

# An Empowerment Model of Islamic Crowdfunding Based Charity to Optimize Microfinancing for SMEs

Noor Aznaim Abd Latib<sup>1\*</sup>,

*Academy Contemporary of Islamic Studies, Universiti Teknologi MARA, 40450 Shah Alam, Malaysia  
aznaim@uitm.edu.my*

Siti Nor Amira Mohamad<sup>2</sup>,

*Academy Contemporary of Islamic Studies, Universiti Teknologi MARA, 40450 Shah Alam, Malaysia  
sitinoramira@uitm.edu.my*

Amal Hayati Ishak<sup>3</sup>,

*Academy Contemporary of Islamic Studies, Universiti Teknologi MARA, 40450 Shah Alam, Malaysia  
amalhayati@uitm.edu.my*

Zainur Nadiyah Binti Baharudin<sup>4</sup>

*Academy Contemporary of Islamic Studies, Universiti Teknologi MARA, 40450 Shah Alam, Malaysia  
zainadia90@uitm.edu.my*

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## ARTICLE INFO

### *Article history:*

Received 3 March 2026  
Revised 14 March 2026  
Accepted 16 March 2026  
Published 31 March 2026

### *Keywords:*

Cash Waqaf  
Hibah  
Islamic Crowdfunding,  
Islamic Microfinancing,  
Qard Al-Hassan.

### *DOI:*

<https://doi.org/10.24191/jhsmr.v2i1.10904>

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## ABSTRACT

Crowdfunding has emerged as an important alternative financing mechanism for Small and Medium Enterprises (SMEs) in Malaysia. However, many early-stage micro entrepreneurs remain financially excluded from conventional banking systems due to stringent collateral requirements, limited credit histories and institutional lending constraints. This financing gap continues to hinder the development and sustainability of grassroots enterprises. In a Muslim majority context, Islamic crowdfunding presents a viable Shariah compliant mechanism that mobilizes community based financial resources to support entrepreneurial development. This study theoretically examines charity based Islamic crowdfunding models as a strategy to optimize microfinancing for early-stage entrepreneurs who lack access to formal financial services. Using a qualitative approach, the research analyzes the integration of Shariah compliant contracts within digital crowdfunding platforms to assess their functional role in supporting Malaysian micro entrepreneurship. The findings suggest that the synergistic application of *hibah*, *qard al-hasan*, *cash waqf* and *murabahah* contracts enhances monetary circulation and provides SMEs with accessible asset backed liquidity. In addition, digital Islamic crowdfunding platforms overcome geographical limitations and facilitate the mobilization of social wealth for grassroots economic development. The study ultimately proposes a conceptual empowerment model that supports the transition of micro entrepreneurs from financial dependency to economic resilience. By leveraging Shariah compliant financial instruments, the proposed model contributes to strengthening

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\*Corresponding author. E-mail address: [aznaim@uitm.edu.my](mailto:aznaim@uitm.edu.my)

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financial inclusion and establishing a sustainable community driven ecosystem for marginalized businesses outside the formal banking sector.

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## INTRODUCTION

Small and Medium Enterprises (SMEs) have been the backbone of economic growth of many economies. In Malaysia too, SMEs have played a role in contributing to the economy. However, SMEs contribution to Malaysian GDP is still comparatively low. According to the recent statistics from Department of Statistics, Malaysia and SME Corp. Malaysia, SME GDP growth expanded at a moderate pace of 5.8% in 2019 as compared to 6.2% in the preceding year, in line with Malaysia's economic slowdown in 2019 due to the challenging global economic environment and domestic supply disruptions. Most of the literature has discussed similar problems facing SMEs. The existing literature has highlighted many SMEs face the problem of accessing finance (SME Masterplan, 2012-2020).

