Developing Inclusive and Sustainable Economic and Financial Systems

Access to Finance and Human Development—Essays on Zakah, Awqaf and Microfinance

Volume 1

SELECTED PAPERS PRESENTED TO THE 8TH AND 9TH INTERNATIONAL CONFERENCE ON ISLAMIC ECONOMICS AND FINANCE

جامعة حمد بن خليفة
HAMAD BIN KHALIFA UNIVERSITY

كلية الدراسات الإسلامية في قطر
QATAR FACULTY OF ISLAMIC STUDIES

Crowdfunding in Islamic finance and microfinance: A case study of Egypt

Inmaculada Macias Alonso
Saudi-Spanish Center for Islamic Economics and Finance, IE Business School, Madrid, Spainm,
E-mail: inmaculada.macias.alonso@gmail.com

Abstract - The changing political scene in North Africa is resulting in a much greater interest in Islamic finance and what it has to offer. The modern practice of Islamic finance started in Egypt with the Mit Ghamr experiment of 1963. This project had a strong focus on development and provided micro-savings and micro-loans before microfinance was conceptualized as such in the 1970s. Nowadays, Egypt has the potential to develop a new homegrown model focused on development that could avoid cosmetic "Islamic" finance. Profit and loss sharing formulas can make both Islamic finance and Islamic microfinance real alternatives to both conventional finance and microfinance, and ones that can address new niches of population and promote entrepreneurship and SMEs. It is estimated that by 2020, the North African region needs to create 75 million jobs. In this context, the promotion of entrepreneurship and micro-entrepreneurship might be the only effective vehicle for economic development. Crowdfunding is the collective effort of individuals who network and pool their money to support a wide variety of activities, including startup company funding. Two internet-based platforms, Shekra and Yomken, have recently been established in Egypt as the first Islamic finance and Islamic microfinance crowdfunding platforms of the region, respectively. These examples, inspired by the Mit Ghamr project, show interesting innovations within both industries. Interestingly, while being Shariah-compliant, neither of them uses the label "Islamic", showing a distinctive ideological trend that emphasizes quality service, partnership, risk-sharing, and social impact. The latter are ingredients that allow both Islamic finance and Islamic microfinance to think beyond the boxes of their conventional counterparts.

Keywords: crowdfunding, Islamic microfinance, Islamic finance, development, Egypt, Mit Ghamr

1. Introduction

In the context of Egypt since the 2011 revolution, this paper explores the relationship between the two fast-growing industries of Islamic finance and crowdfunding, through a case study of the Shariah-compliant crowdfunding platforms, Shekra and Yomken. These examples provide the possibility of a fruitful common ground between the Islamic finance and crowdfunding industries. Both Islamic finance institutions and crowdfunding platforms have increased in number and availability worldwide in recent years. While the growth of the former reflects the increasing demand by certain segments of the world's 1.3 billion Muslims for Shariah-compliant products,[1] the growth of the latter shows its viability for attracting much-needed investment for businesses and entrepreneurs.

In order to approach this subject, interviews were used with key players in the Islamic finance/microfinance field, including organizations, and crowdfunding platforms. I also used private and public economic reports, conference material, books, and articles relevant to the field. The paper is focused on the events between January 2011 and May 2013.

2. Islamic finance in Egypt

Egypt accounts for about 9% of the Arab world's GDP and its banking system is one of the largest in the region. However, nowadays, Shariah-compliant assets represent only 5% of Egypt's total bank assets.[2] The example of Mit Ghamr's Savings Association[3] – the first Islamic bank in the world and largely unheard of by the majority of Egyptians – resonates in the distance and connects with current developments in unexpected ways. It operated between 1963 and 1967 and practiced Islamic microfinance before either Islamic finance or conventional microfinance had gained their current

Cite this chapter as: Alonso I M (2015). Crowdfunding in Islamic finance and microfinance: A case study of Egypt. In H A El-Karanshawy et al. (Eds.), Access to finance and human development – Essays on *zakah, awqaf* and microfinance. Doha, Qatar: Bloomsbury Qatar Foundation

definitions. The project, directed by Ahmad El-Najjar,[4] was inspired by the example of German savings banks, and its main purpose was to educate people in the importance of savings. Underlying such purpose, El-Najjar concerns included questions of social justice, poverty alleviation, economic development, and equal access to credit.[5]

The bank operated through different kinds of savings and loan arrangements. The purpose of the loans was "to increase local production in commerce, trade, industry, and agriculture, and one of the firmest loan polices [was] that savings collected from the local area should be invested in that area and not outside."[6] They carried no interest or service charges and the borrower was always assisted by the bank to improve his business operations. Loans required no actual collateral and depended on reputation and mutual trust. Through equity participation, the bank, as a joint owner, held a title deed to the enterprises and shared the profits with the entrepreneur in proportion to the capital invested.

Regarding the "Islamic" labeling of the bank, the word was used informally with the general public and clients, but was not officially employed. Both microfinance and Islam were a matter of adaptation, Mit Ghamr was gathering savings focussing on local rural areas which had small industries and strong religious convictions; therefore, in this context, it became Islamic microfinance. In the words of El-Najjar himself, "it was indispensable to find a way that suits the existing climate and matches with our Arab traditions and our spiritual heritage."[7]

Mit Ghamr was a unique institution that did not directly compete with established commercial banks, as it addressed a niche that was overlooked at the time: micro-financing, allowing small and low-income clients to save and borrow money. It is important to note that this experiment did not establish any relationship with Islamic movements and parties, nor with the Muslim religious scholars. In addition, it did not have a Shariah board or a committee of religious experts to supervise the Shariah-compliance of their contracts, procedures, and policies.[8]

In 1979, over a decade later, Faysal Islamic Bank was established, becoming the first Egyptian Islamic bank to be registered with the Central Bank. Since then, and up to the 2011 revolution, Islamic banking in Egypt has gone through three phases: impressive growth until the mid-80 s, deep crisis up to the 90 s due to the bad policies and diminishing reputation of some un-regulated Islamic Investment Funds and, finally, a relative recovery followed by stagnation.[9] Throughout these phases, Islamic finance has never thrived. While this underdevelopment can be explained by the challenges the industry faces, mainly the limited development of retail banking in general, the lack of knowledge of Islamic banking, and the absence of government support,[10] the gap between promise and performance in the area of economic development has negatively affected the image of Islamic banks among Egyptians. Actually, most of the Islamic finance products are perceived to be just mimicking conventional products and many analysts "consider Islamic banks in Egypt to be no different from conventional banks."[11] Several Islamic banks exist in Egypt, but to this day separate regulation does not exist.

