

# Exploring the Potential of Islamic Crowdfunding as an Alternative Financing Source for Entrepreneurs in Bangladesh

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## Abstract

Islamic crowdfunding has emerged as a recent phenomenon in many Muslim countries, including Malaysia, Indonesia, and Pakistan. It affords entrepreneurs with a Shariah-based option of raising funds for their business. Although Bangladesh has a few crowdfunding platforms, their activities are limited. Despite being a predominantly Muslim country, Bangladesh has yet to establish a significant crowdfunding platform. However, several earlier studies have indicated that Islamic crowdfunding has substantial growth potential in Bangladesh. Therefore, this study aimed to explore the potential of Islamic crowdfunding as an alternative funding source for entrepreneurs in Bangladesh. A qualitative approach was employed, gathering data through semi-structured interviews with experts and consultants in Islamic Shariah and entrepreneurship in the crowdfunding industry. The data was then analyzed by means of a thematic technique. The study reveals that Islamic crowdfunding has significant potential in Bangladesh but faces numerous challenges. Overcoming these challenges could make lending (asset-based) and reward-based models effective and productive sources of funding for the entrepreneurs. The findings can contribute significantly to the standing literature in the ground of crowdfunding. Officials can use these findings to make innovative policies and rulings for the crowdfunding sector. Entrepreneurs can utilize these insights to boost their knowledge and understanding of crowdfunding functions and processes.

**Keywords:** *Entrepreneur, Finance, Islamic crowdfunding, Challenges, asset-based model, reward-based model.*

## Introduction

Nowadays, the wave of novelty in crowdfunding industry has drawn numerous individuals eager to participate and capitalize on the opportunities it presents. It offers entrepreneurs a favorable pathway to secure funding for their new ventures or to fuel the growth and expansion of their existing businesses. This innovative approach offers them a valuable opportunity to connect with

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potential investors and supporters, making it a vital tool in their financial strategy (Schwienbacher and Larralde, 2010). Usually, crowdfunding represents a non-traditional method of raising funds by appealing to a vast network of individuals through the internet. This innovative approach leverages online platforms to gather financial support from a diverse and expansive audience (Ordanini et al., 2011). In recent times, crowdfunding has surged in popularity due to the rapid advancement of commercial technology, coupled with the profound effects of globalization (Aderemi and Ishak, 2020). Globally, crowdfunding transactions have seen phenomenal growth over the past several years. In 2013, the total volume was \$11.06 billion, but by the end of 2017, this figure had soared to \$418 billion, showcasing the rapid expansion and increasing influence of crowdfunding on the global financial landscape. This substantial increase was predominantly driven by investment-based crowdfunding, including peer-to-peer lending and equity crowdfunding (Ziegler et al., 2020). In contrast, crowdfunding models focused on rewards and donations contribute a mere 0.2% of the total transaction volume, underscoring the dominance of investment-based crowdfunding in the overall market (Arzam et al., 2023). Geographically, crowdfunding has made its mark nearly in 161 countries, each with varying levels of economic development. Nevertheless, the bulk of the worldwide crowdfunding market is controlled by America, Europe, and China, which collectively dominate about 97% of the market. This triad of regions significantly shapes the landscape of crowdfunding on a worldwide scale (Ziegler et al., 2020).

Crowdfunding has also gained traction in developing nations like Bangladesh, India, and Pakistan. Among these, Bangladesh stands out for its slow economic growth in developing crowdfunding platforms since their inception. The number of crowdfunding transactions was recorded in Bangladesh at only \$10272 in 2017. In contrast, Pakistan and India have documented significantly higher figures with Pakistan totaling \$ 8,571,762 and India reaching \$268,579,820 (Uddin et al., 2022). In 2022, Bangladesh achieved a notable GDP growth of 7.10%. Besides, per capita income stood at \$ 2688 at the same year, as reported by the Bangladesh Bureau of Statistics (2022). According to Bangladesh Telecommunication and Regulatory Commission (BTRC), the economy documented more than 125 million internet subscribers, covering nearly 69% of the population. This extensive digital reach highlights a significant potentiality for crowdfunding in Bangladesh, which remains largely underexploited.