Small and Medium Enterprises (SMEs) in Malaysia face significant challenges in accessing external financing, as they are often perceived as high risk and costly borrowers (Beck & Demirguc Kunt, 2006). Credit constraints, including information asymmetry, collateral requirements, and high transaction costs, further limit SMEs' access to formal finance (Ayyagari et al., 2008; OECD, 2018). Additionally, rigid financing procedures prevent many entrepreneurs from fully benefiting from microfinance services. In this context, continuing subsidies such as low-cost funding injections may be necessary to help financial institutions achieve sustainability and expand outreach (Armendáriz & Morduch, 2005). Nevertheless, overreliance on subsidies has also been identified as a constraint on the long-term growth of microfinance institutions.

Access to external financing is a major challenge for Small and Medium Enterprises (SMEs) in Malaysia. The Census of Establishments and Enterprises reports that over 19 percent of SMEs face difficulties obtaining financing due to insufficient documentation (Department of Statistics Malaysia 2017). Financial institutions evaluate creditworthiness based on financial history (Beck & Demirguc Kunt, 2006; Ayyagari et al., 2008). Many SMEs, especially startups, lack financial records which classify them as high-risk borrowers (Ramlee & Berma, 2013).

The quality of business plans is often below the standards required by financial institutions (SME Corporation Malaysia 2012). Banks and microfinance providers charge higher interest rates to compensate for limited information, small loan volumes and lack of collateral (Nasrul Hakim Ghazali, 2018). For example, Agro Bank, Maybank, Public Bank and SME Bank offer microfinancing at rates of 5 to 8 percent while Amanah Ikhtiar Malaysia charges about 10 percent.

Crowdfunding offers an alternative way to overcome financing barriers (Mollick 2014; Belleflamme et al. 2014). It can increase financial inclusion for micro entrepreneurs and startups without access to conventional credit. Islamic crowdfunding models such as sadaqah, hibah, zakat, waqf and qard al-Hasan loans allow fund mobilization while adhering to Shariah principles (Lutfi & Ismail, 2016; Aderemi & Ishak, 2020). Equity based crowdfunding can use Mudarabah or Musharakah contracts, and debt-based crowdfunding can use Murabahah or Tawarruq structures (Md Faudzi et al., 2021).

Shariah compliant crowdfunding can achieve both social and entrepreneurial goals. It provides funding for SMEs and micro entrepreneurs excluding formal financial services (Mohieldin, Iqbal et al., 2011). This approach addresses the financing gap and promotes sustainable micro-enterprise development in Malaysia (Ledgerwood, 2013).

## **METHODOLOGY**

This study adopted a qualitative descriptive analytical design executed systematically through three main phases (Creswell & Poth, 2018; Yin, 2018).

### **Research Design**

This study adopted a qualitative literature review approach to develop a conceptual framework for donation based Islamic crowdfunding applicable to SMEs. A qualitative literature review synthesizes existing theoretical and empirical studies to build comprehensive insight into a field making it suitable for exploring multifaceted financial mechanisms such as Islamic crowdfunding (Purwatiningsih et al., 2024; Kamarubahrin et al., 2023).

### **Article Selection and Data Collection**

The literature search was conducted systematically across recognized academic databases, focusing on peer reviewed articles, theoretical papers and empirical studies published between 2018 and 2025 on donation-based crowdfunding and Shariah compliant finance (Kamarubahrin et al., 2023).

### **Model Development Process**

The model was constructed using inductive reasoning moving from specific concepts to broader themes and an integrated framework. Key concepts were coded grouped into themes and synthesized to show interactions between Shariah compliant crowdfunding models and their applicability to SMEs (Purwatiningsih et al., 2024).

### **Data Analysis and Thematic Development**

Selected articles were analyzed through narrative synthesis to identify patterns and relationships among Islamic crowdfunding models. Main themes included donation-based practices, Shariah aligned operations and platform challenges (Kamarubahrin et al., 2023).

### **Validation and Credibility of Findings**

To ensure the credibility of the findings, the review employed cross-verification of themes across multiple sources, reducing the risk of bias arising from reliance on a single study or dataset. By comparing concepts across different literature streams such as systematic reviews of donation based crowdfunding and empirical examinations of platform practices the synthesized framework reflects a comprehensive understanding of both theoretical discourse and practical implications (Purwatiningsih et al., 2024; Kamarubahrin et al., 2023).

