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ISLAMIC SOCIAL FINANCE AND CROWDFUNDING IN PANDEMIC RESPONSE:

A COMPARATIVE STUDY OF INDONESIA AND MALAYSIA

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FOREWORD

The COVID-19 pandemic stands as one of the most profound stress tests of our era — not only for public health systems, but for the social, economic, and institutional frameworks upon which communities depend. Within weeks of the World Health Organization's declaration of a global pandemic in March 2020, millions of households across Southeast Asia and beyond found themselves navigating simultaneous crises: income loss, food insecurity, disrupted access to healthcare, and the sudden disappearance of safety nets that had long been taken for granted. Governments mobilised emergency measures, but the scale and speed of need frequently outpaced institutional capacity. In this crucible of urgency, something remarkable emerged: ordinary people, connected through digital platforms, began pooling resources to help one another in ways that conventional finance and welfare systems could not readily replicate.

Social-based crowdfunding — the practice of mobilising small contributions from large numbers of individuals through online platforms — became one of the defining grassroots responses to the pandemic. From campaigns to procure personal protective equipment for frontline health workers, to emergency food drives for low-income families, to livelihood support for micro-entrepreneurs whose incomes evaporated overnight, digital crowdfunding demonstrated a capacity for speed, reach, and community solidarity that captured the attention of scholars, regulators, and practitioners alike. Yet alongside its undeniable promise, crowdfunding during crisis also exposed serious vulnerabilities: information asymmetries, governance weaknesses, risks of misrepresentation, and the absence of consistent legal oversight. Understanding both dimensions — the potential and the peril — is essential for anyone seeking to harness crowdfunding as a responsible instrument of social finance.

It is precisely this dual challenge that this book addresses. Islamic Social Finance and Crowdfunding in Pandemic Response: A Comparative Study of Indonesia and Malaysia arrives at a moment when the intersection of digital finance, Islamic ethics, and public welfare has never been more consequential. Indonesia and Malaysia together are home to more than 280 million Muslims, and both countries possess rich traditions of Islamic social finance — zakat, waqf, infaq, and sadaqah — that have historically served as pillars of community solidarity and welfare redistribution. The question this book poses is urgent and timely: how can these enduring traditions of Islamic social finance be meaningfully integrated with modern crowdfunding technology to deliver credible, accountable, and sustainable relief in times of crisis?

The authors bring a distinctive interdisciplinary lens to this question, situating crowdfunding within the normative framework of Maqasid al-Shariah — the higher objectives of Islamic law — while simultaneously engaging with the legal and regulatory environments that govern platform conduct in both jurisdictions. Rather than treating Islamic ethics and legal governance as separate domains, this book integrates them into a coherent evaluative framework: crowdfunding is assessed not only by whether it raises funds efficiently, but by whether it genuinely protects life (hifz al-nafs), safeguards wealth with integrity (hifz al-mal), sustains trust between donors and beneficiaries, and contributes to lasting societal welfare. This maqasid-centred approach offers a principled and practically grounded standard for distinguishing crowdfunding that truly serves Islamic social finance objectives from that which merely borrows its vocabulary.

Theoretically, the book draws on three well-established frameworks — agency theory, signaling theory, and social capital theory — to explain the dynamics of trust, participation, and governance failure in crowdfunding environments. These frameworks illuminate why certain campaigns succeed and others falter, why donors respond to particular signals of credibility, and why the social networks embedded in Muslim communities can be powerful engines of collective action when properly channelled. By weaving these theoretical insights together with Islamic normative principles and comparative legal analysis, the authors construct an analytical architecture that is both academically rigorous and practically relevant — a contribution that enriches the broader literature on Islamic fintech and social finance governance.

The book is grounded in empirical reality. Through careful analysis of actual crowdfunding campaigns conducted in Malaysia and Indonesia during the pandemic — campaigns that mobilised resources for healthcare workers, vulnerable households, and community organisations — the authors identify the governance strengths and gaps that determined whether funds were raised, deployed, and reported with integrity. The regulatory frameworks of the Securities Commission Malaysia and Indonesia's Otoritas Jasa Keuangan are examined with equal care, documenting how both jurisdictions have progressively strengthened their oversight of crowdfunding platforms and how these legal developments have shaped public trust and market participation. This comparative regulatory analysis is among the most valuable contributions of the book, demonstrating that law functions not as a constraint on crowdfunding's social mission but as its essential enabling infrastructure.

Of particular significance is the book's treatment of waqf-based crowdfunding as a model for moving beyond the cycle of emergency fundraising toward more durable and institutionally grounded social finance. The integration of waqf — with its defining principle of preserving capital in perpetuity while directing returns to public benefit — with the participatory reach of digital crowdfunding platforms represents a genuinely innovative frontier. If structured with appropriate Shariah governance, legal enforceability, and transparent accountability mechanisms, waqf-crowdfunding could serve as a bridge between Islamic philanthropy's deep ethical heritage and the digital economy's capacity for scale and inclusion. This book provides the conceptual and regulatory foundations needed to pursue that vision responsibly.