Recently, the concept of Islamic crowdfunding has captured considerable attention. This specialized form of crowdfunding is designed to align with Islamic financial principles, setting it apart from conventional crowdfunding models. This form of crowdfunding offers a digital arena to invest or donate funds for promoting entrepreneurship and social betterment within Muslim community (Hendratmi et al., 2020). Islamic crowdfunding adheres strictly to Shariah principles, ensuring that it remains free from Haram (prohibited) elements such as *Riba* (usury), *Maysir* (betting), as well as *Gharar* (excessive uncertainty (Achsien and Purnamasari, 2016). In Bangladesh, several crowdfunding platforms are currently operational, such as Projekt.co, GoRiseMe, Fundsme, and Oporajoy. However, these platforms predominantly adhere to conventional principles (Suresh et al., 2020). Currently, Bangladesh lacks a centralized platform dedicated to Shari'ah-compliant crowdfunding. The few existing platforms are limited to donation-based models only. As a result, numerous halal institutions in Bangladesh continue to depend on conventional financial systems to support their businesses (Abdullah and Oseni, 2017). This situation highlights the urgent requirement of Islamic and Halal funding solutions. Nevertheless, there remains a significant gap in understanding the concept and notion of Islamic crowdfunding. (Achsien and Purnamasari, 2016). Moreover, several factors must be taken into account before positioning Shariah-complaint crowdfunding as viable solutions of financing. This is because not all enterprises within this sector achieve success due to a range of issues (Shiyuti et al., 2021). Therefore, this study rigorously explores the potentiality of Islamic crowdfunding as an alternative financial tool for entrepreneurs in Bangladesh.

## Literature Review

### ***Understanding crowdfunding and Islamic Crowdfunding***

Crowdfunding is a dynamic fundraising approach that brings together investors and entrepreneurs to collectively achieve their financial and business objectives. This model fosters collaboration and mutual benefit, enabling business owners to access the necessary capital while providing investors with the opportunity to support innovative ventures and potentially reap financial rewards (Hendratmi et al., 2019). By utilizing online platforms, these entities can connect with a broad audience to raise the necessary capital. This modern approach to fundraising democratizes access to financial resources, allowing a diverse range of projects to receive support from a global network of backers (Wahjono et al., 2017). However, Islamic crowdfunding can be defined as distinctive fundraising method that integrates Islamic principles to evaluate and filter the components involved in its operations. This approach ensures that all activities adhere to Sharia law, identifying elements that are permissible (halal) and those that are forbidden (haram) (Kamaruddin and Ishak, 2020). By embedding these religious values into the crowdfunding process, Islamic crowdfunding provides a framework that aligns financial practices with ethical and moral guidelines, fostering trust and confidence among investors and participants who seek to support ventures that are consistent with their faith (Testa et al., 2022). By endorsing ta'awun, or mutual assistance, crowdfunding fosters humanitarian projects that encourage cooperation and solidarity. This alignment with Islamic principles not only facilitates financial growth and social development but also underscores the ethical and collaborative spirit inherent in both crowdfunding and Sharia law. Through this synergy, crowdfunding becomes a powerful tool for fostering economic equity and communal well-being, resonating deeply with the core objectives of Shariah (Ishak and Nasir, 2024).

### ***Models of Islamic Crowdfunding***

Mustafida et al. (2021) categorize Islamic crowdfunding into four distinct types where *Sadaqah* (donation-based) crowdfunding relies on charitable contributions, *Hibah* (reward-based) crowdfunding offers incentives for support, asset-based (also known as lending-based) crowdfunding involves financing secured by assets, and equity-based crowdfunding provides investors with ownership stakes in ventures. These classifications reflect the diverse mechanisms through which funds are raised and utilized within the principles of Islamic finance. Under donation-based model, the contributor provides financial support to the financiers, typically small and medium-sized enterprises (SMMs), for their business endeavors without expecting any form of repayment or compensation (Kamaruddin and Ishak, 2020). This altruistic approach allows donors to aid entrepreneurs in growing their ventures purely out of goodwill and a desire to support economic development (Jenik et al. 2017). A reward-based model involves investors contributing funds with the anticipation of receiving rewards in return. In this scenario, backers support projects or ventures in consideration for tangible benefits or unique perks, rather than financial gains, making it a mutually beneficial arrangement that fosters engagement and appreciation (Roma et al., 2017). Equity-based crowdfunding operates on the principle of profit-sharing, where investors provide capital to entrepreneurs in exchange for ownership stakes in the venture. This model creates a partnership where both funders and founders share in the financial success of the project, aligning their interests and fostering a collaborative approach to business growth and profitability (Zhong, 2022). In an asset-based model, the investor provides capital or assets to crowdfunding platform operators, who then acquire the necessary assets for entrepreneurs. These assets are subsequently utilized by the entrepreneurs to conduct and expand their business operations (Ishak and Nasir, 2024). In this scheme, the contracts commonly employed are *Murabaha* and *Ijara*. *Murabaha* involves a cost-plus-profit arrangement where the financier purchases an asset and sells it to the entrepreneur at a marked-up price, while *Ijara* pertains to leasing agreements where the financier provides an asset for use in exchange for rental payments (Mustafida et al., 2021). In Malaysia, crowdfunding based on donation may not work because fund contributors do not get any return. This issue undermines the sustainability and attractiveness of donation-based crowdfunding as a viable funding mechanism (Zhao and