## **RESULTS AND DISCUSSION**

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

The findings of this study indicate that donation-based crowdfunding can be operationalized within a Shariah-compliant framework through the integration of multiple Islamic finance contracts each serving distinct functions in the platform ecosystem. Donation based models such as hibah and waqf mobilize resources ethically and transparently aligning with Islamic philanthropic principles and enhancing community welfare (Kamarubahrin et al., 2023). Hibah provides unconditional financial support without repayment obligations, making it suitable for early capital mobilization for socially beneficial initiatives. Digital waqf crowdfunding also supports sustainable funding streams through pooled contributions that are managed online and reinvested or redistributed for long term community impact. Such integration enables

crowdfunding platforms to support various SME financing needs without contravening Shariah principles related to *riba* and *gharar*.

### Stakeholder Roles in Operational Workflow

Stakeholder roles in an Islamic crowdfunding platform are clearly defined to ensure efficiency and Shariah compliance. Donors allocate funds to designated pools based on their philanthropic intent, such as *hibah* for unconditional support or *waqf* for long-term endowments (Kamarubahrin et al., 2023). Entrepreneurs submit project proposals, screened for compliance while platform operators manage listings conduct compliance checks and oversee fund disbursement under a Shariah Advisory Board. Trustees may oversee segregation of *hibah*, *qard al-hasan* and *waqf* pools ensuring transparency and accountability.

### Complementarity Between Crowdfunding Models

Different Islamic financing models enhance platform flexibility. *Qard al-hasan*, an interest free benevolent loan complements donation-based contributions by providing short-term working capital to SMEs without imposing financial burdens (Aderemi & Ishak, 2020). *Waqf* based crowdfunding empowers specific groups by pooling *waqf* resources into microfinance tools reinforcing community support (Karakulah & Muneeza, 2024). Combining *hibah* for initial funding, *qard al-hasan* for operational liquidity and *waqf* for ongoing capacity creates a graduated support cycle for SMEs at various business stages.

### Capital Flow and Economic Impact

Funds flow from donors to designated pools such as *hibah* or *waqf*. *Hibah* contributions are disbursed to eligible projects without repayment, facilitating early-stage access. *Qard al-hasan* pools issue interest free loans, and repaid funds are reinvested in subsequent financing cycles. *Waqf* pools provide a sustainable base for micro credit disbursements and continuous reinvestment (Lutfi & Ismail, 2016; Karakulah & Muneeza, 2024). This structured flow ensures resources circulate within the ecosystem promoting financial inclusion and socio-economic justice.

### The Innovation of an Islamic Crowdfunding Charity Model Based on Hibah

*Hibah*, derived from the Arabic *wahaba*, is an unconditional transfer of asset ownership without expectation of compensation (Said & Saad, 2016). Unlike *wasiyyah*, which is capped and restricted to non-heirs, *hibah* allows donors flexibility in allocating wealth to chosen beneficiaries (Said & Saad, 2016). Integrating *hibah* into digital crowdfunding platforms addresses literature gaps, operationalizing it as a macro-level instrument to mobilize capital for societal impact (Kamarubahrin et al., 2023). Figure 1 shows the illustration on the model.

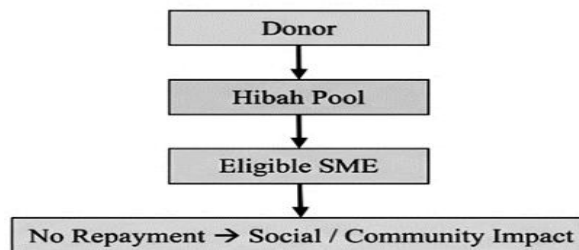


Fig. 1. Hibah Based Crowdfunding Model  
Sources: Author

Despite these structural advancements, academic exploration regarding the integration of *hibah* into digital crowdfunding ecosystems remains remarkably scarce. Conceptualizing a *hibah* based crowdfunding

framework directly addresses this literature gap, repositioning the contract from a localized personal estate planning tool to a macro-level socioeconomic instrument. By leveraging this digital architecture, the Muslim community can operationalize hibah as a proactive mechanism to mobilize idle capital and generate tangible societal impact. Given that timing is a critical component of effective wealth distribution, this proposed model facilitates early and strategic allocation, ensuring that targeted beneficiaries and the broader grassroots economy receive vital financial empowerment at the most opportune moments.