Since the 2011 revolution, and following governmental promises on the promotion of Islamic economics, we may wonder whether the time for Islamic finance in Egypt is finally about to come. Regardless of what seemed like years of stagnation, the idea of a successful Islamic finance industry in the most populated country of the Middle East never disappeared. Interestingly, the Egyptian Islamic Finance Association's (EIFA) first steps were taken in 2010, showing an already existing interest in the industry.

EIFA's[12] purpose is to promote Islamic finance as a fundamental industry that could contribute to the economic development of Egypt. Inspired by the Mit Ghamr project, as well as by the examples of Malaysia and the Gulf, it wishes to develop a home-grown new model focused on development that should avoid cosmetic "Islamic" finance. EIFA criticizes current Egyptian Islamic banks, and imagines a future version of banking characterized by ethical, moral and just values. Islamic finance needs to go where conventional finance failed through the re-definition of banking as a partnership. In this context, risk control, proper monitoring, and community ties are of utmost importance. Interestingly, EIFA sees an opportunity both in the critical economic situation and the current under-development of the industry in Egypt, as it will give Islamic finance the chance to focus on social and community responsibility.

Islamic finance, in essence, is constructed to have a real impact on an economy through job creation and entrepreneurial development, but its practice in recent years has been increasingly criticized for not doing enough to contribute to a "real economy".[13] However, current banks' ability to increase their profit-and-loss sharing (PLS) portfolio is hindered by an inadequate legal framework, risk management measures, and additional administrative and monitoring costs. In this context, the bigger role might lie on the intermediate non-financial institutions and non-profit organizations who can provide more equity-based financing alternatives and non interest-based loans through the development of new financial instruments based on the PLS mechanism. Among such instruments, Marzban and Asutay[14] identify crowdfunding as an increasingly attractive alternative that can help find the equilibrium between social development, capacity-building, and profitability.

3. Crowdfunding

Crowdfunding is a type of crowdsourcing, which can be defined as a type of participative online activity in which an individual, institution, non-profit organization, or company proposes to a group of individuals of varying knowledge, heterogeneity, and number, through a flexible open call, the voluntary undertaking of a task which always entails mutual benefit. The crowd participates by bringing work, money, knowledge and/or experience.[15] Crowdfunding is the application of this concept to the collection of funds through small to medium-sized contributions from a crowd in order to finance a particular project or venture, offering small businesses and entrepreneurs a chance at success.

Crowdfunding shares some characteristics with traditional resource-pooling and social-networking phenomena,[16] but has a novel and defining characteristic: it involves consumers who act as investors, providing monetary support to others' proposals and expecting some payoffs, either monetary or non-monetary.[17] Thus, instead of by traditional investors, crowdfunding campaigns are funded by the general public. Each campaign is set for a goal amount of money and a fixed number of days. Typically, most successful projects receive about 25–40% of their revenue from their first, second, and third degree connections, which can include friends, family, or acquaintances. Once a project has gained some traction, unrelated consumers or investors start to support campaigns they believe in.[18]

Successful service businesses that organize crowdfunding and act as intermediaries are increasing worldwide,[19] as banks have augmented interest rates or pulled back from lending to consumers and small businesses. Interestingly, lending supplied by a crowd has lower interest rates than those offered at large retail banks or by credit cards. For lenders, the platforms are viewed as investment opportunities, yielding them more than bank deposit accounts.[20] In 2012, crowdfunding platforms raised a total of $2.7 billion, compared with $1.5 billion in 2011. Although crowdfunding is growing everywhere, North America and Western Europe raised much more capital than platforms in other regions.[21]

Massolution[22] defines four categories of crowdfunding platforms (CFPs):

1. Equity-based.
2. Lending-based.
3. Donation-based
4. Reward-based.

In equity-based crowdfunding, funders receive compensation in the form of fundraiser's equity-based or revenue, or profit-share arrangements. In lending-based crowdfunding, by contrast, funders receive fixed periodic income and expect repayment of the original principal investment. In donation-based crowdfunding, funders donate to causes that they want to support, with no expected compensation. Finally, in reward-based crowdfunding, the funders' primary objective for funding is to gain a non-financial reward. Thus, equity-based and lending-based crowdfunding involves participation for financial return, while donation-based and reward-based crowdfunding are used for campaigns that appeal to funders' personal beliefs and passions. Most crowdfunding platforms generate revenue by charging a percentage commission on funds paid out to fundraisers. This commission is typically calculated from the total funds raised, and/or based on achieving a "fully-funded" goal. In addition, crowdfunding platforms can adopt two funding options – "all or nothing" or "keep it all". In the former, pledged money is only collected if the fundraising goal is met, otherwise the money is returned. In the latter, the funds are collected whether the project goal is met or not.

4. Shariah-compliant crowdfunding: the cases of Shekra and Yomken

Shekra and Yomken are Shariah-compliant crowdfunding platforms established in Egypt at the end of 2012.[23]

The data analyzed includes both primary data, gathered through interviews, as well as secondary data taken from company websites and press reports. Detailed semi-structured interviews with key informants in the two crowdfunding platforms constituted a significant portion of the data collection effort. I performed in-depth interviews with Shekra's co-founders, Shehab Marzban[24] and Walid Hegazy;[25] also with a member of EIFA; and with Yomken's founder and CEO, Tamer Taha.[26] Any necessary clarification was achieved through e-mail.

Shekra

What is Shekra?

Shekra is a crowdfunding platform that links a closed network of investors with potential startups and companies. Shekra is the first example of Shariah-compliant equity-based crowdfunding. It was founded as a company in Egypt in November 2012, and is currently in the process of screening the first startups. It has been self-funded by its founders.

Context and Purpose

Shekra's main purpose is to fill the funding gap for those startups or already established companies which are too big for microfinance and too small for financial institutions and banks. It does so by connecting entrepreneurs with a wide spectrum of investors. There is a strong emphasis on both social responsibility and Shariah-compliance and a special focus on upgrading the success rate of startups in the MENA region to match global standards.

