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Islamic P2P Crowdfunding (IP2PC) Platform for the Development of Paddy Industry in Malaysia: An Operational Perspective

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Abstract

Crowdfunding for agriculture provides a new social financing medium for agricultural financing, which is essential for promoting farmland revitalization and targeted poverty reduction among paddy farmers. The government sector and the social security system are unable to meet the demands of this growing systemic problem. In addition, paddy farmers in most developing countries strive to attain their basic needs and are among the most impoverished communities on the planet. This paper aims to present an Islamic P2P crowdfunding model as an alternative financing solution for paddy farmers in Malaysia. Besides, a standard operations procedure (SOP) has also been developed to ensure efficient management of the paddy project investments. This study uses document research methodology to analyze the related papers, journal articles and other published sources. Also, the literature on the financing gap faced by farmers and the crowdfunding solutions in agriculture has been reviewed critically and used to develop an alternative model. This study's findings reveal that Islamic P2P crowdfunding is expected to provide paddy farmers in Malaysia with an alternative source of funds to meet their liquidity constraints and finance their small businesses. The paper has also proposed an end-to-end operational procedure that can ensure the complete protection of different players' rights in the platform. The proposed model and SOPs can help policymakers and regulatory authorities to develop the required policies and create the needed agricultural crowdfunding regulations.

Keywords: Paddy farming, P2P crowdfunding, liquidity constraints, SOPs

1. Introduction

On a global scale, there is a massive obstacle related to the food supply. A red flag has been raised by the World Bank which requested increasing food supply by seventy per cent in the next thirty years to continue feeding the world population and meet their day-to-day food requirements (World Bank, 2019). It can be observed from this report that food production is at its lowest levels, and it is a worldwide issue caused by several correlated factors. Likewise, the agriculture sector's contribution to the Malaysian economy has shrunk in the last few years, which has negatively impacted rice production that is considered one of the most important commodities for the Malaysian population. The rice production quantity in the country has been sufficient to meet sixty-five per cent of the local needs, whereas the remaining rice supply is imported from countries like Vietnam and Thailand (Vengedasalam et al., 2011).

The agricultural sector is one of the most potent industries that have the potentials to overcome poverty issues. Based on the World Bank report, this field's development is efficient two to four times in raising incomes among underprivileged communities. It is accounted for contributing one-third of the global domestic product in 2014. Furthermore, future studies expected that this industry could feed up to 9.7 billion people by 2050 (World Bank, 2020). However, the agricultural sector's liquidity issues were one of the main obstacles that

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entrepreneurs face, which might have a negative impact on the global food production.

Adams and Hunter (2019) claimed that banking institutions are reluctant to give loans to farmers who lack the required collaterals. Besides, the higher default risk associated with these business activities together with the high transaction cost are also some of the factors. Also, financial institutions are hesitant to target small farmers due to the following reasons: (1) income instability; (2) the higher investments required in agriculture; (3) the higher default rate and difficulties to mitigate this type of risk; (4) the financial needs that have exceeded agricultural production (Anderson and Ahmed, 2015).

Due to the lack of financial resources, some smallholder farmers have turned to seek financing from private lenders. Some of these lenders are affluent individuals, while others are intermediaries who purchase farmers' crops and sell them on the open market. In exchange for offering financial assistance, lenders ask farmers to sell their crop yield at a reduced price (MasterCard Foundation, 2017). As a result, a higher interest rate does not seem to be a viable option because it leads to adverse selection (Coleman et al., 2006).

Entrepreneurs and researchers from all over the world have been drawn to the use of crowdfunding in farming businesses. Many crowdfunding platforms have been created to provide fund seekers with seamless access to alternative financial solutions. An example of this is Igrow Asia, which is a platform that connects farmers and investors. A farmer may use the platform to apply for funding and to expand their business. On another side, the investors will have the opportunity to participate in one or more campaigns listed on the platform, to have a social impact and enjoy high returns[1]. Farmfundr is another equity crowdfunding platform that focuses on farmland investments in the United States. It provides opportunities to invest directly in farming activities that produce crops, while highly qualified farmers manage farming activities. There are two profit generation methods for investors at Farmfundr, which are land appreciation and annual crop sales (DiLallo, 2021). According to FAO (2017), agricultural investments are preferable to lower the poverty rate, particularly amongst underprivileged people. Hence, investing in agribusinesses is the key to eradicate poverty and minimizing food security issues.

