



# Islamic Crowd Funding: Opportunities and Challenges

**Faheem Ahmed**

President–Strategic Planning and Global Relationships

**Islamic International Rating Agency – Bahrain**

*November 3, 2019*



# Crowd Funding

- The concept of 'soliciting capital directly from the investors' is not new;
- Although remained unregulated till The Great Depression, the practice dates back to the 18<sup>th</sup> century;
- Regulatory Reforms of 1930s restricted P2P investments and lending;
- Crowd funding revived with the recent advancements in technology and enabling regulatory environment post Global Financial Crisis of 2008;
- Crowd funding reportedly achieving triple-digit growth in the last decade with UK, China and US in the lead;
- Most activity being witnessed in debt-financing to individuals and SMEs;

## Top 5 Crowd funding Platforms

1. Kickstarter.
2. Indiegogo.
3. Patreon.
4. GoFundMe.
5. Crowdrise.



# Crowd Funding

- With the presence of regulatory obstacles and inherent riskiness, equity-based crowd funding remains lackluster.

Alternative Finance in the UK, the EU and North America (NA), 2015 [in million]

Country/ region	Loan-based crowdfunding				Investment-based crowdfunding			Prepayment or reward based crowd funding	Donation based crowd funding	Total
	P2P business lending	P2P business lending (real estate)	P2P consumer lending	Invoice trading	Equity based crowd funding	Equity based crowd funding (real estate)	Debt based securities			
UK [GBP]	£881 28%	£609 20%	£909 29%	£325 10%	£245 8%	£87 3%	£6 0%	£42 1%	£12 0%	£3,116 100%
EU [EUR]	€1,182 34%	€1,330 38%	€349 10%	€422 12%	€103 3%	€97 3%	€25 1%	€3,508 100%		
NA [USD]	\$2,620 8%	\$783 3%	\$25,750 83%	\$33 0%	\$598 2%	\$484 2%	\$658 2%	\$216 1%	\$31,132 100%	

Source: Islamic Financial Services Industry Stability Report, 2017 by IFSB





# Shari'a Principles & Crowd Funding

- Direct P2P financial activity allows greater communication among parties and higher trust and transparency encouraged in Shari'a principles;
- Social solidarity dimension of crowd funding that enables regular and direct interaction between parties also contributes towards reduction in transaction cost;
- With regulatory initiatives by various Islamic countries like Malaysia, Turkey, Morocco, Bahrain etc. and formation of Islamic FinTech Alliance, Islamic crowd funding is gaining grounds;
- IFSB's research indicates that of 80 originating from OIC member states:
  - the number of non-charity based platforms that explicitly refer to Shari'a is very small;
  - A very small number of platforms could be termed as 'active'..



# Regulating Islamic Crowd Funding Market

- Major areas of consideration while regulating Islamic crowd funding markets:
  - Shari'a compliance confirmation;
  - Risk assessment of investment seekers and the transaction;
  - Determination of risk profiles of funding providers & seekers,
  - Nature of contracts drawn with clear assumption of liabilities, guidelines on over-/ under-subscriptions and legal recourse;
  - Disclosure guidelines for local and cross-border seekers;
  - Mechanisms for post-investment surveillance throughout the life of the transaction;
  - Provisions for emergency exit and nature of compensations in cases of contractual breaches or technology failures;
  - In addition to determining obligations of CF platforms, considering engagement of qualified 3<sup>rd</sup> parties where required; Examples could be Governance, Social and Environmental Evaluators.



THANK YOU

