

Equity Crowdfunding based on Islamic Philanthropy: A Concept

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ABSTRACT

As a country with a Muslim majority, Indonesia has enormous potential to collect Islamic philanthropic funds such as zakat, infaq, alms, and waqf. However, in reality, it is still far from the expected potential. This is inseparable from several important problems such as the lack of use of technology, the lack of public awareness of the importance of the role of Islamic philanthropy, and the lack of trust of the Muslim community towards the institution of zakat. We tried to develop a model of collection by integrating the Equity crowdfunding system with the Islamic philanthropy system. It is hoped that with this model the collection of zakat and other Islamic philanthropy will increase further because it provides transparency to funders so that it will increase their trust. In addition, the object of receiving funds from this model in the form of SMEs (productive zakat) will build an Islamic philanthropic system that is more sustainable and has a greater impact. Because in addition to providing funds, recipients of funds will be given training in managing their business so that they can make their own simple reports. Zakat institutions in this model play an important and central role for the success of the program. Starting from planning, management, monitoring, to evaluation of success.

Keywords: Islamic Philanthropy, Equity Crowdfunding, Productive Zakat

JEL Classification Code: D64, L26, L86

INTRODUCTION

In Islam, Zakat is a crucial instrument in state development because it plays a role in forming a harmonious community (Saad et al., 2020). Zakat is a bridge between the rich and the poor. Zakat is an exceptional Islamic instrument used for wealth redistribution usually through the collection of designated amounts from wealthy Muslims and it will be distributed among specified beneficiaries as provided by the Sharia (Migdad, 2019). Especially in Islam, the concept of property essentially belongs to Allah and humans are only His trustees (Razak, 2020). Based on the regulations governing zakat management contained in Law number 23 of 2011 zakat management, one of the objects that must be redistribution of wealth as ordained by

Allah (SWT) for spreading the benefits of the deserving category of people.

Indonesia as a country with a Muslim majority spread across the world has a huge potential of zakat. The latest data submitted by BAZNAS shows that the potential for zakat in Indonesia in 2018 is 233 trillion rupiahs. However, the distribution of zakat still reached 8.2 trillion rupiahs or only 3.4 per cent (BAZNAS, 2020). One of the factors of this situation is the lack of professionalism and transparency of zakat collection institutions (Yumanita, 2018).

On the other side, community collection activities which are often known as crowdfunding are starting to be massive and growing. This is due to the rapid development of technology (Cumming et

al., 2019). It is such a globalization change, considering the extreme level of poverty specifically caused by the Covid-19 pandemic. It will be better for social purposes such as raising funds for sick people or financing someone who is having difficulty funding in running their business. This kind of approach is faster to get a response and concern from the community (Proelss et al., 2021).

At the turn of the 21st century in Indonesia, the situation showed a kind of fever of Islamic philanthropy. The huge number of developments related to Islamic Philanthropy could not be explained anymore. Scholars have been finding new ideas to get in touch more in Islamic Philanthropy aspects. The ease of technology also brings a massive change through the way scholars enhance their knowledge conducting more enthusiastic to vie a new innovation associated to technology improvement to ease society and give more benefit to others.

This crowdfunding activity then continues to recently grow the term equity crowdfunding emerged a more professional and transparent capital system for SMEs in Indonesia. In its development, the Financial Services Authority officially gave permission to three providers of equity crowd-funding platforms to carry out their activities in Indonesia based on POJK No.37/POJK.04/2018.

The existence of social restrictions imposed by the government has a significant impact on the activities of collecting zakat institutions. The study of Hudaefi & Beik (2021) shows that zakat campaign can increase zakat collection through digital media. The challenge for zakat institutions was changing in the zakat management strategy through the outbreak of digital media, exclusively on the collection side. Related to this point of view, zakat institutions can determine an assistance to support small business for this is included in the distribution of productive zakat. Fundamentally, zakat is donated in

two approaches 'consumptive and productive'.

From some of the facts mentioned above, we are interested in trying to integrate the concept of equity crowd-funding and collecting zakat, infaq, and alms in amil zakat institutions. We hope that the concept that we will present can increase the collection of Islamic philanthropic instruments so that they are able to prosper the people of Indonesia.

The next chapter will discuss further the understanding and concepts of Islamic philanthropy and equity crowdfunding. In chapter 3, we will explain the method we are used to construct this concept followed by presenting the concept in chapter 4.