2. Literature Review

2.1 Crowdfunding: Concept and Types

"Crowdfunding" is an alternative financing method through which funds are raised in small amounts from many people or institutions to finance certain businesses. Lambert and Schwienbacher (2010, p.6) indicated that crowdfunding is similar to an open public offering of financing sources, in which activities are done online and via the internet means. As an extension to this, Jenik et al. (2017) described crowdfunding as a financing-based process or a market in which funds are raised from a large number of people or legal entities without going through any financial intermediaries. In order to connect borrowers seeking funds to finance their commercial activities, funds are collected in small amounts using mobile phones or internet-based platforms. From the above definitions, it can be inferred that crowdfunding is a financial mechanism that enables general public and institutions to help nascent entrepreneurs by investing online in their businesses. In brief, crowdfunding is an innovative financing solution that uses technology to raise funds and play the same role as traditional financial institutions such as banks (Mollick, 2014).

Understanding the various forms of crowdfunding is critical in determining if one or more are suitable for the agricultural sector. The majority of the authors agreed on four types of crowdfunding except for the European Commission (2015), which addressed six forms of crowdfunding, as illustrated in the following paragraph:

1. Donation-based or charity crowdfunding: in most cases, the amount raised from donors is insufficient to meet large scale goal. Every individual contributes towards a specific campaign on the platform without expecting any forms of return.
2. Reward-based crowdfunding: this is closed to charity crowdfunding, and the only difference is that people donate without expecting any profit. However, and as a token of appreciation, they will be receiving a non-monetary reward like goods or services.
3. Peer to Peer (P2P) financing: This platform connects borrowers with the crowd-lenders with an explicit understanding that the capital will be repaid plus interest. However, the amount of money borrowed through the platform is mostly smaller in comparison with traditional bank loans.

[1] https://www.techinasia.com/igrow-startup-arena-jakarta-2014-startup-asia-jakarta

4. Profit/revenue sharing: in exchange for financing venture, future gains or earnings will be shared with the crowd.
5. Debt-securities crowdfunding: debt securities such as bonds are issued on an online platform, where individuals are called to invest.
6. Hybrid model: This is to provide companies with a model embedding more than one of the crowdfunding types mentioned above.

This study focuses on peer-to-peer financing (P2P), which is different in terms of approach and context. P2P was defined by the World Bank Group, People's Bank of China (2018), as an internet-based platform that provides an alternative source of financing for the credit applicants, where the platform managers undertake detailed due diligence to identify low-risk borrowers and match them with individual investors. P2P is divided into two, commercial and non-commercial. Commercial P2P financing is a profit-driven platform where crowd lenders expect reasonable returns based on the level of risk taken. In contrast, most crowd funders in the non-commercial P2P financing do participate in the platform to empower the underprivileged borrowers without expecting anything in return (Bachmann et al., 2011).

P2P platform is considered an information intermediary rather than a credit intermediary. The platform management is responsible in providing the necessary projects' information, disclosure, information exchange, credit evaluation, and other services of matching and managing the communication between the lenders and borrowers. In brief, the P2P solution is a platform that matches lenders with borrowers without being held responsible for any losses or default risk. Diemers (2015) has laid down several factors that could impact the fintech industry's success, and this includes the position of a country as a leading global financial hub, the understanding of fintech benefits by capital markets firms, banks and insurance companies. Besides this, a vast operating fintech workforce is required together with a growing venture capital ecosystem.

2.2 Shariah Compliant P2P Crowdfunding

Islamic P2P Crowdfunding is defined as “the use of small amount of money obtained from a large number of individuals or organisations, to fund a project, a business or personal loan, and other needs through an online web-based platform in accordance with the Shariah principles” (Achsien and Purnamasari, 2016). One of the main differences between conventional and Islamic P2P lending is that the latter assigns an internal or external Shariah committee to oversee and review all business activities.