Sun, 2020). Similarly, integrating *Mudarabah* into crowdfunding may not be optimal due to the considerable risks associated with this approach. The high level of risk involved with *Mudarabah* could undermine its effectiveness as a viable financing mechanism within the crowdfunding landscape. Thus, they recommend implementing enhanced monitoring measures, strengthening regulations, and refining *Mudarabah* practices (Ishak and Rahman, 2021). *Qard al-hasan* (Interest free loan) might be an ineffective tool, as it prohibits charging any profit upon fund provided. This restriction makes it less appealing (Aderemi and Ishak, 2023).

### ***Crowdfunding Scenario in Bangladesh***

Several efforts have been made in Bangladesh to establish crowdfunding platforms. However, these initiatives have not yet achieved substantial impact or widespread recognition. Despite these attempts, the country has yet to realize the significant potential of crowdfunding in driving substantial economic and social change. The pioneering crowdfunding platform in Bangladesh, Projekt.co, introduced a central online arrangement tailored for reward-based funding. This platform focuses on supporting projects across various industries, including technology, art as well as music, marking a significant step in the development of the country's crowdfunding ecosystem. Projekt.co, inspired by Kickstarter, was established to bring reward-based crowdfunding to Bangladesh. However, its drive concluded in 2017 due to the country's limited familiarity and awareness. Despite its innovative approach, the concept struggled to gain traction in a market that was not yet accustomed to such funding models (Uddin et al., 2022). In 2015, GoRiseMe emerged as dynamic platforms to revolutionize the way projects and ideas were funded, offering a fresh and innovative approach for entrepreneurs to connect with potential investors. Up to this point, GoRiseMe has hosted 33 different campaigns, though they have yet to see a fully successful one. Despite this, the platform's founders held an ambitious vision: to transform global e-commerce by fostering a community grounded in trust, privacy, and secure real-time business transactions, all conducted with unwavering integrity (Suresh et al., 2020). In 2018, Oporajoy.org made its debut to facilitate philanthropic efforts by enabling individuals and organizations to raise funds for various causes. With a focus on community-driven support, Oporajoy.org aimed to empower donors and beneficiaries alike, creating a space where generosity and goodwill could drive positive change and make a significant impact on society (Islam and Khan, 2021). In the same year, another equity-based platform was introduced known as GoFundsMe. By offering a structured and regulated environment, GoFundsMe aimed to facilitate investments that could drive business growth and innovation. While it has successfully attracted several projects seeking equity funding, has yet to see a project reach full completion (Uddin et al., 2022).

### ***Opportunities and issues of Crowdfunding***

According to Adhikary et al. (2018), even though awareness of crowdfunding remains relatively poor, there is a generally optimistic attitude among people toward utilizing this funding method. This suggests a latent potential and openness within the community to become a widely accepted and popular means of financing projects. Moreover, majority of the population in Bangladesh are Muslim, who prefer to deal with Shariah-based financing. By embracing Shari'ah-compliant financial solutions, Bangladesh could tap into a broader base of investors and entrepreneurs, ultimately driving economic development and prosperity (Uddin et al., 2022). Conversely, crowdfunding faces a myriad of challenges when it comes to supporting large-budget ventures. As noted by Wehnert and Beckmann (2019), the limitations inherent in crowdfunding can impede its effectiveness in securing the substantial financial backing required for more ambitious projects. Various model of crowdfunding holds the promise of supporting both business ventures and social projects. However, it largely relies upon mutual trust and acceptance between investors and entrepreneurs. The success of crowdfunding efforts hinges on the ability to foster a reliable and transparent relationship, ensuring that both parties feel confident in their collaboration and commitment (Wan Mohamad Nazarie and Williams, 2021). In general, donation as well as reward-based models typically does not face significant Shariah issues, provided that