LITERATURE REVIEW

Equity Crowd-funding

An access to finance or access to capital is one of the main problems faced by SMEs in developing countries such as Indonesia. In several other developing countries, alternative access to capital for SMEs is done by crowdfunding (Maiti, 2018). In recent years, crowdfunding has been emerging as viable and popular alternative channel for entrepreneurs to fund their early stage business. Broadly speaking crowdfunding can be divided into four main categories as seen in figure 1: donations, rewards-based (also called pre-selling), lending, and equity crowdfunding (Vulkan et al., 2016). The development of equity crowdfunding over the last 10 years has been accompanied by many successes and achievements, but also failures (Armin, 2018). Crowdfunding which is going back to the act of drawing funds from large groups of people will be able to grow fast. A growing base of crowdfunding literature agrees on the importance of networks in collecting funding (Lukkarinen et al., 2016).

Equity crowd-funding is largely different in terms of motivation to invest as well as in size, horizon, and expectation of

the investment (Vismara, 2019). For a number of reasons, crowd-funding is one of the specific interests when studying how to finance sustainability-oriented companies. Talking about a donation, the donation-based crowdfunding, individuals or non-governmental organizations raise money for a cause, without a material delivery to donors. The growing numbers of development of equity crowdfunding last 10 years has been significantly increasing. Equity crowdfunding will remain a funding technique for SMEs and small investors.

Due to a lack of literature on the success drivers of equity crowdfunding character related to Islamic Philanthropy

focusing on zakat, waqf and others, this paper draws on research on the forms of funding adjacent to equity crowdfunding on the funding life cycle. Funding target of this platform typically portrays a target range for the sought amount of funding which the benefactor will donate their wealth into a platform that, later on, this will be allocated by the app to several people who need. To the best of my recollection, this platform will be immediately determining the zakat recipient chosen to be trained as an entrepreneur by an assistance to guide him leading a new business.

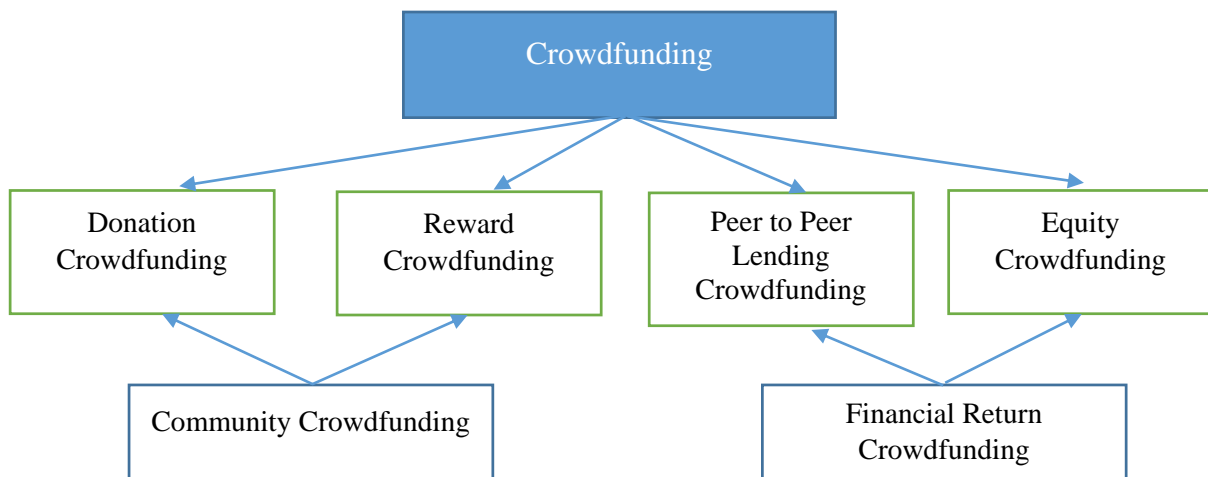


Figure 1. Categories of Crowdfunding (Maiti, 2018)

Islamic Philanthropy

Waqf and zakat are Islamic Philanthropy instruments meant for the overall well-being of humans. The use of Waqf is shown in many factors, in the health sector exemplified by Prophet Muhammad (SAW). Furthermore, Waqf also provides water provision, feeding the needy, mosque preservation, imam and mu’adhins pensions, orphanages and caravanserais maintenance, among other items (Rashid 2018).