The Shariah-based crowdfunding platforms have experienced exponential growth in the last decade. Islamic financial instruments have been integrated into innovative crowdfunding solutions to develop alternative Islamic financing and investment models for the global Muslim communities. In the most conventional P2P lending businesses, there is a direct interaction between lenders and borrowers, where one party borrows money with a promise of repaying the total amount plus interest. In contrast, the Islamic or Shariah-compliant P2P model is based on asset financing through *Murabahah* agreement, where both parties agreed to the cost and mark-up of a specific purchased asset (Rajagopalan and Mirza, 2020).

In 2016, eight Islamic crowdfunding platforms named Funding lab, Ethiscrowd, Kapital Boost, Easi up, Launchgood, Blossom Finance, Narwi and Skola fund joined together to create an Islamic Fintech Alliance. This alliance's main objective was to enhance trust, promote Islamic fintech standards and broaden its access and social impact by ensuring support from regulators and different stakeholders (Ashfaq and Zada, 2021).

Ethis crowd is one of the first Islamic P2P crowdfunding companies that has adopted Islamic financial instruments and applied them in its fundamental business activities and operations. This institution's main activity is to match global investors and entrepreneurs to finance the Indonesian social housing projects. The crowdfunding platform's objective is not only profit-oriented but also to create social impact, as noted by Zatadini et al. (2019), who interviewed Husni Bajamal (Ethis employee). Mr Husni stated that the main objective of Ethis is to enable Indonesian families to own affordable houses. Similarly, investors will have a dual advantage of profit generation and social impact created.

The equity financing models such as *Mudarabah* and *Musharaqah* are used by Ethis crowd where the investors and entrepreneurs share performance, the risk of default, and profit. In addition, *Istisna' Murabaha* hybrid product is one of the main products used as a contractual relationship between the parties to finance the housing projects (Ethiscrowd, 2018). Kapital Boost is another Shariah based crowdfunding that is headquartered in Singapore and whose main business is to empower start-ups and SMEs in Southeast Asia financially. This platform operates in line with the Shariah principles and uses *Murabaha, Qard* and *Wakalah* agreements as an Islamic contract concluded between the parties. 74% of the funding campaigns at Kapital Boost are done through the *Murabahah* financing, whereas 26% of the funding was via *Qard* and *Wakalah* contract scheme (Hendratmi et al., 2019).

Besides the Ethiscrowd and Kapital boost, Blossom finance platform has adopted the famous cryptocurrency bitcoin and integrated it with a *Mudarabah* capital financing model (Redman, 2015). Equity financing is largely used in these crowdfunding platforms. However, Kapital boost uses the *Murabahah* agreement that carries lower risk than the other types of financing, enabling the investors to buy products and sell them to SMEs for the cost-plus profit margin (Hendratmi et al., 2019). Peer to Peer crowdfunding could be the game-changer in the future of Islamic finance, given a broader opportunity for small businesses to close the financing gap challenges they are facing.

Another Islamic finance product found useful in Islamic P2P crowdfunding and the agriculture industry is the Salam contract. Saiti et al. (2018) proposed a *Salam*-based crowdfunding structure that is a viable Shariah compliant instrument that can be adopted to finance agri-businesses in Afghanistan through crowdfunding platforms. This contractual arrangement has also been found to be effective and efficient for both investors and entrepreneurs.

Beehive is a certified Shariah-compliant platform that offers Islamic investments to empower SMEs in the United Arab Emirates, using commodity *Murabahah*. This platform follows the principle of profit and risk-sharing rather than the regular model used in banks, where the entire risk is transferred to the customer (Beehive, n.d.). Another similar Islamic P2P platform was launched in the Middle East region called Liwwa.com, this platform enables people to invest in small businesses. Furthermore, many other Shariah-based lending platforms, such as Halalfunder.com from Canada and UmmahHub.com launched in the UK, and served the same purpose (Achsien and Purnamasari, 2016).