The idea of Shekra was born from the combination of two fields: Islamic finance and startups. Since the revolution, the entrepreneurial ecosystem has been very weak and access to funding very difficult. Therefore, the connection of entrepreneurs and investors can be beneficial for both, and have a positive impact on the social and economic development of the region.

How Does it Work?

Shekra targets the segment of projects that need funding from between $50,000 and $300,000, seeking to connect creative people with investors willing to invest in them. For this purpose, Shekra runs its activities through both the Investors Network and the Startups Reach Program. The former is a closed investors' network, crucial to ensure their seriousness and reliability, whereby investors join based on recommendations from existing members and agree to maintain confidentiality. Knowing that startups may be a high-risk investment, Shekra enables its network members to distribute their capital among multiple startups, resulting in a diversified portfolio that minimizes the overall risk exposure.

The Startups Reach Program is focused on reaching out to young entrepreneurs through advertisements in social media, universities, startup and SMEs events. Potential startups are assessed based on an internal screening process. If the startups pass the screening phase they sign an Entrepreneur Agreement with Shekra; if they lack essential skills or requirements, they can be supported to become Shekra-eligible.

As soon as the startup becomes ready for the crowd, it will be posted on the Shekra Portal and promoted through their social media network services. A short summary and the current funding status will be public, but access to details of the startup and its underlying concepts and ideas will only be available to investors within the Shekra Network. Funding is considered successfully completed when the target fund of a company is fully attained within the specified timeline, generally 60 days. Shekra will undertake the legal process required to document the transfer of the shares to the investors upon the completion of the funding process. In addition, the entrepreneurs and investors will meet once and sign a shareholder agreement, which will govern their silent partnership and define rights and obligations. Reports, progress, and monitoring will be on-line and payments mostly off-line. A minimum fee is charged to the startups for Shekra's services, which include business plan support, due diligence, and monitoring.

Islamic Component

Shekra is not labeled as "Islamic" but it defines itself as "Shariah-compliant". The "Islamic" label is not considered to be important and the website lacks references to "Shariah" or "Islam." Shekra wants to focus on the core values of an Islamic product through quality in order to develop a business model that is based on ethical principles and social responsibility.

From a sector perspective, projects are required to obey Islamic principles and startups and companies are not allowed to raise additional capital in an interest-based or non-Shariah-compliant manner. From a legal perspective, investors take an equity stake in the project and gain returns based on the PLS principle, which ensures a fair distribution between shareholders and entrepreneurs. Therefore, Shekra provides specific Shariah screening and legal formalities. In addition, once an idea attracts capital, Shekra acts as a partner and takes an equity stake in the projects, which ensures its long-term commitment, given the fact that the success of the projects is coupled with their own success.

Shekra's seven founders have backgrounds in academia, venture capital, information technology, commercial law, aviation, sustainable development, green entrepreneurship, innovation, capacity building, investment, and banking.

Challenges and Future Prospects

Shekra's future prospects are bright. So far, it has received about 150 projects, from which three were be selected for the first round. This large number of application shows a great interest on the part of both startups and companies. Actually, the platform was limited initially to technology, but demand in other areas, such as services, industry, and agriculture, was so great that this limitation was dropped.[27] Shekra, while currently focused on Egypt and the GCC, hopes to expand throughout Africa and members of the OIC, for both startups and companies from all fields, and investors of all sizes.

Most research identifies raising capital as the main problem of startups. To date, equity-based funding for MENA startups and SMEs has essentially been provided by venture capital firms and large angel investors. However, there is a funding gap for entrepreneurs trying to raise seed or early-stage capital under $1–2 million. Therefore, equity-based crowdfunding can be considered as an alternative financing method, filling the observed gap through reaching out to a much larger base of small investors.[28] While many are still skeptical about investing in startups, in general, Shekra "hopes to build trust in the idea by leading with trustworthy investors."[29]

In introducing crowdfunding in the region, Marzban and Asutay[30] consider that investors' risk needs to be reduced as much as possible and entrepreneurs should be equipped, not only with capital, but also with the skills needed to increase their chances for success. Consequently, the conventional crowdfunding process needs to be re-structured to meet not only Shariah requirements, but also the circumstances and special requirements of entrepreneurs and investors in Muslim countries.

Regarding challenges, together with online payment and internet penetration, the huge demand and the overwhelming number of startups looking for funding received, a key challenge is to overcome the legal issues of crowdfunding. "Shekra wants to be able to raise capital from the public and have contributions as small as $10, which is currently not legally possible."[31] In addition, the typical legally enforceable shareholder structure used by venture capital firms which involve granting preferential rights for certain investors is deemed non-Shariah-compliant. Therefore, the shareholder structure and investor protection requirements had to be modified to adhere to Shariah principles.[32] For the foreseeable future, "Shekra will keep its investor network closed to ensure that it's compliant with securities laws, and to show proof of concept."[33]

Yomken

What is Yomken?

Yomken is a product-based crowdfunding platform that opened in Egypt in October 2012. It is the first example of product-based crowdfunding and it defines itself as Shariah-friendly. It is a company under Egyptian commercial law and the supervision of the Ministry of Trade and Industry, but even though this law does not provide for non-profit, Yomken considers itself a non-profit company. Yomken is self-funded by its members and started as a result of a grant from the World Bank's Youth Innovation Fund for their website. It also won the Social Impact Forum 2012 competition organized by the Saudi-Spanish Center for Islamic Economics and Finance (Scief) and was one of the finalists of the ArabNet Startup Demo competition.

Context and Purpose

Yomken's founder, Tamer Taha, inspired by the idea of crowdfunding, wanted to develop a crowdfunding model suitable for Egypt and the Arab world. Wishing to have a social impact and promote solidarity in the context of Egypt after the Revolution, Yomken combines three different business models: crowdfunding, open innovation, and Islamic finance. As new products are generally not financed by banks because their market demand is unknown, Yomken removes this risk by offering the new product through its platform on the pre-commercialization phase.

Yomken wishes to fill a gap within the market: high-tech products represent less than 5% of Egypt's exports, but receive the majority of the attention and funding opportunities, while low and medium-tech businesses that represent 60% of

Egypt's economy are largely being ignored.[34] In addition, with an estimate 60% informal economy, the technical support of small innovations and people working on low value-added industries is fundamental. Thus, Yomken mainly targets low-tech enterprises in Egypt's informal manufacturing industry, and its focus areas include handicrafts, artisanal goods, and site materials for workshops. The platform was founded in close contact with residents of one of Cairo's poorest neighbourhoods, Nasr City, whose craftsmen's and workshop owners' products have long faced competition from Chinese exporters. Yomken gives them the chance to expand their businesses, hire more people, and create better products.[35]

How does it Work?