### The Innovation of an Islamic Crowdfunding Model Based on Qard al-Hasan

Qard al-hasan is widely recognised as an important instrument within the framework of Islamic social finance due to its role in promoting financial inclusion and socio-economic justice. As a benevolent loan extended without interest, it enables individuals with limited financial capacity to obtain access to capital without incurring additional financial obligations. This mechanism allows economically disadvantaged groups to engage in productive economic activities while supporting broader efforts aimed at poverty alleviation and equitable wealth distribution. Within Islamic economic thought, qard al-hasan is therefore closely associated with initiatives that strengthen community welfare and encourage inclusive economic participation within the wider development of Islamic financial institutions (Aderemi & Ishak, 2020; Obaidullah & Khan, 2008; Abd Latib & Taquiuddin, 2018).

Despite its social value, the implementation of qard al-hasan presents several practical challenges. Previous studies indicate that institutions offering qard-based financing frequently encounter issues related to repayment risk, limited funding sustainability, and the administrative costs involved in monitoring and managing loan disbursements (Obaidullah & Khan, 2008). Furthermore, inflation may gradually reduce the real value of the principal amount which can affect the long-term sustainability of such financing mechanisms. Nevertheless, the prohibition of riba in Islamic finance reinforces the continued relevance of qard al-hasan as an ethical financing alternative that prioritises social welfare rather than profit maximisation.

In contemporary financial environments, the philanthropic nature of qard al-hasan makes it compatible with emerging digital financial innovations, particularly Islamic crowdfunding platforms. Participation in these initiatives is often motivated not only by economic considerations but also by the expectation of spiritual reward. Consequently, integrating qard al-hasan within crowdfunding frameworks offers a viable mechanism for mobilising community based financial resources while maintaining compliance with Shariah principles. The proposed conceptual model for this framework is illustrated in Figure 2.

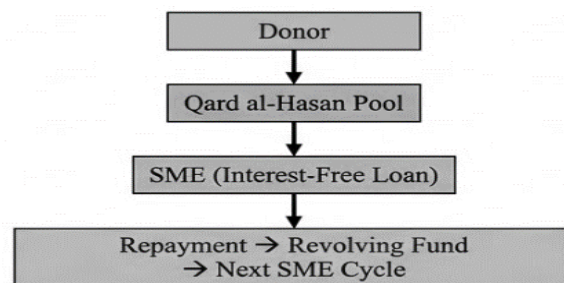


Fig. 2. Qard Al-Hasan Based Crowdfunding Model

Source: Author

### The Innovation of Islamic Crowdfunding based on Cash Waqf

Historically, the administration of waqf in Malaysia has evolved from the colonial era to a centralized system under the State Islamic Religious Councils (SIRCs). By the 1970s, SIRCs became the sole trustees for waqf assets across all thirteen states. Despite this centralized management, administrative issues regarding asset liquidity and operational efficiency persist. Crowdfunding offers a digital solution to these challenges by mobilizing financial resources through the internet. This mechanism involves open solicitations for donations or capital in exchange for rewards or voting rights (Azganin et al., 2021). Microfinance Institutions (MFIs) act as key project initiators within the crowdfunding ecosystem. The role of MFIs in this model differs from conventional waqf institutions. While traditional models often invest capital into fixed assets to generate long term returns, MFIs utilize crowdfunded cash waqf as a direct microcredit pool for poor entrepreneurs (Azganin et al., 2021). This approach ensures that capital is immediately utilized to empower small scale businesses through Shariah compliant contracts.

The operational framework begins with a digital campaign. Collected funds are transferred to a dedicated waqf account managed by a specific division. These funds are then disbursed as micro-loans to entrepreneurs. Once the business is established the borrower repays the principal and a profit margin in installments. The profit portion is distributed to beneficiaries as a donation, while the principal is returned to the waqf pool. This creates a revolving fund, allowing the capital to be reinvested in subsequent entrepreneurs. Figure 3 illustrates this cash waqf based crowdfunding model.