their projects adhere to Islamic principles. Ensuring compliance with these principles can make these crowdfunding models acceptable from an Islamic finance perspective (Saiti et al., 2018). On the other hand, lending-based model must be devoid of interest to remain Shariah-compliant. If funders seek to earn income, they could utilize contracts like *Murabahah* (cost-plus financing), *Salam* (advance payment for future delivery), and *Istisna'* (manufacturing and construction financing) (Hendratmi et al., 2019). Using equity-based crowdfunding (such as *mudharabah* and *Musharakah*), it can facilitate collaboration between business managers and funders, ensuring alignment with Shariah principles (Muneeza et al., 2018). Another pressing concern is the lack of legal policies, which creates significant threats like fraud and cybercrimes. Moreover, a well-defined framework is yet to develop to support Islamic crowdfunding. Thus, there is a need for regulatory oversight to safeguard investors and maintain the integrity of the sector (Hanim et al., 2018). Moreover, there is insufficient understanding of Islamic crowdfunding concepts, which significantly affect its growth. Furthermore, the growth of Islamic crowdfunding is significantly hindered by a widespread lack of understanding of its core principles and concepts (Achsien and Purnamasari, 2016). Additionally, technological challenges, such as internet inaccessibility, present significant obstacles, particularly in many regions of the world, predominantly in developing nations (Nordin et al., 2017)

## **Methodology**

### **Research Design**

In Bangladesh, where crowdfunding is still in its infancy, conducting survey-type research is not feasible. Given this early stage of development, a qualitative approach was chosen for the study, as it is particularly effective for exploring the "how" as well as "why" type questions (Creswell, 1998). Additionally, quantitative research would necessitate reaching a large number of respondents, which poses significant challenges in the context of Bangladesh (Nardi, 2018). Therefore, a qualitative methodology was deemed more appropriate for gaining insightful understanding in this emerging field. Moreover, it was exploratory research, designed to address new and relatively unexamined issues. This type of research allows for a more flexible and nuanced collection and interpretation of data, which is particularly useful for exploring new or complex topics (Wan, 2015).

### **Data Collection Tools**

In this study, semi-structured interview was used as a data collection mechanism. This method allowed for an in-depth exploration and clarity on the various facets of the topic. Additionally, this approach is considered reliable for data collection because it fosters a more comfortable and familiar atmosphere for both parties involved in interaction. This enhanced comfort level contributes to more open and effective communication, facilitating a richer and more nuanced exchange of information (Brown and Danaher, 2019). Although qualitative researches hardly mandate a specific number for interviewees, existing literature indicates that an effective number typically ranges 5-50. However, useful data, nature and scope of the topic are the critical aspect of an effective interview session (Dworkin, 2012).

### **Sampling Technique and Interview procedure**

The targeted populations of this study were the Islamic Shariah experts with a deep understanding of the concepts and functioning of Islamic crowdfunding models. Additionally, it aimed to gather insights from individuals experienced in entrepreneurship development and crowdfunding platforms to obtain reliable data on the feasibility of Islamic crowdfunding in Bangladesh. The study employed purposive sampling technique to select the samples that are particularly skilled and knowledgeable about the specific matter under investigation. It is important to select the right people for data collection to ensure the validity of the research (Etikan et al., 2016). A formal invitation was sent to 25 individuals, comprising 8 Shariah experts, 9 representatives from an entrepreneurship development center, and 8 officials from Bangladesh Crowdfunding Limited. However, only 9 of them (including 4 Shariah experts, 3 officials of

entrepreneurship development center and 2 crowdfunding experts from the office of Bangladesh Crowdfunding Limited) agreed to participate in the interview sessions. The interview was face to face with the active participation of the interviewees. Before the interviews began, all participants were provided with the list of questions and the study's objectives in advance. This allowed them to prepare thoroughly for the discussion. Additionally, with their consent, the interviews were recorded using an electrical device to ensure accurate documentation of the conversations. To ensure further validity, all crucial information provided by the participants was verified at the end of each interview session.