Yomken targets innovation as the way to increase the productivity of the Egyptian economy and promote development. For that purpose, it provides entrepreneurs with both technical assistance and/or finance. Therefore, Yomken follows a two-fold process. First, it links people who want technical solutions with people who have them, such as university students, researchers, specialists, or even companies, in order to make new products or improve the existing ones. Yomken partners with NGOs involved with entrepreneurs, micro- and SMEs, in order to locate small businesses facing technical challenges which require creativity and expertise, and link them with the wisdom of the crowd. Problem-solvers are rewarded depending upon the case: they get a share of the benefits, a lump sum benefit, or an award from Yomken. On the site, users can post "challenges" and ideas for new innovations for free. The website creates a competitive environment amongst contributors in order to come up with the best solution.

Secondly, once the prototype is developed, a target number of buyers is set up according to its production costs, and the product is offered through Yomken's web-page on a crowdfunding basis. If the target number of buyers is reached, the funds are raised for the prototype, and it is produced and delivered to them, showing that the market needs the product. In the event that the target funding amount is not collected, contributors retrieve their initial funding amount. In this way, Yomken removes the risk of innovations and assists new product ideas to become a reality. To ensure that a product is delivered, Yomken finances the challenge temporarily until the crowdfunding phase is completed, "placing faith in these businesses before users do".[36] This is a risk that the company is willing to take, as solutions might not reach the funding goal.

The originality of product-based crowdfunding lies in the fact that, in return, the investor does not receive interest but the product itself, which promotes the creation of new products and furthers innovation. Investors who pay for a product they wish to have can track the production process, and see how their money is spent through weekly updates on the progress of the projects. Transparency is a very important part of the project, and a direct link between the customer and the workshop owner is established from the beginning.

Islamic Component

Yomken defines itself not as "Shariah-compliant" but as "Shariah-friendly", as its founder considers that in order to call themselves "Shariah-compliant" they would need a Shariah board. The Islamic content of the project, however, is not advertised, as its relevance depends on the audience. The product is defined as "halal" and receives a new name, istebda, similar to istisna, but involving buying a new product, that is, "buy an innovation".

Yomken considers itself a halal enterprise compliant with the tenets of Islamic finance because of its transparency and social content. Tamer completed his graduation project[37] on Shariah-based microfinance; no-one else in his team, however, has expertise in the field.

Challenges and Future Prospects

To date, Yomken has offered four challenges and seven products, obtained two solutions for two challenges, and has reached the selling goal of one product. Successful products will continue to be offered indirectly through an on-line catalogue on Yomken's web-page, but they will no longer be bounded to exclusivity. Yomken is currently looking for investors and partners in order to expand the model and become the region's leading micro-enterprise focused crowdfunding platform. In this respect, it recently partnered with Silatech, an initiative that promotes large-scale job creation among youth in the Arab world, which "will increase its presence on the regional level and secure additional funding for entrepreneurs".[38]

Over the next two years, Yomken's objective is to list more than 300 projects on its site.[39] It currently targets Egyptian entrepreneurs but in the future wants to expand its activities to the MENA region for products and projects, preserving the concept of "Arab Handicrafts,"[40] while searching for clients everywhere.

Regarding challenges, low internet penetration rates and low familiarity with e-payment methods are one of the biggest problems in Egypt. In addition, regulation is a challenge. Yomken, as a company, is under the umbrella of non-financial institutions and cannot offer financial services.

5. Shariah-Compliant Crowdfunding: Towards a Definition

Islamic Finance, ideally, is an alternative way of financing based on ethical and socially responsible standards, which ensures fair distribution of benefits and obligations between all the parties in any financial transaction. Crowdfunding possesses these characteristics and provides the ground for new developments in the field, as it can use Islamic finance as an ethical and socially responsible tool to promote financing and development, representing "an exciting opportunity to promote innovation across various sectors of the MENA economies, especially technology, agriculture, health services, and education."[41] Islamic finance and crowdfunding both conceptualize costumers as investors and can potentially provide investment opportunities with higher returns. Interestingly, as most crowdfunding platforms charge a percentage commission on funds paid out to fundraisers, they are already applying a PLS formula. In addition, they both place a strong emphasis on transparency, mutual involvement, and trust.

In light of the examples of Shekra and Yomken, I will advance a preliminary definition of Shariah-compliant crowdfunding. There seems to be three basic features distinguishing conventional and Islamic crowdfunding, which relate to the projects/products, risks, and interest. Shariah-compliant crowdfunding invests in halal socially responsible projects/products, shares the risks of the investment, and is characterized by the absence of an interest rate. In the case of Shekra, the company takes equity stakes in the project, while in Yomken, the model of product-based crowdfunding eliminates the issue of interest altogether.

Regarding the certification of the Shariah-compliance of these platforms, the most widely used approach to ensuring the Islamicity of Islamic banking at the private sector level is that of the Religious Supervisory Boards. Islamic banks employ scholars of Islamic law in a consultancy and advisory capacity to examine the Shariah-compliance of their contracts, dealings and transactions.[42] According to El-Gamal, this Islamicity certification is actually the most obvious distinguishing feature of Islamic finance.[43] However, these boards have been criticized by several scholars on the basis that their approach to Islamic banking problems is based on taqlid, or imitation, rather than ijtihad, or interpretation. Furthermore, such an approach to modern banking and finance transactions does not seem to be justified, as the Shariah did not restrict the development of commercial institutions explicitly or implicitly. On the contrary, it leaves it to Muslims to develop such institutions as the circumstances dictate, as long as they do not violate Islamic law.[44]

Actually, once the Islamic financial products become standardized, the role of these boards is reduced substantially. "Moreover, widespread understanding of those modes of finance reduces barriers to entry in Islamic finance."[45] Furthermore, if certain specific Shariah principles were systematized, they could provide the Islamic banker with the flexibility to develop new products and to judge their Islamicity without having to refer to the legist.[46] In this context, the development of Shariah-compliant crowdfunding without Shariah boards presents an intriguing case that can push for the systematization of principles and open the gate to the development of innovative products. In addition, in the case of Islamic microfinance, Shariah boards might be not viable, as the size of the projects would make their existence too costly and ineffective.