Yuningsih and Muhammad (2020) evaluated the Shariah compliance of the Ethiscrowd P2P crowdfunding platform based on four essential parameters namely *'aqd* (contract), legal documentation, *Maqasid al shariah* and financial reporting. They have assessed few agreements adopted by the platform, such as *Istisna'* and *Murabahah* agreements, and they found that Ethiscrowd has fulfilled three Shariah compliance agreements, which are *Maqasid al Shariah*, *'aqd* and legal documentation. Nevertheless, the financial reporting parameter yet to be fulfilled as this company has not published any financial report that needs to be disclosed to the public.

Having said that, and according to Ethis Ventures' Crowdfunding Report (2018), there is a Shariah audit that is conducted every quarter by its Shariah committee to ensure its compliance with the Shariah principles. However, one of the main challenges facing the company is that some project developers misunderstand the Shariah basis of the contract. The Shariah compliance procedures are essential for every Islamic P2P crowdfunding platform to abide by in order to attract local and global investors. Thus, many efforts need to be made by the authorities to set Shariah guidelines and policies that will ensure all Shariah materials and requirements are in place during the P2P crowdfunding practices.

2.3 Financing Gap, the Status of the Paddy Sector in Malaysia and the Role of Crowdfunding

The financial industry perceives these emerging platforms as a disruptive technology that could threaten their financial operations. This threat also extends to the Islamic banking industry. A range of Islamic crowdfunding platforms operate to provide alternative financing and encourage entrepreneurs or business owners to access these services; additionally, these platforms offer a Shariah-compliant financial instrument which an additional advantage. Achsien and Purnamasari (2016) stated that the new emerging businesses encounter a financing gap that has negatively impacted their daily activities, so, unfortunately, banks always seem to be profit-oriented and look for stable projects.

Several developing nations promote growth programs for small and medium businesses to increase their development opportunities and enhance their economic activities. Small and medium-sized enterprises (SMEs) make up roughly 40% of GDP and 60% of jobs (World Bank, 2020). The SMEs' financing gap in developing countries has reached 3.4 trillion US Dollars, signifying that lack of financing has been one of SMEs' main challenges. Thus, the increasing number of crowdfunding solutions subject to authorities' supervision can tackle the financing and credit problems (SME Finance Forum, n.d.). Anshari et al. (2019) added that farmers do have lands, but they lack access to the financial resources to cover their operational cost. Therefore, they do refer to financial institutions to purchase mechanized materials.

According to a report on the effect of crowdfunding platforms on SMEs' growth, 70 per cent of borrowers have observed a substantial increase in their turnover, while 63 per cent have recognised a substantial benefit. In addition, a third of businesses that raised funds via crowdfunding platforms have faced difficulties in finding alternative sources of funding. Although 79 per cent of these businesses attempted to receive financing from banks before approaching crowdfunding websites, only 22 per cent successfully obtained funding (UNDP, 2019).

Rice is a valuable commodity and one of the world's most important food crops, especially in the Asian countries. The growth of the rice industry is related to the population trend and consumption level. As of 2020 statistics (United Nations, 2019 revision), Malaysia's population reached 32.32 million people, increasing at a rate of 1.3 per cent, which is requiring further efforts from the government and local farmers to produce sufficient rice to meet the growing demand.

Malaysia's rice production is lower compared with the neighbouring countries, as stated in a statistical report. According to the Food and Agriculture Organization's 2016 statistics, as cited by Omar et al. (2019), among the Asian countries, Malaysia is one of the main importers of rice after Indonesia, with more than 821,869 Metric Tons (MT) and a self-sufficiency level (SSL) of 70%. In comparison, the rice exporting countries are Cambodia, Thailand and Vietnam. During the third Malaysian Plan, between 1976 and 1980, and before the globalisation and trade liberalisation deal, the SSL reached a peak of 90% (Ismail and Ngadiman, 2017). Furthermore, according to 2018 statistics, rice imports decreased slightly to 808,000 MT (Hirschmann, 2020). Malaysia's lack of rice self-sufficiency could cost millions of ringgits and expand its trade deficit (Fatah and Cramon-Taubadel, 2017).