**Table 1: List of Interviewees**

Participants	Sex	Position	Organizations
P1	Male	Member, <i>Fiqh</i> Committee	Central Shariah Board for Islamic Bank
P2	Male	Member, <i>Fiqh</i> Committee	Central Shariah Board for Islamic Bank
P3	Male	Professor	Islamic University
P4	Male	Associate Professor	Islamic University
P5	Male	Financial Analyst and Startup Mentor	Centre for Entrepreneurship Development
P6	Female	Senior Manager and Start-up Mentor	Centre for Entrepreneurship Development
P7	Male	Business Development Manager and Start-up Mentor	Centre for entrepreneurship Development
P8	Male	FinTech Advisor	BD Crowd Limited
P9	Male	Financial Advisor	BD Crowd Limited

**Data Analysis**

The collected data was analyzed using a thematic approach, enabling researchers to thoroughly explore the data. This method uncovers intricate insights and identifies recurring themes (Rice and Ezzy, 1999). To generate themes, the study adhered to a series of steps recommended by Braun and Clark (2006). At first, the collected data was transcribed and meticulously read multiple times to ensure a deep understanding of the content. Following this step, initial data coding was manually performed using highlighted pens, a technique frequently employed in qualitative data analysis, as noted by Kelle (2004). In the subsequent stage, the coded lines were organized to construct preliminary (subordinate) themes. These initial themes were then cross-referenced with the corresponding data, leading to the identification of both main and subordinate themes. The next phase involved a two-tiered review process: first, the coded data under each theme was thoroughly examined, and second, each theme was verified to determine whether it qualified as a sub-theme or a main theme. Following this review, the themes were further refined, appropriately named, and adjusted based on the coded data under each theme. This meticulous process ensured that the themes accurately represented the data. The analysis process concluded with the generation of the 3 final themes, which are detailed in the table below.

**Table 2: Theme developing Process**

Theme Developing Process		
Coded lines	Name of Subordinate themes	Names of Key themes
Non-traditional source of finance for the entrepreneurs	Financial Inclusion	Prospects of Islamic Crowdfunding
Novel fundraising source that benefits project initiators by providing lower repayment costs.		
Could be a boon for those in underbanked communities.		
Enhances the socioeconomic landscape by creating employment,	Social and Economic impact	
Inspire community members to pursue businesses that align with their passions"		
Encouraging social and grassroots community projects.		
Backing efforts focused on reducing poverty and enhancing quality of life.		
Majority of the population is Muslim and readily embraces Islamic financial tools	Religious Alignment	

Opportunity for individuals seeking to raise and invest funds in a Shariah-compliant manner, avoiding		
Encourage religious entrepreneurs to acquire Shariah-compliant capital		
Commonly employed to fund charitable initiatives like constructing healthcare centers, schools, and mosques	Donation-based Crowdfunding	Potential Models of Islamic Crowdfunding
For business project, it is a challenging for an entrepreneur to secure the necessary funding.		
Can be applied with a special target for entrepreneurs with a support system, including mentoring, training modules and collaboration		
Attractive to donors who prefer to receive rewards for their contributions instead of equity or interest	Reward-based Crowdfunding	
Potentially harm their reputation in the long run		
It may not be suitable for the entrepreneur cannot demand the fund on certain date which may take long time.		
Optimal choice for Islamic crowdfunding due to its provision of a markup facility	Lending-based Crowdfunding	
<i>Qard al-hasan</i> is an excellent concept for crowdfunding; it may prove impractical for large capital needs.		
Practical financial solutions that are more readily accessible to entrepreneurs		
Might not be feasible in Bangladesh at present. The primary concern is its high risk	Equity based Crowdfunding	
Good option for the entrepreneurs but difficult to get fund under the contract of profit and loss sharing.		
Securing capital through <i>Musharakah</i> and <i>Mudarabah</i> presents significant challenges due to the heavy involvement and thorough documentation.		
Lacks legal policies on crowdfunding	Legal and Shariah Challenges	Potential Challenges of Islamic Crowdfunding
Lacks any Shariah-compliant platforms		
Traditional platforms may involve elements like <i>riba</i> , <i>gharar</i> , and other prohibited practices.		
Unfamiliar with the concept of crowdfunding.	Financial Literacy Challenges	
Hardly have any prior experience of dealing with crowdfunding platforms		
Lack of crowdfunding campaign and education programs		
Structure of crowdfunding platforms in Bangladesh is not robust enough	Technological Challenges	
Their processes are relatively slow and cumbersome,		
Weak internet connectivity in rural regions of Bangladesh		

## Findings and Discussions

### *Prospectus of Islamic Crowdfunding*

The majority of participants believe that Islamic crowdfunding represents a form of financial inclusion, offering a new source of funding for entrepreneurs. This financing option is particularly ideal for individuals who are underbanked or have limited opportunities to raise funds through traditional means. One participant remarked that "*Islamic crowdfunding in Bangladesh could be a boon for those in underbanked communities who often have great ideas but struggle to secure funds from traditional sources*" (P4). Additionally, Islamic crowdfunding offers a type of financing where repayment costs are lower, more flexible, or sometimes even nonexistent. Another participant highlighted that "*Islamic crowdfunding is a novel fundraising source that benefits project initiators by providing lower repayment costs compared to borrowing from financial institutions like banks*" (P1).