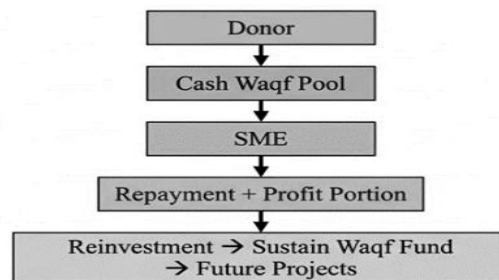


Fig. 3. Cash Waqf Based on Crowdfunding Model

Source: Author

### The Innovation of Islamic Crowdfunding based on Murabahah

Crowdfunding fundamentally aligns with Islamic commercial jurisprudence. Most crowdfunding typologies are consistent with Shariah principles, provided they exclude interest-based mechanisms. Lending based crowdfunding remains prohibited due to fixed interest rates, which constitute *riba*. In contrast, *murabahah* reflects the ethical spirit of Islamic finance through trade-based transactions. Islamic crowdfunding platforms often utilize *murabahah* contracts to facilitate capital movement. A *murabahah* contract is a cost-plus sales agreement where the financier and the entrepreneur agree on a specific profit markup (Ishak & Rahman, 2021). Since this structure is based on a tangible asset purchase rather than a monetary loan, it remains interest free and Shariah compliant. This mechanism ensures that funding is tied to real economic activities. The *murabahah* based model expands capital access for a wide range of entrepreneurs. This approach effectively narrows the funding gap for micro enterprises. Furthermore, it minimizes systemic risk by distributing capital across various startups instead of concentrating it in a single venture. This model also fosters innovation, retains local talent and stimulates job creation through asset backed financing. Islamic crowdfunding integrates donors, investors and entrepreneurs into a cohesive socio-economic development ecosystem. This synergy empowers the micro and small enterprise sector by providing ethical financing alternatives. Consequently, *murabahah* serves as a viable operational model for crowdfunding, structured as shown in Figure 4.

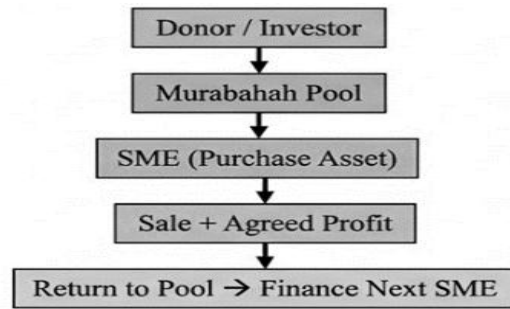


Fig. 4. Murabahah Crowdfunding Model

Source: Author

### The Empowerment Cycle

To address the persistent funding gap and structural vulnerabilities faced by early-stage micro entrepreneurs, this study introduces a hybrid empowerment framework. Building upon the theoretical synthesis of Islamic social finance, the proposed model transitions away from conventional debt-based microcredit toward a sustainable, asset backed ecosystem.