Another issue was raised by Omar et al. (2019), who said that palm oil contributes 40.2 per cent to Malaysian GDP, compared to 2.3 per cent for paddy and rice. This is due to the massive gap between total harvested fields for palm oil, which has increased from 1 million hectares in 1982 to 5 million hectares in 2016. In contrast, there was no significant increase in paddy harvesting areas, which is fluctuating for the past 50 years, between 0.5 million hectares to 1 million hectares.

According to Huang et al. (2018), crowdfunding platforms can play a key role in funding micro, small, and medium businesses. MSMEs constitute the majority of companies with access to online platforms in China. Regarding the project success, these platforms have a significant impact on entrepreneurs' behaviour and successful result. According to Lee and Chiravuri (2019) project creators (entrepreneurs) who have successfully raised funds through crowdfunding platforms are more likely to explore other industries in the crowdfunding market and create campaigns with higher funding goal. Anshari et al. (2018) introduced a similar digital market place model that supports agriculture's sustainability and connects all consumers through a centralised crowdfunding and payment platform focused on promoting resourcefulness, transparency and public engagement in agriculture.

Iddris (2019) interviewed experts in crowdfunding and start-ups, and he found that several factors contribute to the innovation in microenterprises in Africa. These are business growth, marketing innovation, feedback and pre-sell, which do have a wider managerial implication for small businesses. Besides, creativity, funding and democratisation are also considered as impactful factors.

From a financing perspective, Yang et al. (2020) selected 629 agricultural crowdfunding campaigns from April 2019 to April 2020 in China and conducted the multiple regression analysis to determine factors influencing the financing performance. The results indicated that service value, personnel value and image value of agricultural crowdfunding projects have a significant influence on financing performance. Therefore, the projects' successfulness of agricultural projects is based on certain factors that need to be taken into account while raising funds.

The potential and impact of crowdfunding for the development of the paddy farming sector are even higher due to the increasing demand for rice in Asia and the food security issue that is a result of the growing number of population. The development of Islamic crowdfunding companies is a necessity to close the financing gap and provide numerous benefits for the paddy farmers and local communities in Malaysia.

3. Research Method

This qualitative-based research uses document research methodology to analyse the related papers, journal articles, and other published sources. The research includes the review of theoretical and empirical studies on crowdfunding, Islamic crowdfunding and paddy farming to explore the existing themes that can be used for the proposed conceptual framework. This study discusses the required practices of the Shariah committee in a P2P crowdfunding platform to ensure a full Shariah compliance and reviewed the existing crowdfunding models in the literature to analyse the data. The following section discusses the conceptual framework of a Shariah based P2P crowdfunding model and the required operational parameters for a successful implementation. With regards to the Shariah basis and operational analysis, the paper referred to the Shariah crowdfunding related articles, Shariah standards and the related Islamic crowdfunding platforms to establish an end-to-end operating system.

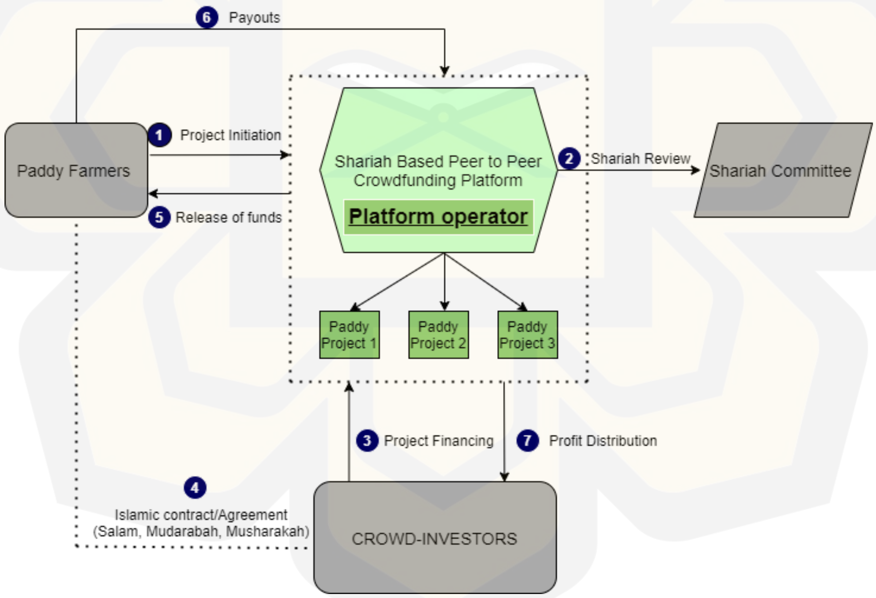
4. Proposed Islamic Peer to Peer Crowdfunding Structure for Financing Paddy Farming in Malaysia