Islamic crowdfunding can make significant contributions to both society and the economy by fostering investment across various sectors and generating new job opportunities. As one respondent noted, "*Crowdfunding enhances the socioeconomic landscape by creating employment, especially once a campaign reaches its goal, enabling the business project to launch*" (P7).

Additionally, it empowers entrepreneurs to launch businesses aligned with their personal interests and aspirations. Another participant observed that *"the growth of Islamic crowdfunding might inspire community members to pursue businesses that align with their passions"* (P5).

Moreover, Islamic crowdfunding guarantees that all aspects of the investment, platform, and transactions adhere to Shariah principles at every stage of the crowdfunding process. As one respondent highlighted, *"The implementation of Islamic crowdfunding provides an opportunity for individuals seeking to raise and invest funds in a Shariah-compliant manner, avoiding prohibited elements like gharar, riba, and other unlawful practices"* (P1). Additionally, Bangladesh, being a predominantly Muslim country, has a population that holds positive and emotional sentiments towards Islamic financial instruments and processes. This cultural alignment presents a significant growth opportunity for Islamic crowdfunding. As another participant noted, *"Islamic crowdfunding is well-positioned to thrive in Bangladesh, largely because the majority of the population is Muslim and readily embraces Islamic financial tools"* (P3).

In Bangladesh, with its predominantly Muslim population that favors Shariah-compliant financing, there is significant potential to stimulate economic growth. Adopting Shari'ah-based financial models could enable the country to attract a broader range of investors and entrepreneurs, thereby fostering economic development (Uddin et al., 2022). Furthermore, Nordin and Zainudin (2023) highlighted that Islamic crowdfunding align with the objectives Shariah. This means that Islamic crowdfunding not only addresses essential needs and requirements but also supports endeavors that enhance the quality of life.

### ***Potential Models of Islamic Crowdfunding***

Several models were proposed as potential instruments for Islamic crowdfunding. The majority indicated that donation-based crowdfunding is one of the most widely used models globally. While this model is highly effective for supporting humanitarian efforts and philanthropic projects, it is less suited for financing business ventures. One interviewee reported that *"Donation-based crowdfunding is commonly employed to fund charitable initiatives like constructing healthcare centers, schools, and mosques. However, it is less appropriate for supporting business ventures, as securing investment for such projects through this model can be challenging"* (P6). Similarly, another participant replied *"The donation-based crowdfunding model is well-suited for charity-driven projects. For business project, it is a challenging for an entrepreneur to secure the necessary funding"* (P9). Zhao and Sun (2020) earlier found that donation-based crowdfunding may face challenges because contributors do not receive any returns on their contributions.

Some interviewees suggested that reward-based crowdfunding could be an appealing option for investors, as it provides them with rewards in return for their contributions, unlike donation-based funding. One participant noted, *"This model of Islamic crowdfunding could be particularly attractive to donors who prefer to receive rewards for their contributions instead of equity or interest. Therefore, I believe it is well-suited for financing entrepreneurs in Bangladesh"* (P5). However, some interviewees expressed concerns that the reward-based crowdfunding model might not be ideal for entrepreneurs. They argued that raising funds through this model can be challenging and time-consuming, potentially leading to discouragement for entrepreneurs. Additionally, there is a concern that it might negatively impact their brand value over time. One respondent mentioned, *"For entrepreneurs, raising funds through the reward-based model can be time-consuming. There is a risk that they might not receive the funds by the required deadline, which could delay their projects and potentially harm their reputation in the long run. Relying on crowdfunding may also negatively impact their credit ratings"* (P8).