As the third pillar of Islam, more than 1400 years, zakat has a tradition to decrease inequality and distribute resources to those in need and the poor. The literal meaning of Zakat is purifying and increasing. Under Islamic law, Zakat is the

distribution of a specific part of a person’s wealth to those who do not have sufficient means to survive (Almaany, 2020).

According to Al-Mutlaq, 2020, “there are multiple needs of the poor such as food, clothing, healthcare, marriage, education and job training. The cost of providing these services can be fulfilled from zakat, imposed by the Almighty Allah upon the rich, for the benefit of the poor, in line with the teachings of Islam”.

In recent decades, more academic interest and discussion on Islamic economics in general have emerged globally. The Islamic economic system prompts helping the exceedingly poor and deprived to meet their basic necessities of life, and in this way, alms and zakat are

acting as a mediator. Economic system of Islam teaching leads a society or community in which surviving and prospering in all aspect of life. Zakat and alms are meant to provide the much-needed social safety net for the bottom pyramid of the society which is excluded from the conventional financial access market (Hamzah & Muhammed, 2021).

“Zakat expenditures are only for the poor and for the needy and for those employed to collect [zakat] and for bringing hearts together [for Islam] and for freeing captives [or slaves] and for those in debt and for the cause of Allah and for the [stranded] traveler - an obligation [imposed] by Allah. And Allah is Knowing and Wise” (QS, al-Taubah 9: 60)

Analytically, eight categories of zakat recipient who are needy in zakat are The Poor (al-Fuqara’), The Needy (al-Masakin), Administrators of zakat (‘Amil), Those inclined to Islam (Muallaf), Captives seeking freedom (al-Riqab), Debtors (al-Gharimin), for the cause of Allah (fi sabillillah), Wayfarers (ibn al-sabil). It could be explained that one of categories namely ‘The needy’ could be helped for the inadequate income has no trigger to sustain himself. Apparently, he can be trained by professional to comprehend a new skill which can be provisioned for himself in the long run.

A Muslim is encouraged to do charity for the blessings and rewards from Allah (SWT), not limited to low-income households (Dwi Arsyianti et al., 2017). On the other hand, Islam establishes a unique instrument for poverty alleviation as wealth is transferred from well-off Muslims to the worse-off people (Hamzah & Muhammed, 2021). Indonesia, as a country with the largest Muslim population in the world, should be able to use Islamic philanthropic instruments to prosper its society. But in reality, the huge potential of zakat in Indonesia has not been fully optimized. It is evident from the data released by BAZNAS (2020) that the realization of zakat

collection in Indonesia is only 3.4%. This is inseparable from several important issues, including; lack of use of technology used by amil zakat institutions; lack of awareness of the Muslim community about the obligations and importance of zakat; and their lack of trust in zakat institutions (Bin-Nashwan et al., 2020; Hudaefi & Beik, 2021; Kasri & Yuniar, 2021). Therefore, a tool or program is needed that it can answer these problems so that the potential of zakat in Indonesia can be maximized to be collected by zakat institutions.

SMEs and the Role of Zakat

Small and Medium Enterprises (SMEs) play an important role in the Indonesian economy. Based on data from the Ministry of Cooperatives and SMEs (2021), currently the number of SMEs in Indonesia reaches more than 68.60 million and contributes to the National GDP of 61.07% or worth 8,573.89 trillion rupiahs. This sector also provides employment of 99.8% and becomes the engine of the national economy because of its large number of units than large companies.

However, different from these large companies, SMEs tend to have many fundamental problems such as lack of capital, skills, and technology that make it difficult for them to compete in the market (Ridwan Maksum et al., 2020). The government has actually made a lot of efforts to increase the capacity of SMEs in Indonesia, both in the form of financial assistance and provision for their owners. It is just that this needs attention from various parties to make their best contribution to others.

Many zakat institutions try to develop more sustainable utilization programs such as providing business capital. As mandated by Law no. 23 of 2011 concerning Zakat Management. Article 27 states that zakat can be channeled for productive businesses with the aim of improving the quality of life of the people. Many studies have tried to provide empirical evidence about the role of

productive zakat to improve the welfare of the people. Pratama (2015) states that the productive zakat program that has been run by BAZNAS has had a real impact in efforts to alleviate poverty in Indonesia. However, the funds spent on this program are still small. This cannot be separated from the collection of zakat and other Islamic philanthropy which has also arguably not been effective. Therefore, the model proposed in our paper is expected to be a solution to this problem.