4.1 The Islamic Peer to Peer Crowdfunding (IP2PC) Model

Agriculture is a critical component for achieving food security, and its development depends on discovering initiatives to help farmers overcome their financial challenges. This study proposes a Shariah based P2P crowdfunding platform (as shown in Figure 1) that can be adopted to finance paddy farming businesses in Malaysia. The parties involved in the crowdfunding platform are as follows:

- Paddy farmers
- Platform management
- Shariah advisory committee
- Crowd-investors

Figure 1: Islamic P2P Crowdfunding Platform



Source: Authors' Own

Diagram Flow Process:

Step 1: The paddy farmers approach the platform for online submission of their business proposal. The crowdfunding operators to go through a due diligence procedure and select the best project that conforms to the platform standards.

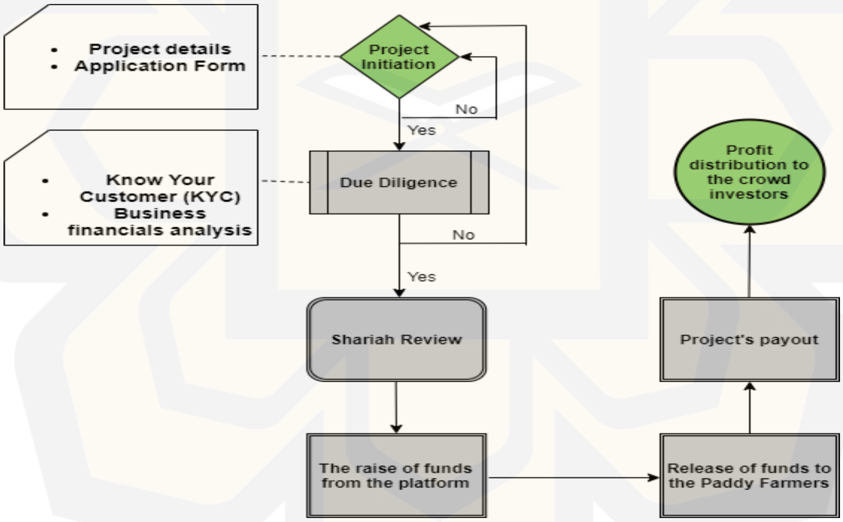
Step 2: The Shariah committee to undergo a Shariah review process on the project and to confirm that all activities are in line with the Shariah principles. Firstly, the Shariah committee is responsible in ensuring the Shariah compliance of funds collection and distribution procedures, and for the structuring of the underlying agreements. Besides, all marketing materials and contents must be revised to avoid any misleading information disclosed to the public. Finally, and importantly, the Shariah committee needs to review the financials in order

to guarantee a full practice of Shariah standards (Yuningsih and Muhammad, 2020).
Step 3: The crowd of investors is to check the different projects listed in the platform and choose to participate in one or more. In addition, there will be a fee management imposed on each investment by the platform operator.
Step 4: The contractual relationship between the investors and the paddy farmers can be on an equity or a sale-based arrangement, such as *Musharakah, Mudarabah* or *Salam.*
Step 5: The platform management will release funds to the paddy farmers as soon as the campaign reaches its target. The funds' distribution can be done in one lump sum or tranches.
Step 6: Upon accomplishing the paddy project, the payouts start when the product is sold by the paddy farmers, who will begin paying back capital plus profit to the platform management.
Step 7: The platform operator starts the disbursement of profit plus capital to the crowd investors. The profit distribution will be based on the proportion of the profit agreed upon during the agreement between the parties.