In Bangladesh, lending-based Islamic crowdfunding stands out as the most effective model due to its diverse financing options, including *Murabahah, Ijarah, and Qard al-hasan*. These methods not only cater to different investment preferences but also guarantee returns for investors, with



the exception of *Qard al-hasan*, which promotes charitable lending. Additionally, this approach presents lower risk compared to equity-based models, making it more appealing to potential investors. One entrepreneur highlighted that *"utilizing the Murabahah contract within the Bangladeshi context represents the optimal choice for Islamic crowdfunding due to its provision of a markup facility for investors"* (P3). Another interviewee remarked that *"Ijarah and Murabahah-based crowdfunding are practical financial solutions that are more readily accessible to entrepreneurs compared to other methods, while also posing less risk to investors"* (P3). *Qard al-hasan* may not be ideal for entrepreneurs seeking large amounts of capital, as it is a form of charitable financing that doesn't accrue interest. One participant noted, *"While Qard al-hasan is an excellent concept for crowdfunding, it may prove impractical for large capital needs. However, it can be effective for smaller capital requirements"* (P1). Similarly, Aderemi and Ishak (2023) previously argued that *Qard al-hasan* might be an ineffective tool in Malaysia due to its prohibition of usury on the provided capital.

Equity-based crowdfunding, grounded in the profit and loss sharing concept, is a key Shariah-compliant model. However, it may not be suitable for Bangladesh due to its inherently high risk. While it could be a viable option for entrepreneurs, the extensive documentation and formalities required to attract investors make it time-consuming and inconvenient. Additionally, Bangladesh currently has only one equity-based crowdfunding platform that hardly operates in a Shariah-compliant manner. One entrepreneur mentioned that *"implementing Islamic equity-based crowdfunding, such as Mudarabah, might not be feasible in Bangladesh at present. The primary concern is its high risk, where investors bear the losses unless there's proven negligence by the entrepreneurs. Furthermore, there is currently only one equity-based platform in Bangladesh, which operates on conventional principles"* (P7). Another participant pointed out that *"securing capital through Musharakah and Mudarabah presents significant challenges due to the heavy involvement and thorough documentation needed. For investors, these instruments carry the highest risk compared to other available options"* (P5). In a similar vein, an earlier study revealed that *Mudarabah* remains linked to excessive risk, which may dissuade both investors and platforms from adopting this model (Ishak and Nasir, 2024).

### **Potential Challenges of Islamic Crowdfunding**

Implementing Islamic crowdfunding in Bangladesh may encounter several potential challenges, including legal and Shariah compliance challenges, financial literacy challenges, and technological challenges. A major obstacle is the legal landscape, as the country currently lacks comprehensive policies and regulations specifically addressing crowdfunding. As a result, both entrepreneurs and investors may feel uncertain and hesitant when engaging with Islamic crowdfunding operation. One entrepreneur pointed out, *"Bangladesh currently lacks legal policies on crowdfunding, raising concerns about fairness and transparency in the sector. As a result, the industry has yet to earn the trust of both investors and entrepreneurs"* (P9). Similarly, another participant stated that *"Bangladesh does not have proper regulatory framework for crowdfunding, which may restrict the initiatives or development of Islamic crowdfunding in recent time"* (P6). Thus, Islam and Khan (2021) previously noted that the success of crowdfunding hinges on the involvement of end-users. In Bangladesh, there is a notable concern regarding online transactions. Therefore, people hardly have trust on crowdfunding platform.

A significant challenge for Islamic crowdfunding in Bangladesh is related to Shariah compliance. This is primarily because there are very few crowdfunding platforms in the country, and those that exist are generally based on conventional principles. Consequently, maintaining adherence to Shariah principles in every Islamic crowdfunding transaction proves to be difficult. Consequently, religious entrepreneurs and investors may be reluctant to engage with the existing crowdfunding platforms. One participant replied that *"The primary concern for Islamic crowdfunding is Shariah compliance, as the country currently lacks any Shariah-compliant platforms. While there are some donation-based or equity-based platforms, they are not required to*

*adhere to Shariah principles. As a result, religious entrepreneurs and investors might hesitate to participate in the current crowdfunding platforms" (P5). Another interviewee highlighted, "Bangladesh still lacks Shariah-compliant platforms, making the implementation of Islamic crowdfunding challenging. Traditional platforms may involve elements like riba, gharar, and other prohibited practices" (P7). To attract Muslim investors, crowdfunding must ensure that its fundraising activities and instruments are entirely free from Shariah-related issues (Ishak and Nasir, 2024).*