METHODS

This research is a type of qualitative research. We tried to build a model of Equity Crowdfunding based on Islamic philanthropy (Zakat, Infaq, alms, and Waqf) based on various existing literature and adapted to our experience in the field. Our model is conceptualized using the Osterwalder Model known as the Business Model Canvas (BMC). BMC is not designed so that users only care about profit, but users think about non-financial aspects that focus on the surrounding environment and ongoing social conditions (Sparviero, 2019). This is in line with the goals of the Islamic philanthropic system.

In addition, we also propose a typology of Equity Crowdfunding based on Islamic philanthropy.

RESULT AND DISCUSSION

A business model proposed in this paper will describe the whole concept of our system created, delivered, and also established with a philanthropy, social order, economic well-being, humanist and creative approach. This paper also comprises a Business Model Canvas where the model will be given for illustrating the way this platform will be run. On the other hand, we are also taking a part of Crowdfunding Framework to clearly depict the notion of equity crowdfunding based on Islamic philanthropy.

Business Model Proposed

Figure 2 which we introduce denotes a business model canvas that consists of nine business model of building patterns; key partnership, key activities, key resources, value proportion, customer relationship, channels, customer segment, cost structure and revenue streams.

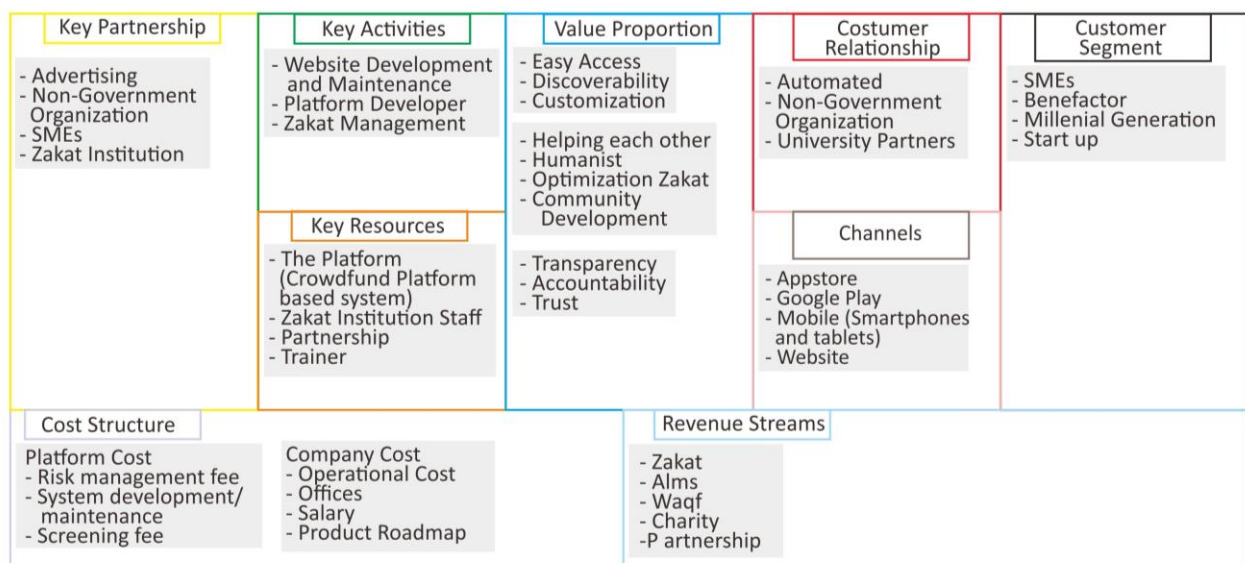


Figure 2. The Business Model Canvas

The scheme of equity crowdfunding based on Islamic philanthropy

The purpose of this scheme is to draw the whole idea of the platform used in the equity crowdfunding based on Islamic Philanthropy which accentuates the humanist concept to build up the transparency, accountability and also trust on the zakat collection through

organizations. It could be seen that the whole concept depicted in the figure 3 is trying to determine zakat which could be delivered well to the recipient which later on is not only for consumptive purpose but also for productive activity. In this paper, we will highlight the main resource of zakat to be distributed to the productive activities heading an economic growth and also improving social welfare among SMEs.