Looking ahead, the authors rightly emphasise that the future of Islamic social finance crowdfunding will be shaped by emerging technologies — blockchain-based transparency tools, artificial intelligence for fraud detection and compliance monitoring, and evolving platform governance standards. These technologies carry both promise and risk, and the book's call for ongoing research into their legal, ethical, and behavioural implications reflects the kind of forward-thinking scholarship that this rapidly evolving field demands. As regulators, scholars, and practitioners navigate this landscape, works such as this one provide an indispensable compass.

This book is the product of genuine scholarly collaboration between Universiti Utara Malaysia and Universitas Pasundan, Indonesia — a partnership that itself embodies the cross-border solidarity that Islamic social finance aspires to. The authors — Mohd Zakhiri Md Nor, Irma Rachmawati Maruf, and Zaki Ahmad — have combined their expertise in Islamic law, finance, and governance to produce a work that will be of lasting value to researchers, regulators, practitioners, and students across Southeast Asia and beyond. It is hoped that this book will not only deepen understanding of an important subject, but will also inspire the governance reforms and institutional innovations needed to make Islamic social finance crowdfunding a more powerful, trustworthy, and enduring force for human welfare.

The Authors

Mohd Zakhiri Md Nor

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Islamic Social Finance and Crowdfunding in Pandemic Response: A Comparative Study of Indonesia and Malaysia

The COVID-19 pandemic not only triggered a global health crisis but also starkly exposed the vulnerabilities of conventional financial systems in responding to urgent and widespread social needs. Amid the limited reach of formal relief systems, digital crowdfunding platforms proved capable of serving as fast, inclusive, and responsive resource mobilisation channels. This book offers an in-depth examination of that phenomenon: how social-based crowdfunding played a role in mitigating the impacts of COVID-19, particularly in the two countries with the largest Muslim populations in Southeast Asia — Indonesia and Malaysia — and how such practices can be evaluated within the framework of Islamic social finance and applicable legal regulation.

By integrating a robust theoretical framework with a comparative analysis of two jurisdictions, this book positions crowdfunding not merely as a fundraising instrument but as a socio-technical governance system that mediates trust, ethics, and law. The authors' central argument is that the effectiveness and legitimacy of crowdfunding during crises depend heavily on governance quality — encompassing platform transparency, Shariah compliance, legal protection for donors, and accountability in the use of funds.

The book is built upon three principal theoretical pillars drawn from the crowdfunding literature: agency theory, to explain the risks of information asymmetry between fundraisers and donors; signaling theory, to analyse how platforms and campaign organisers build trust through disclosure and verification; and social capital theory, to understand how social networks, community identity, and religious solidarity drive public participation. Within the Islamic context, these three theories are enriched by the normative framework of Maqasid al-Shariah — the higher objectives of Islamic law encompassing the protection of life (hifz al-nafs), wealth (hifz al-mal), intellect, lineage, and religion — as a benchmark for assessing whether crowdfunding genuinely contributes to societal welfare.

Islamic social finance instruments such as zakat, waqf, infaq, and sadaqah receive particular attention in this book. The authors examine how these instruments can be integrated with digital crowdfunding mechanisms to move beyond conventional, short-lived charitable models toward more sustainable social financing arrangements. Of special note, waqf-based crowdfunding is discussed as a promising innovation: grounded in the principle of perpetuity of principal and amanah-based stewardship, crowdfunding-waqf has the potential to transform episodic donations into enduring social capital that continues to generate long-term community benefit.Empirical case analysis is presented through an examination of real campaigns conducted in both countries during the pandemic — ranging from fundraising for personal protective equipment for healthcare workers, food assistance for low-income families, to emergency support for micro-entrepreneurs. Campaign data are used to identify success patterns, governance gaps, and platform challenges — including fraud risks, insufficient verification, and limited impact reporting. These findings are then analysed through two parallel lenses: a legal perspective (encompassing the regulatory frameworks of the Securities Commission Malaysia, Indonesia's Otoritas Jasa Keuangan, and the AAOIFI Governance Standard GS-14 on Islamic crowdfunding governance) and a Shariah perspective (covering contract permissibility, fiduciary obligations, and alignment with Maqasid).

On the regulatory front, the book documents significant developments in both jurisdictions. Malaysia has strengthened its legal framework through the Guidelines on Recognized Markets and — in September 2025 — the Guidelines on Social Exchange Platforms, which explicitly require reporting and disclosure obligations for non-profit fundraising platforms. Indonesia, through OJK, has updated its regulatory regime from POJK 37/2018 to POJK 57/POJK.04/2020, broadening the scope and reinforcing protections for users of securities-based crowdfunding. This comparative study demonstrates that regulation is not merely a constraint but an infrastructure of trust that determines the quality and sustainability of the crowdfunding ecosystem.

The book concludes with strategic conclusions and a forward-looking research agenda. The authors highlight the urgency of developing blockchain-based transparency mechanisms for waqf fund management and long-horizon crowdfunding, harnessing artificial intelligence (AI) for fraud detection and compliance monitoring, and conducting further studies on donor behavioural shifts under different transparency regimes. Overall, the book argues that the most effective and ethically sound crowdfunding is that which combines the moral energy of social solidarity with robust governance, transparent reporting, and regulatory support enabling Muslim communities in Indonesia and Malaysia to mobilise resources rapidly during crises while building lasting trust and measurable, sustainable welfare outcomes.

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