Regarding types of Shariah-compliant crowdfunding, Shekra is an example of equity-based crowdfunding, and Yomken, of product-based crowdfunding, which could be considered a type of reward-based crowdfunding. The other two types, lending-based and donation-based crowdfunding, are yet to be developed. However, offline initiatives similar to crowdfunding have already happened in the region, such as the 57357 Children's Cancer Hospital in Cairo, which was financed in large part by personal donations as small as LE1.[47] Given the zakat (the obligation every Muslim has to donate a small portion of his or her earning to the less fortunate), the development of Shariah-compliant donation-based crowdfunding in the Muslim world would be extremely interesting. Lending-based crowdfunding would need to be adapted in order to be Shariah-compliant, as it charges interest.

Shekra, with regards to its crowdfunding model, introduces some novelties. First of all, it has a closed trusted investors' network, similar to a network of angel investors, which challenges the idea of the "crowd". In relation to this, most of the information of the projects will be accessible only to investors, while the typical crowdfunding is directed to show-casing in a very transparent way the projects on the website. Usually the people in the closest circle of the entrepreneur are the first to invest in the project, but with this model, first investments will come from other sources. Finally, they finance long-term projects, while the typical crowdfunding projects are short-term.

According to Siddiqui, "Shekra differs from conventional crowdfunding by considering the specific cultural, educational and social characteristics of entrepreneurs and investors in OIC countries."[48] We may wonder, at this point, whether any of these novelties relates to the Islamic side of Shekra. The idea of a local trusted network of investors that know and recommend each other can be associated with the emphasis Mit Ghamr placed on mutual trust and local investments, and the importance of these concepts in the ideal definition of an Islamic economy. However, the closed network, the accessibility of the information, the different origin of the first investments, and the long-term projects, can also be considered an adaptation to the Egyptian legal system, and not the specificities of Shariah-compliant crowdfunding. Additionally, the concept of association, or jamiya, as a form of credit is a popular institution in Egyptian society. It usually operates on an annual basis and its members turn over a given sum each month to the administrator, who pays out the pooled contributions each month in an agreed-upon sequence to the members. The jamiya consists of a circle of friends or colleges who have enough confidence in each other's solvency and reliability to accept each other as a member.[49] Therefore, the closed investor network can also be seen as a cultural adaptation to the Egyptian context.

Yomken focuses on microfinance, but in the absence of microfinance legislation,[50] it was founded as a company. The product-based crowdfunding model resulted from the adaptation of crowdfunding to fit into Egyptian law. Even though Yomken does not define itself as Shariah-compliant, nothing in its operations, aside from the absence of a Shariah board, can be seen as conflicting with Shariah. Yomken shares the risk of the products, which are halal, and charges no interest. Furthermore, it has a strong focus on social responsibility and development. For these reasons, I believe Yomken should be considered a Shariah-compliant crowdfunding platform. With regards to its product-based model, we can conclude that, while being Shariah-friendly, product-based crowdfunding is not Islamic per se, and could be viewed as a type of reward-based crowdfunding.

Shekra and Yomken face similar challenges, mainly the lack of a regulatory structure for crowdfunding, online payment, and low internet penetration. In addition, and more importantly, the region lacks a developed startup financing ecosystem and Islamic finance is not very well known.[51] We will have to wait to see whether Shariah-compliant crowdfunding can positively impact both. Shekra and Yomken operate their sites in Arabic and English in order to appeal to the international community, mainly the Muslim community and the Arab diaspora across the world.

It is worth reiterating that neither Yomken nor Shekra use the label “Islamic”. Neither considers the word relevant to the quality or the Shariah-compliance of their services. Given the recurring criticisms of the absence of social impact of Islamic banks, Shekra and Yomken want to focus on the core values of an Islamic product through quality, and therefore their social purpose might be viewed as more “Islamic” than their banking counterparts. For these platforms, Islamic finance is not a target, but an ethical and socially responsible tool to promote financing and development.

Can something be “Islamic” without an Islamic reference and discourse? Is a “true Islamic” product defined by its quality, by its name, or both? These questions include essential issues relating to authority and legitimacy. Who defines what is “Islamic”, “halal”, or “Shariah-compliant”? Currently, the principles of Islamic banking are largely unknown to the majority of Muslims. Provided that education in this respect improves, the future might see more actors questioning and assessing the “Islamicity” of their finances. Thus, Shariah-compliant crowdfunding opens up new debates within the industry and challenges current definitions of “Islamic”, empowering a much larger customer base to access Shariah-compliant finance.

6. Conclusion

This paper has shown how new Islamic finance ideas have grown in Egypt since January 2011 and that, for the most part, they are not related to the Islamist government nor to the already established Islamic finance industry. Shekra and Yomken are the first of their kind: equity-based and product-based Shariah-compliant crowdfunding platforms, dedicated to filling the funding gap within the Islamic finance and microfinance markets, respectively. The importance of these initiatives should be stressed: they mean not only the further development of Islamic finance, but also its connection to entrepreneurship, job creation, and ultimately, economic development. Furthermore, their success might lead to the diversification of Islamic finance providers and products that could serve those currently excluded from the financial system. However, while the future of the new developments is promising, the road ahead is challenging, as political and economic instability will undoubtedly affect performance.

The Egyptian example might inspire crowdfunding platforms and Islamic banks elsewhere. Islamic banking assets have had an average annual growth of 19% over the past four years; Islamic finance is thus is growing 50% faster than the overall finance sector,[52] while the global crowdfunding markets have accelerated from an annual growth of 64% in 2011 to an 81% growth in 2012.[53] In light of these impressive growth statistics, it may be stated that the development of Islamic crowdfunding can be beneficial for both the Islamic finance and crowdfunding industries, and provide a fruitful ground for new developments.