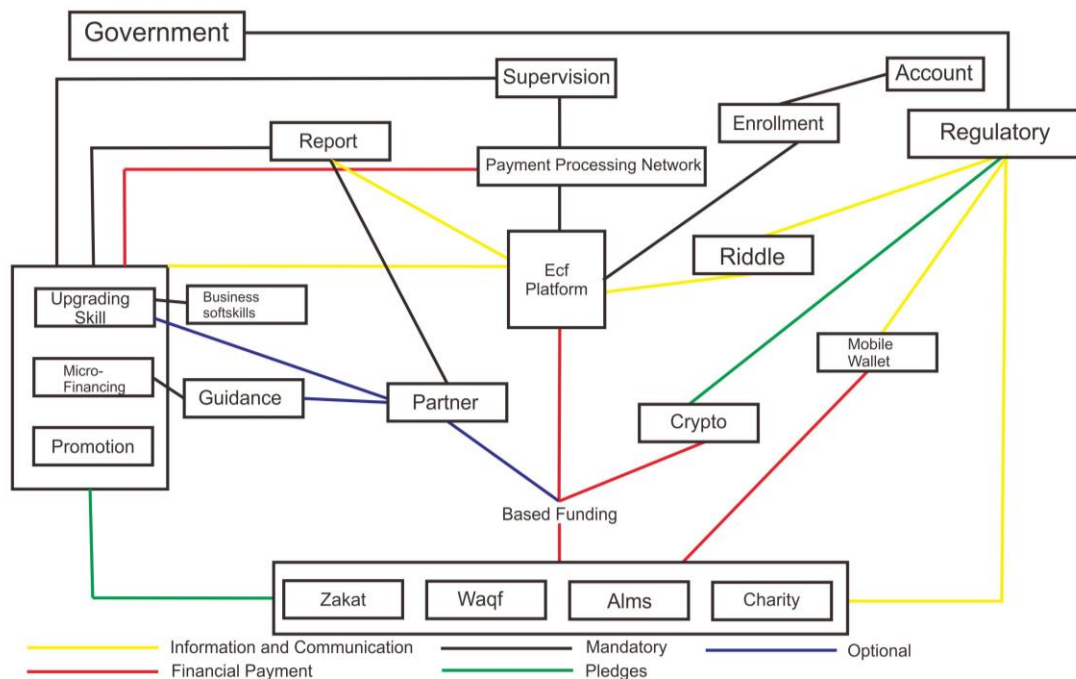


Figure 3. Typology of Proposed Equity Crowdfunding Based on Islamic Philanthropy

Equity crowdfunding turns into charity for humanity as a financial intermediary, from millennial to social. The following points denote the detailed explanations of figure 3:

1. Equity crowdfunding platform built is the core of all activities inside.
2. Based funding is through zakat, waqf, alms and charity. Collected funds will be automatically accumulated into a platform.
3. As a partner, they can be a trainer, guidance and also zakat partnership. Trainer is someone who has a capability on the certain soft-skills teaching others in the upgrading skill program. Guidance mentioned above is talking about someone who will be an escort for guiding businessmen

establishing their new business. A partner also could be a zakat partnership where they will help collect the fund. It could be denied that a partner should make a report of all programs followed. A partner does not work as a volunteer except zakat partnership. They will be hired as a paid tutor.

4. Mentioning cryptocurrency as a digital money existed among millennial lately, cryptocurrency will be part of this platform where people who use cryptocurrency in their daily life will be easily to collect their zakat by cryptocurrency.
5. Mobile Wallet, a widely used application, will be part of

supporting system for this platform. The use of mobile wallet is to make an ease for transferring their money into a platform. Mobile wallet could be used for saving their money inside so that they could transfer their money from their bank once and use for long time. Saving money on the mobile wallet is also beneficial for users because they can transfer their charity, alms and others easily.