4.2 The Operational Structure of IP2PC for a Successful Model Application

The adoption of standard operations procedures is found to be of immense benefit for any quality initiative. It is defined as "a set of written instructions that document a routine or repetitive activity. It is a set of detailed written instructions to achieve uniformity of the performance of a specific function. A standard operating procedure or SOP is a set of instructions that address the who, what, where and when of an activity". (Singh, n.d.) In the IP2PC model, the SOPs followed are a set of processes and steps needed for platform providers to increase the quality of services (Figure 2).

Figure 2: IP2PC Model Operations Manual Structure



Source: Author's own

Step 1 – Project initiation

It is the first step in the proposed crowdfunding platform where farmers do submit their project proposal online. The platform management provides an online subscription page that allows farmer users to log in, fill in and upload the required documents. There are two requirements at this stage:

- Project details: the farmer users must create a business project proposal based on the request form available on the platform. The proposal should include the project core value proposition, project plan, project timeline and product sale strategy. The system should also enable uploading documents, images, and videos to disclose all information related to the project and enhance transparency with the investors.
- Application form: the project proposal application form should request the project title, name of organisation/business, the management and the team's full details, address, contact details, farming

connect membership details, the land or project owner, the tenant in case the land is leased and landlord details, the ownership or property land agreement, and a brief description of the business (Local action Group, n.d)

Step 2 – Due diligence: The due diligence assessment criteria will define the need to enter into a project or investment partnership with the parties. It refers to a set of protocols for having a comprehensive review of an investment agreement in the context of deciding on an appropriate capital investment that entails significant economic risks (Novikov et al., 2018).

Cumming et al. (2019) used empirical data analysis to assess the different factors influencing the application of due diligence in crowdfunding platforms. They found a strong relationship between due diligence and legislation updates. Besides, a correlation also exists between the size of the crowdfunding platform and the fundraising success rate. According to the authors, due diligence has the potential to identify and limit the lower quality projects and hence increase the success rate of the listed campaigns.

In this model, the crowdfunding operator must undergo the due diligence procedure for both investors and business owners. The following are the two aspects of due diligence that need to be taken into account:

- Know your customer (KYC): The Financial Action Task Force (FATF) has promoted the policies for a robust financial system and prepared the basic requirements to know your customer. These policies aim to protect the platform against terrorist financing, money laundering, and weapons proliferation (Adl and Haworth, 2018). There are specific procedures outlined by Adl and Haworth to identify the targeted customers' background. Hence, investors' required information in this crowdfunding platform is the identification card details to ensure that the potential investor is not involved in any illegal activities. Besides, the applicant or business owner must provide his or her details and company information. This information is to be cross-checked with the national or international data system providers to check whether they are free from any sanctions, bankruptcy, or insolvency filing.
- Business financial analysis: financial due diligence is the key to the success of paddy farming projects. The main objective here is to investigate the past, present and future financial performance of the targeted business owners. According to KPMG (n.d.), financial due diligence is an investigation analysis conducted on companies to determine the critical financial risk, assess the businesses' key issues, and identify the critical factors behind maintainable cash flows and sustainable profits. The platform operators need to select a profitable paddy farming project in order to maintain positive relationships with their investors. Therefore, financial due diligence is considered one of the most important steps for a crowdfunding operator to attract investors and avoid a future lawsuit, especially when the regulatory authorities require due diligence.

