. While, on financial disclosure, it can be concluded there is limited financial information especially on Islamic DCFs except for crowdfunding project costs. Lastly, several *shariah* contracts also were found to be used such as *ujrah* and *wakalah* by Islamic DCFs.

Practical implications

Based on the findings, several implications and recommendations are proposed. For related Malaysian authorities like the Securities Commission Malaysia (SC) or Bank Negara Malaysia (BNM), it is recommended to develop a specific standard, framework or guideline for Islamic DCFs by the authority. This includes how to ensure *shariah*-compliant status by Islamic DCFs. Besides, these authorities also need to develop a *shariah* governance framework that lists the roles and responsibilities of all related parties including the board, the *shariah* committee or advisor and the management of Islamic DCF. Moreover, there is a need to have a specific criterion in recognizing Islamic DCFs. In addition, a proper *shariah* screening methodology for crowdfunding projects is also needed to ensure crowdfunding projects are in line with *shariah* principles.

For Islamic DCFs, it is recommended for them to disclose more financial information regarding themselves including annual financial reports, organizational and governance background of the platform, *shariah* contract used as well as cost details for every project launched. Besides, apart from the information on donations received based on a real-time basis, it is also encouraged for Islamic DCFs to provide other related crowdfunding project information including the beneficiaries' details and the impact of the project.

Limitations of the study

While limitations of the study also need to be recognized. This includes the scope of the study which is limited to the Islamic DCF model. Hence, future studies are recommended to extend to other Islamic crowdfunding such as LCF and ECF under the SC, as well as RCF.

Abbreviations

BHEU	Department of Law, Prime Minister's Department of Malaysia
CCM	Companies Commission Malaysia
DCF	Donation-based crowdfunding
ECF	Equity-based crowdfunding
LCF	Lending-based crowdfunding
MaGIC	Malaysian Global Innovation and Creativity Centre
MSMEs	Micro-, small- and medium-sized enterprises

MyCIF Malaysia Co-Investment Fund
 RCF Reward-based crowdfunding
 ROS Registry of Society
 SC Securities Commission Malaysia

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Author contributions

MIHK was a major contributor in writing the manuscript. NAM performed the concept of the manuscript. RMR and WNFWMN involved in the data collection processes. AFK involved in the data analysis process. All authors read and approved the final manuscript.

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Ethics approval and consent to participate

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