6. Based funding of this platform as the name and the goal in Islamic philanthropy, the fund will be collected from zakat, waqf, alms and charity.
7. The distribution of the collected funds will be delivered by a specific recipient for each funds. For example, zakat will be delivered to businessmen who contains the eight recipient of zakat, Waqf will be distributed as a cart or grips, and alms and charity will be dealt with them who need in the certain case.
8. There are three aspects which is funded by this platform; Upgrading skill, Micro Financing, and Promotion. Many people who have their own business could not expand their business due to lack of knowledge on many parts of businesses like accounting, taking a decision and others. Micro Financing is funding a new business. In this case, the business funded is supposed to keep pace with the guidance who will guide them to run their business properly. Promotion designed to help business improves their business.
9. Partnership and funded people should make a report for their running process of their duty since they have to account for their responsibility.
10. All people who want to access this platform are supposed to create their account. To make it easy, platform will be designed as an easily done.
11. Supervision has a task for standing over the whole process of the

payment system which will be dropped to the recipient and will be directly interconnected to the Platform.

12. This platform is inseparable with regulatory which will manage the mandatory law of a riddle of choosing the recipient, cryptocurrency, mobile wallet and taking into account of the law of zakat, waqf, alms and charity process inside.

Duties and Obligations of Zakat Institutions

In this concept, amil zakat institutions/agencies as providers of Islamic philanthropy-based equity funding platforms have a very important role. Because it is the center of activity. Some of the tasks and functions of the platform provider include;

1. Setting up a web-based platform that becomes a source of information for potential donors.
2. Searching, surveying, testing eligibility and registering mustahik/asnaf who want to be empowered through the ZECF (Equity Crowdfunding based on Zakat/Islamic Philanthropy) program.
3. Input the data obtained and promote it through various media and owned networks.
4. Provide training required by ECF program mustahik/asnaf. This training ranges from basic briefing on how to start a business to how to prepare their financial reports.
5. Helping prospective donors who choose to come directly to the office and are not yet familiar with the web-based crowdfunding system.
6. Cooperate with Islamic financial institutions to direct the mustahik/asnaf of the ZECF program that is already established in

managing its business and requires more capital.

While the additional flow from other parties from the ZECF flow above, we explain as follows;

1. ZECF Fund Recipients;
 - a. You can apply or be chosen by the Amil Agency/Institution that manages the ZECF program.
 - b. Doing business seriously.
 - c. Provide financial and non-financial information about the business that is run on a regular basis.
 - d. Prepare simple financial reports to be displayed on the ZECF platform and submitted to relevant donors.
 - e. Willing to donate and help the Amil Agency/Agency program that manages the ZECF program if it is successful in the future.
2. Candidates/Funders
 - a. Select one or more businesses that you want to help.
 - b. You can consult and ask the platform provider admin for help.
 - c. Receive reports from assisted businesses on a regular basis.
3. Islamic Financial Institutions.
 - a. Can join the ZECF program through their CSR and social funds.
 - b. Helping mustahik/asnaf through partnership programs such as profit sharing.
 - c. Collaborate with platform providers in agreed programs

Advantages and Disadvantages of the Proposed Model

The advantages of this ZECF model include;

1. Maximizing the development of technology to raise funds for Islamic

philanthropy which has enormous potential in Indonesia.

2. Focus on the distribution of productive zakat is expected to help the recipients of funds to change their destiny through their own efforts. As stated by Allah in Q.S Ar-Ra'd: 11
3. Provide comfort and convenience to people who want to distribute zakat or donate.
4. Provide certainty and guarantee to funders that their funds are truly channeled wisely and appropriately.
5. Building professionalism and transparency in the amil zakat institution which has been a challenge from year to year.
6. Building a more established and sustainable Muslim economic system

While some of the weaknesses and challenges of this model are:

1. Requires effort and costs are not cheap. The Amil Zakat Agency/Institution which is the provider of the ZECF platform here is the main key to the success of the program.
2. Socialization and promotion are required with sufficient intensity to provide understanding to all parties involved. Because this program is a combination of Equity Crowdfunding which is usually used in providing capital in general with distribution of productive zakat in amil zakat institutions.

CONCLUSION

The potential for collecting Islamic philanthropic funds in Indonesia must continue to be optimized. One way is by using technology and providing assurance to funders regarding the use of the funds

they have provided, so that they increasingly believe in zakat institutions. In addition, the distribution of Islamic philanthropic funds must begin to be directed to productive programs such as providing capital and community empowerment. The model we offer tries to answer these problems. Combining the Equity Crowdfunding system that has been implemented in many countries to provide access to capital for SMEs with a philanthropic system in Islam in the form of Zakat, Infaq, Alms, and Waqf. Our paper has implications for various stakeholders, especially zakat institutions, which are an important key to the success of the model we offer.

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