Step 3 – Shariah Review

The Shariah department ensures overall operation activities and product offerings are in line with Islamic principles, so upon receiving any project, the necessary Shariah checks should be performed to ensure the project is legitimate and to verify the creditworthiness of the paddy farmer. These operational activities are done to achieve wealth protection as one of the main Shariah objectives (*Maqasid al-Shariah*). Bank Negara Malaysia (2019) has listed the Shariah Advisory Committee duties and responsibilities that can also be applied in Islamic P2P crowdfunding. These duties are as follows:

- Provide necessary advisory on Shariah matters to the financial institution and be responsible for all Shariah opinions, decisions and views provided by them.
- The Shariah department should also be responsible for the endorsement of the Shariah policies and procedures prepared by the bank and to ensure that all contents are free from elements that are not in compliance with Shariah guidelines.
- To ensure the Islamic products of the bank are in line with the Shariah principles. The Shariah department must approve all terms and conditions, provisions of the contracts and agreements used in the execution of transactions. They should also endorse the marketing advertisements, product manual and brochures used to promote the products.

The Shariah guidelines and requirements set by the regulatory bodies within a particular jurisdiction must be strictly followed. Shariah compliance is important when the global Muslim market is targeted. Thus, platform managers must always ensure that all P2P crowdfunding activities comply with the Islamic law.

Step 4 – Fundraising, payouts and disbursement of funds

The main potential of crowdfunding is to raise capital and help close the financial gap facing small businesses. The fundraising procedure is heavily related to social media promotion and online communication with the crowd to easily share information about crowdfunding campaigns in certain geographical targeted areas (Agrawal et al., 2010). An effective marketing strategy is a crucial factor for a successful raise of funds. Crowdfunding appears to be an excellent platform for small businesses to reach global investors and gain support for their projects, products, and services without relying on pre-existing resources.

The next stage is the disbursement of funds to the business owners or farmers. The disbursement procedure should be mentioned in the contractual agreement with the fund seeker. In addition, funds disbursement can be in a predetermined tranche (Asian Development Bank, 2017) or one lump sum. The crowdfunding operator must ensure that all required documents or collaterals are submitted before distributing funds to the end beneficiaries. The distribution of profit or the payout procedure is the last stage where the payment of profit plus capital to be paid back to the capital providers, who will be receiving their proportion, based on the invested amount stated in the agreement.

5. Conclusion

The funding gap issue is one of the main barriers encountered by paddy farmers. The emerging crowdfunding platforms serve as alternative financing solutions for the last decade. This innovative and unique solution has successfully closed the financing gap of many global businesses and helped them grow. Various crowdfunding models have been developed and discussed in various literatures. Nevertheless, there is a lack of studies on the potential of Islamic P2P crowdfunding to empower paddy farmers.

Furthermore, less attention has been paid to producing a standard operations procedure (SOP) of a crowdfunding platform that aims to finance the paddy farming sector. Hence, this article contributed to the literature by highlighting the prospects of Islamic P2P crowdfunding as a new fintech solution that can support small paddy farmers in meeting their financial needs. The emphasis was on creating an Islamic P2P crowdfunding model that discussed the role of different stakeholders in the platform. Besides, and for successfully implementing of the IP2PC model, the authors developed a standard operations procedure shedding light on various operational activities and investment procedures needed for a successful investment.

There are three different parties involved in the IP2PC model: paddy farmers, investors, and platform operators. The paddy farmers or the fund seekers approach the platform to receive funds for their small businesses. Upon receiving the financing, they execute the projects and share returns in every harvesting period until the entire invested amount is repaid. The global investors explore the investment opportunities provided in the platform and do invest online in one or more paddy projects. Finally, crowdfunding operators play the role of platform management and do coordinate between different parties involved and ensure effective implementation of Shariah compliance supervision through its Shariah committee department. From an operational perspective, the IP2PC structure discusses the different requirements needed to protect the investors' rights, highlighting the roles and responsibilities of different parties for successful kick-off paddy farming projects. Thus, this study developed a viable and sustainable solution that would address the financing issues faced by paddy farmers, which can be the real vehicle towards developing the agriculture industry. This paper's novelty lies in the proposed IP2PC model and the SOPs developed to enhance the management system of crowdfunding platforms that aim to match global investors with paddy farmers of different states in Malaysia. Finally, and more importantly, Islamic P2P crowdfunding embedded in paddy fields can be a vehicle towards achieving sustainable food security and nutrition in Malaysia.

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