Notes

1. Said M. Elfakhani, Imad J. Zbib, and Zafar U. Ahmed, “Marketing of Islamic Financial Products,” in *Handbook of Islamic Banking*, ed. M. Kabir Hassan and Mervyn K. Lewis (Cheltenham: Edward Elgar, 2007), 116.
2. Rodney Wilson, *Islamic Banking and Finance in North Africa. Past Development and Future Potential* (African Development Bank, 2011), 23.
3. Most of the information has been obtained through interviews conducted with Ahmad El-Najjar’s son: Khaled El-Najjar, and Ahmed Koura, original associate and manager at one of Mit Ghamr branches: Khaled El-Najjar, Son of Ahmed El-Najjar, Personal Interview by Author, December 19, 2012; Ahmad Koura, Branch Manager at Mit Ghamr, Personal Interview by Author, December 29, 2012.
4. He studied Economics in Cairo University and pursued his PhD in Germany.
5. Walid S. Hegazy, “Contemporary Islamic Finance: From Socioeconomic Idealism to Pure Legalism,” *Chicago Journal of International Law* 7, no. 2 (2007): 585.
6. R. K. Ready, “Interest-free Banks and Social Change: A Study of the Town of Mit Ghamr, the Village of Dondait and the Mit Ghamr Savings Bank Project (Interest-free Local Banks),” Unpublished, 1967, 9.
7. Ibid., 8.
8. Monzer Kahf, “Islamic Banks: The Rise of a New Power Alliance of Wealth and Shari’a Scholarship,” in *The Politics of Islamic Finance*, ed. Clement M. Henry and Rodney Wilson (Edinburgh: Edinburgh University Press, 2004), 20.
9. Samer Soliman, “The Rise and Decline of the Islamic Banking Model in Egypt,” in *The Politics of Islamic Finance* (Edinburgh: Edinburgh University Press, 2004), 274–8.
10. Wilson, *Islamic Banking and Finance in North Africa. Past Development and Future Potential*, 20.
11. Soliman, “The Rise and Decline of the Islamic Banking Model in Egypt,” 266.
12. Information extracted form interviews with Shehab Marzban, Walid Hegazy, and Muhammad Beltagi, co-founders and board members of EIFA: Albeltagi, Mohamed. Personal interview by author, December 19, 2012; Hegazy, Walid. Personal interview by author, September 18, 2012; Marzban, Shehab. Personal interview by author, December 30, 2012.
13. Shehab Marzban and Mehmet Asutay, “Standing Out With the Crowd,” *The Banker*, November 2012, 28.
14. Ibid.
15. Enrique Estellés-Arolas and Fernando González-Ladrón-De-Guevara, “Towards an Integrated Crowdsourcing Definition,” *J. Inf. Sci*. 38, no. 2 (Abril 2012): 9–10.
16. Andrea Ordanini et al., “Crowd-funding: Transforming Customers into Investors through Innovative Service

Platforms," *Journal of Service Management* 22, no. 4 (August 9, 2011): 448.

17. Ibid., 457.

18. Tanya Prive, "What Is Crowdfunding And How Does It Benefit The Economy," *Forbes*, November 27, 2012, http://www.forbes.com/sites/tanyaprive/2012/11/27/what-is-crowdfunding-and-how-does-it-benefit-the-economy/.

19. Ordanini et al., "Crowd-funding," 445.

20. Helen Avery, "Crowdfunding: John Mack Backs Non-bank with Board Role," *Euromoney*, December 4, 2012, http://www.euromoney.com/Article/3010184/Crowdfunding-John-Mack-backs-non-bank-with-board-role.html.

21. Massolution, *2013 CF The Crowdfunding Industry Report,* April 2013, http://www.crowdsourcing.org/editorial/2013cf-the-crowdfunding-industry-report/25107?utm_source=website&utm_medium=text&utm_content=LP+bottom&utm_campaign=2013CF+Launch.

22. Massolution, *Crowdfunding Industry Report: Market Trends, Composition and Crowdfunding Platforms*, May 2012, http://www.crowdsourcing.org/document/crowdfunding-industry-report-abridged-version-market-trends-composition-and-crowdfunding-platforms/14277.

23. Expanding our geographical focus, we can also find other examples of *Sharīʿa*-complaint crowdfunding such as HalalFunder, a crowdfunding platform for *halal* projects created by Habibur Rehman in London in October 2012.

24. Marzban, Shehab. Personal interview by author, December 30, 2012.

25. Hegazy, Walid. Personal interview by author, September 18, 2012.

26. Taha, Tamer. Personal interview by author, November 25, 2012 & January 13, 2013.

27. Astrid Frefel, "Islamische Finanzen in Ägypten auf dem Vormarsch: Scharia-konform," *Neue Zürcher Zeitung*, December 27, 2012, sec. Wirtschaftsnachrichten, http://www.nzz.ch/aktuell/wirtschaft/wirtschaftsnachrichten/islamische-finanzen-in-aegypten-auf-dem-vormarsch-1.17909594.

28. Marzban and Asutay, "Standing Out With the Crowd," 29.

29. Ahmed Gabr, "New Investment Platform Shekra Supports Startups in Egypt," *Wamda*, February 17, 2013, http://www.wamda.com/2013/02/new-investment-platform-shekra-supports-startups-in-egypt.

30. Marzban and Asutay, "Standing Out With the Crowd," 29.

31. Rushdi Siddiqui, "Islamic Venture Capital: Crowdfunding. Interview with Shehab Marzban.," *Khaleej Times*, October 2, 2013, sec. Business, http://www.khaleejtimes.com/biz/inside.asp?section=opinionanalysis&xfile=%2Fdata%2Fopinionanalysis%2F2013%2Ffebruary%2Fopinionanalysis_february6.xml.

32. Marzban and Asutay, "Standing Out With the Crowd," 29.

33. Anton Root, "Shekra Blends Crowdfunding with Islamic Finance," *www.crowdsourcing.org*, March 22, 2013, http://www.crowdsourcing.org/editorial/shekra-blends-crowdfunding-with-islamic-finance/24733.

34. Shaimaa El Nazer, "Crowdfunding Platform Yomken Makes Launching Products Easy in Egypt," *Wamda*, October 29, 2012, http://www.wamda.com/2012/10/crowdfunding-platform-yomken-makes-launching-products-easy-in-egypt.

35. Anton Root, "Egypt's 'Yomken' Brings Open Innovation, Crowdfunding Under One Roof," *www.crowdsourcing.org*, December 11, 2012, http://www.crowdsourcing.org/editorial/egypts-yomken-brings-open-innovation-crowdfunding-under-one-roof/21380.