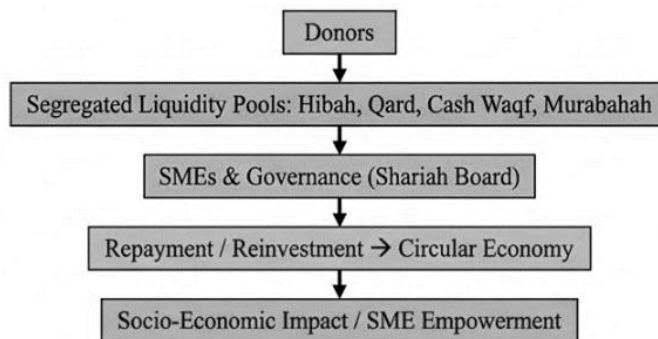


Figure 5: SME Empowerment Cycle

Source: Author

Figure 5 delineates the structural architecture of the proposed SME Empowerment Cycle, synthesizing charity based philanthropic and commercial Islamic finance instruments into a cohesive digital ecosystem. Capital is crowdsourced and segregated into three risk aligned liquidity pools namely hibah, qard al-hasan, and cash waqf to democratize access for vulnerable micro enterprises without imposing immediate debt burdens (Abdeldayem, 2022; Aderemi and Ishak, 2022). To optimize this microfinancing and mitigate moral hazard, the intermediation strategy shifts from conventional cash disbursement to asset backed financing via murabahah contracts, ensuring funds strictly stimulate tangible economic productivity (Hanim et al., 2018; Marzban et al., 2014). Finally, the framework culminates in a dual impact circular economy where deferred principal repayments sustain the revolving liquidity pools (Azganin et al., 2021), while a designated fraction of the profit margin institutionalizes an SME Healthcare Fund. This strategic allocation provides a critical socio-economic safety net, insulating micro entrepreneurs from health induced financial shocks and solidifying a practical graduation pathway toward systemic economic empowerment.

## CONCLUSION

Crowdfunding has emerged as an important digital financing mechanism that connects entrepreneurs and social initiatives directly with a broad base of contributors. Online platforms allow small enterprises and underserved communities to access funds that are often unavailable through traditional financial institutions. Recent evidence suggests that crowdfunding can enhance financial inclusion and provide opportunities for economic participation in groups that are usually excluded from formal finance (Kamaruddin et al., 2023). The model developed in this study offers a structured charity-based approach for Islamic crowdfunding. It combines several Shariah compliant instruments, including hibah, qard al-hasan and cash waqf to mobilize funds for socially beneficial initiatives. The framework supports community welfare, equitable wealth distribution and social solidarity. In addition, entrepreneurial repayments are used to fund healthcare support for participants, extending the social impact of the model beyond financial assistance. Islamic financial institutions should focus on developing digital financial products that are accessible to underserved communities and align with Shariah principles. Institutions also need clear governance and risk management practices to handle challenges such as cybersecurity risks, fraud and operational sustainability. Strengthening these areas will help ensure that digital crowdfunding platforms remain reliable and trustworthy. Policymakers have a role in creating an enabling environment for Islamic crowdfunding. Regulatory frameworks should provide clear guidance on Shariah compliance licensing procedures and operational standards. Simplifying administrative processes and reducing barriers can encourage participation from entrepreneurs' investors and social organizations. A supportive regulatory environment can help Islamic crowdfunding grow while promoting financial inclusion and social development.

## ACKNOWLEDGEMENTS/FUNDINGS

The authors would like to acknowledge the support of the Academy of Contemporary Islamic Studies, Universiti Teknologi Mara (UiTM), Shah Alam, Selangor, Malaysia, for providing the facilities and financial support for this research.

## CONFLICT OF INTEREST STATEMENT

The authors agree that this research was conducted in the absence of any self-benefits, commercial or financial conflicts and declare the absence of conflicting interests with the funders.

## AUTHORS' CONTRIBUTIONS

Noor Aznaim Abd Latib led the conceptual design and initial drafting of the study specifically developing the empowerment model for SMEs. Siti Nor Amira Mohamad managed the qualitative methodology and data synthesis focusing on the analysis of shariah compliant contracts. Amal Hayati Ishak provided critical revisions and academic proofreading to ensure clarity and rigour. Zainur Nadia reviewed the final version and took collective responsibility for the manuscript.

## DECLARATION OF GENERATIVE AI THE WRITING PROCESS

In the process of preparing this article, the researchers declare that we did not use AI for data collection, data analysis, or the preparation of research results. All data and information used in this study were obtained through a literature review of scientific journals relevant to the research topic. The use of AI in

this paper was limited to technical aspects, such as assisting in structuring sentences to be adjusted with the scientific writing system (IMRAD) and to improve the grammar writing.

#### DATA AVAILABILITY STATEMENT/ SUPPLEMENTARY DATA

The author confirms that all data generated or analysed during this study are included in this published article.

#### ETHICS STATEMENT

I testify that our submitted article followed ethical principle.

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