Another frequently mentioned barrier of Islamic crowdfunding may be the lack of financial literacy. This issue stems from the fact that many entrepreneurs and investors in Bangladesh are unfamiliar with crowdfunding concepts. Additionally, numerous entrepreneurs lack prior experience with crowdfunding practices. Consequently, they may feel hesitant to deal with crowdfunding platform. One of the participants mentioned that *"Many entrepreneurs of Bangladesh are not financially literate. They hardly have any prior experience of dealing with crowdfunding platforms. As a result, Islamic crowdfunding may face difficulty to get positive response from the entrepreneurs" (P8).* Therefore, there is need of promotional campaign and training programs to promote the implementation and growth of crowdfunding in Bangladesh. One participant mentioned that *"Many people, particularly in rural areas, are unfamiliar with the concept of crowdfunding. Therefore, initiating a promotional campaign is crucial to drive the growth of crowdfunding in Bangladesh" (P6).* Similarly, Suresh et al. (2020) emphasized the importance of launching awareness and training campaigns in Bangladesh to familiarize people with crowdfunding functions and platforms.

Technological challenges in Islamic crowdfunding in Bangladesh are significant, as highlighted in the interviews. Since crowdfunding relies heavily on the internet and technology, there is a risk of fraud and cyber-crime. Additionally, the current infrastructure and security systems of crowdfunding platforms are not well-developed, leaving them vulnerable to potential cyber-attacks. One entrepreneur remarked, *"The structure of crowdfunding platforms in Bangladesh is not robust enough, which increases the risk of cyber-crime and fraudulent activities" (P8).* Additionally, while Bangladesh has a limited number of crowdfunding platforms, the transaction processing tends to be quite slow. As one participant noted, *"Currently, there are only four crowdfunding platforms in Bangladesh, and their processes are relatively slow and cumbersome, requiring extensive documentation and formalities" (P6).* Due to this, it increases dissatisfaction among the investors as well as entrepreneurs. Additionally, the internet infrastructure in Bangladesh, particularly in rural areas, is inadequate. This poor connectivity poses challenges for many entrepreneurs attempting to engage in online crowdfunding transactions. As one interviewee pointed out, *"Weak internet connectivity in rural regions of Bangladesh discourages many entrepreneurs from participating in online crowdfunding activities" (P9).* Hence, Chao et al. (2020) emphasized that robust internet connectivity is essential for the widespread adoption of crowdfunding. This necessity arises because crowdfunding platforms are heavily reliant on internet access and social media interactions.

## **Conclusion**

To conclude, crowdfunding in Bangladesh is still in its early stages. As a developing nation, Bangladesh holds significant potential for growth in crowdfunding, especially in Shariah-compliant financing, due to religious sentiments, new avenues for financial inclusion, and socio-economic factors. However, the implementation of Islamic crowdfunding in the country faces substantial challenges, including legal and Shariah compliance obstacles, issues related to financial literacy, and technology-related hurdles. Overcoming these challenges can make Islamic crowdfunding an attractive financing and investment option for both entrepreneurs and investors. Among the various models, asset-based (lending-based) Islamic crowdfunding models, such as *Mudarabah* and *Ijarah*, are considered more suitable and effective. These models not only provide capital or assets to entrepreneurs but also yield financial returns for fund providers.

Additionally, reward-based crowdfunding can be applicable to some extent in Bangladesh, as it offers fund providers returns in the form of rewards. In contrast, equity-based crowdfunding has limited potential due to its high level of risk.

### ***Theoretical and Applied Implications***

This study thematically explores the potential for Islamic crowdfunding in Bangladesh. The findings can significantly contribute to the existing crowdfunding literature by introducing a fresh dimension and deepening the understanding of this emerging field. Additionally, this study reveals the applicability of each model by analyzing their effectiveness from various perspectives. It may enhance the knowledge of students, teachers, and researchers, especially those with an interest in crowdfunding. Policymakers could leverage the outcomes of this research to address recognized challenges, enabling them to make and implement updated policies and guidelines for the crowdfunding sector. Entrepreneurs may utilize the insights gained to enhance their comprehension of the functions and processes within the crowdfunding landscape. Furthermore, training and campaign providers can use these insights to design more effective programs and campaigns.

### ***Notable Limitations and Future Research Directions***

This research was exploratory, typically yielding preliminary findings. These findings are often tentative and should not be considered conclusive, as they are meant to provide a foundational understanding rather than definitive answers. Another limitation of this study is its sample size, as it only included interviews with 9 participants. Consequently, the findings may not accurately represent the broader economic scenario. Future research should encompass a larger sample size to achieve more comprehensive results. Additionally, the data was coded and analyzed manually, which may introduce biases based on personal preferences and judgment. To obtain more reliable results, subsequent research should employ updated software packages for data analysis.

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