36. El Nazer, "Crowdfunding Platform Yomken Makes Launching Products Easy in Egypt."

37. Tamer Taha, "La Micro-finance Islamique… Un Modèle Efficace Pour l'Égypte" (BA thesis, Université du Caire, 2009).

38. Neil Parmar, "Today $249 for Clay Pots, Tomorrow the Region," April 28, 2013, http://www.thenational.ae/thenationalconversation/industry-insights/finance/today-249-for-clay-pots-tomorrow-the-region.

39. Ibid.

40. El Nazer, "Crowdfunding Platform Yomken Makes Launching Products Easy in Egypt."

41. Marzban and Asutay, "Standing Out With the Crowd," 29.

42. Abdullah Saeed, *Islamic Banking and Interest. A Study of the Prohibition of Riba and Its Contemporary Interpretation*, vol. v. 2, Studies in Islamic Law and Society (Leiden: Brill, 1999), 108.

43. Mahmoud A. El-Gamal, *Islamic Finance: Law, Economics, and Practice* (Cambridge [UK]; New York: Cambridge University Press, 2006), 7.

44. Saeed, *Islamic Banking and Interest*, v. 2:128–41.

45. El-Gamal, *Islamic Finance*, 11.

46. Saeed, *Islamic Banking and Interest*, v. 2:128–41.

47. Root, "Egypt's 'Yomken' Brings Open Innovation, Crowdfunding Under One Roof."

48. Siddiqui, "Islamic Venture Capital: Crowdfunding. Interview with Shehab Marzban."

49. Ann Elizabeth Mayer, "Islamic Banking and Credit Policies in the Sadat Era: The Social Origins of Islamic Banking in Egypt," *Arab Law Quarterly* 1, no. 1 (November 1985): 34.

50. Islamic micro-finance, except from the distant example of Mit Ghamr, is a newcomer to Egypt. The law for conventional micro-finance is scattered: banks, NGOs, and companies are under different laws and supervisors.

51. Root, "Shekra Blends Crowdfunding with Islamic Finance."

52. Ernst & Young, Growing Beyond: DNA of Successful Transformation, World Islamic Banking Competitiveness Report 2012–2013 (The World Islamic Banking Conference, December 2012), 4.
53. Massolution, *2013 CF The Crowdfunding Industry Report*.

References

Avery Helen. "Crowdfunding: John Mack Backs Non-bank with Board Role." Euromoney, December 4, 2012. Available at: http://www.euromoney.com/Article/3010184/Crowdfunding-John-Mack-backs-non-bank-with-board-role.html.

"Best of the Bunch: Ideathon & Startup Demo Finalists for Riyadh Revealed." ArabNet, October 11, 2012. Available at: http://arabnet.me/ideathon-startup-demo-finalists-riyadh-revealed/.

Borsatti Luciana. "Anna Lindh Forum: Arab Uprisings, Poverty and Unemployment the New Challenges." ANSAmed, May 4, 2013. Available at: http://www.ansamed.info/ansamed/en/news/sections/politics/2013/04/05/Arab-uprisings-poverty-unemployment-new-challenges_8507588.html.

"Challenges – Yomken." Available at: http://yomken.com/challenges/. Accessed May 3, 2013.

El Nazer Shaimaa. "Crowdfunding Platform Yomken Makes Launching Products Easy in Egypt." Wamda, October 29, 2012. Available at: http://www.wamda.com/2012/10/crowdfunding-platform-yomken-makes-launching-products-easy-in-egypt.

El-Gamal, Mahmoud A. Islamic Finance: Law, Economics, and Practice. Cambridge: Cambridge University Press, 2006.

Elfakhani Said M, Imad J. Zbib, Zafar U. Ahmed. "Marketing of Islamic Financial Products." In Handbook of Islamic Banking, edited by M. Kabir Hassan and Mervyn K. Lewis, 116–127. Cheltenham: Edward Elgar, 2007.

Ernst & Young. Growing Beyond: DNA of Successful Transformation. World Islamic Banking Competitiveness Report 2012–2013. The World Islamic Banking Conference, December 2012.

Estellés-Arolas, Enrique, Fernando González-Ladrón-De-Guevara. "Towards an Integrated Crowdsourcing Definition." J. Inf. Sci. 38, no. 2 (Abril 2012): 189–200.

Frefel Astrid. "Islamische Finanzen in Ägypten auf dem Vormarsch: Scharia-konform." Neue Zürcher Zeitung, December 27, 2012, sec. Wirtschaftsnachrichten. Available at: http://www.nzz.ch/aktuell/wirtschaft/wirtschaftsnachrichten/islamische-finanzen-in-aegypten-auf-dem-vormarsch–1.17909594.

Kahf Monzer. "Islamic Banks: The Rise of a New Power Alliance of Wealth and Shari'a Scholarship." In The Politics of Islamic Finance, edited by Clement M. Henry and Rodney Wilson, 17–36. Edinburgh: Edinburgh University Press, 2004.

Gabr Ahmed. "New Investment Platform Shekra Supports Startups in Egypt." Wamda, February 17, 2013. Available at: http://www.wamda.com/2013/02/new-investment-platform-shekra-supports-startups-in-egypt.

Galloux Michel. Finance Islamique et Pouvoir Politique: Le Cas de l'Egypte Moderne. 1re éd. Islamiques, 1264–1987. Paris: Presses Universitaires de France, 1997.

Hegazy Walid S. "Contemporary Islamic Finance: From Socioeconomic Idealism to Pure Legalism." Chicago Journal of International Law 7, no. 2 (2007): 581–603.

Henry, Clement M, Rodney Wilson, eds. The Politics of Islamic Finance. Edinburgh: Edinburgh University Press, 2004.

"Home – Yomken." Accessed May 3, 2013. Available at: http://yomken.com/?lang = en.

"How It Works – Shekra." Accessed May 3, 2013. http://www.shekra.com/en/how-it-works.php.

International Development – Social Fund For Development: Micro And Small Enterprises Support Project In The Arab Republic Of Egypt. African Development Bank, August 2006. Available at: https://www.devex.com/en/projects/social-fund-for-development-micro-and-small-enterprises-support-project-in-the-arab-republic-of-egypt/secure.

"Investors – Shekra." Accessed May 3, 2013. http://www.shekra.com/en/investors.php.

Lotfy, Ahmed. "Islamic Crowd Funding Portal Launched in Egypt." Reuters. November 12, 2012. Available at: http://www.reuters.com/article/2012/11/12/islamic-finance-egypt-idUSL5E8MC7FN20121112.

MacFarlane Isla. "Shari'ah-compliant Crowd Funding Launched in Egypt." CPI Financial, November 14, 2012. Available at: http://www.cpifinancial.net/news/post/16827/shariah-compliant-crowd-funding-launched-in-egypt.

Marzban Shehab, Mehmet Asutay. "Standing Out with the Crowd." The Banker, November 2012.

Massolution. 2013 CF Crowdfunding Industry Report, April 2013. Available at: http://www.crowdsourcing.org/editorial/2013cf-the-crowdfunding-industry-report/25107?utm_source=website&utm_medium=text&utm_content=LP+bottom&utm_campaign=2013CF+Launch.

Massolution. 2012 CF Crowdfunding Industry Report: Market Trends, Composition and Crowdfunding Platforms, May 2012. Available at: http://www.crowdsourcing.org/document/crowdfunding-industry-report-abridged-version-market-trends-composition-and-crowdfunding-platforms/14277.

Mayer, Ann Elizabeth. "Islamic Banking and Credit Policies in the Sadat Era: The Social Origins of Islamic Banking in Egypt." Arab Law Quarterly 1, no. 1 (November 1985): 32.

Niblock Tim, Rodney Wilson (Eds.) The Political Economy of the Middle East: International Economic Relations. Vol. III. VI vols. Edward Elgar, 1999.

Ordanini Andrea, Lucia Miceli, Marta Pizzetti, A. Parasuraman. "Crowd-funding: Transforming Customers into Investors through Innovative Service Platforms." Journal of Service Management 22, no. 4 (August 9, 2011): 443–470.

Parmar Neil. "Today $249 for Clay Pots – Tomorrow the Region," April 28, 2013. Available at: http://www.thenational.ae/thenationalconversation/industry-insights/finance/today-249-for-clay-pots-tomorrow-the-region.

Pearce Douglas. Financial Inclusion in the Middle East and North Africa: Analysis and Roadmap Recommendations. World Bank, March 2011. Available at: http://www.microfinancegateway.org/p/site/m//template.rc/1.9.49668.

Prive Tanya. "What Is Crowdfunding And How Does It Benefit The Economy." Forbes, November 27, 2012. Available at: http://www.forbes.com/sites/tanyaprive/2012/11/27/what-is-crowdfunding-and-how-does-it-benefit-the-economy/.

"Products – Yomken." Accessed May 3, 2013. Available at: http://yomken.com/products/.

Ready RK. "Interest-free Banks and Social Change: A Study of the Town of Mit Ghamr, the Village of Dondait and Teh Mit Ghamr Savings Bank Project (Interest-free Local Banks)." Unpublished, 1967.

Regional Economic Outlook. Middle East and Central Asia. World Economic and Financial Surveys. International Monetary Fund, October 10, 2010.

Rehman Habibur. "Crowdfunding and the Muslim World." www.crowdsourcing.org, December 26, 2012. Available at: http://www.crowdsourcing.org/editorial/crowdfunding-and-the-muslim-world/22818.

Root Anton. "Egypt's 'Yomken' Brings Open Innovation, Crowdfunding Under One Roof." www.crowdsourcing.org, December 11, 2012. Available at: http://www.crowdsourcing.org/editorial/egypts-yomken-brings-open-innovation-crowdfunding-under-one-roof/21380.

Root Anton. "Shekra Blends Crowdfunding with Islamic Finance." www.crowdsourcing.org, March 22, 2013. Available at: http://www.crowdsourcing.org/editorial/shekra-blends-crowdfunding-with-islamic-finance/24733.

"Rushdi Siddiqui Joins Shekra." Shekra, February 20, 2013. Available at: http://www.shekra.com/en/newsarticle.php.

Saeed Abdullah. Islamic Banking and Interest. A Study of the Prohibition of Riba and Its Contemporary Interpretation. Vol. v. 2. Studies in Islamic Law and Society. Leiden: Brill, 1999.

Wilson, Rodney. Islamic Banking and Finance in North Africa. Past Development and Future Potential. African Development Bank, 2011.

Sahay Ratna, Alan MacArthur. "Challenges for Egypt in the Post Crisis World." Egyptian Center for Economic Studies, IMF Middle East and Central Asia Department, January 23, 2011.

"Shekra – Home." Accessed May 3, 2013. Available at: http://www.shekra.com/en/index.php.

Siddiqui Rushdi. "Islamic Venture Capital: Crowd Funding. Interview with Shehab Marzban." Khaleej Times, October 2, 2013, sec. Business. Available at: http://www.khaleejtimes.com/biz/inside.asp?section=opinionanalysis&xfile=%2Fdata%2Fopinionanalysis%2F2013%2Ffebruary%2Fopinionanalysis_february6.xml.

Soliman Samer. "The Rise and Decline of the Islamic Banking Model in Egypt." In The Politics of Islamic Finance, 265–285. Edinburgh: Edinburgh University Press, 2004.

"Startups – Shekra." Accessed May 3, 2013. Available at: http://www.shekra.com/en/startups.php.

"Submit – Yomken." Accessed May 3, 2013. Available at: http://yomken.com/submit/.

Taha Tamer. "La Microfinance Islamique… Un Modèle Efficace Pour l'Égypte." BA thesis, Université du Caire, 2009.

"Team – Shekra." Accessed May 3, 2013. Available at: http://www.shekra.com/en/team.php.

"The Shape of Things to Come?" FTSE Global Markets, November 26, 2012. Available at: http://www.ftseglobalmarkets.com/issues/issue-66-november-2012/the-shape-of-things-to-come.html.

The Silatech Index: Voices of Young Arabs. Gallup, April 2011. Available at: http://sas-origin.onstreammedia.com/origin/gallupinc/media/poll/pdf/Silatech.Report.2011.Apr.pdf.

Wilson Rodney. Islamic Banking and Finance in North Africa. Past Development and Future Potential. African Development Bank, 2011.

مؤسسة قطر
Qatar Foundation

دار بلومزبري – مؤسسة قطر للمجلات العلمية
BLOOMSBURY
QATAR FOUNDATION
JOURNALS

ISBN 9789927118210
90100
9 789927 118210