

CHAPTER 2

MALAYSIA AS THE RESEARCH CONTEXT

2.1 INTRODUCTION

This chapter presents Malaysia's contextual background, focusing on the equity-based crowdfunding ecosystem, guidelines concerning the entrepreneur (issuer), the platform provider, and the investor. This chapter will also explain the recent entrepreneurship development in Malaysia. In addition, 11 of the registered equity-based crowdfunding platforms in Malaysia are introduced and this provides a basis for further discussion in the following sections.

2.2 ENTREPRENEURSHIP DEVELOPMENT IN MALAYSIA

The Malaysian government's Economic Transformation Programme aims to transform the country into a high-income economy by 2020. The Performance Management and Delivery Unit (PEMANDU), an organisation under the Malaysian Prime Minister's Department, is in charge of it. PEMANDU has introduced the Economic Transformation Program (ETP) in the third quarter of 2010. The main goal is to transform Malaysia into a developed country by the year 2020, thus becoming a high-income country with a Growth National Income (GNI) of US\$15,000 per capita. The main aim is to pull in investment totaling US\$444 billion which represents 92% of private sector investment (JPM, 2017), thus generating new total employment.

To realize ETP's aspiration, the Government as a facilitator and coordinator focuses on implementing twelve National Key Economic Areas (NKEAs) and six Strategic Reform Initiatives (SRIs). NKEAs are specifically responsible for expanding new growth regions and new business prospects, which will allow the sector to move further towards the value chain. Meanwhile, SRIs are responsible for creating an efficient, competitive, and business-friendly environment that will attract valuable business counterparts from outside and inside Malaysia. Thus, one of the Government's initiatives is to boost entrepreneurial development by concentrating on MSMEs as one instrument for growth. The SME Masterplan (2012-2020) was designed to develop MSMEs (SME, 2017).

Malaysia's comprehensive approach for creating a shared entrepreneurial ecosystem focuses on five key components; basic development, financing schemes and guarantees, registrations and permits, startup companies and incubators, access and awareness program, and information services and advice to produce successful entrepreneurs. The cooperation and collaboration of government agencies, namely SME Corporation Malaysia (SME Corp. Malaysia), Majlis Amanah Rakyat (MARA), National Institute of Entrepreneurship and Small Business Development (INSKEN), Perbadanan Usahawan Nasional Berhad (PUNB), the Centre for Entrepreneurship Development and Research (CEDAR), and Malaysia's Global Innovation and Creativity Centre (MaGIC).

SME Corp. Malaysia is a central coordinating agency within the Ministry of Entrepreneur Development and Cooperatives that manages the implementation of SMEs enhancement programs across all relevant Ministries and agencies. MARA, is a government agency in Malaysia. It was established to assist, train, and lead Bumiputra in the economic and industrial sectors. INSKEN, is a flagship agency of the Ministry

of Skill Development and Entrepreneurship, dedicated to promoting entrepreneurship and skill development through training, consulting, and research. The mission of PUNB is to enhance Bumiputera participation and involvement in entrepreneurship while also fostering a lively, resilient, progressive, and prosperous Bumiputera Commercial and Industrial Society. The goal of CEDAR is to strengthen the capacity and capability of Malaysian entrepreneurs in order to sustain their business growth in support of the National Economic Agenda. Meanwhile, the purpose of MAGIC is to create value and fresh economic thrust for Malaysia by driving sustainable entrepreneurship ecosystem development through innovation and creativity. All these agencies serve as business and training consultants. The agencies also include financing facilities, incubators and business premises, and industry training and mentoring programs to ensure that the entrepreneurship ecosystem is fully supported.

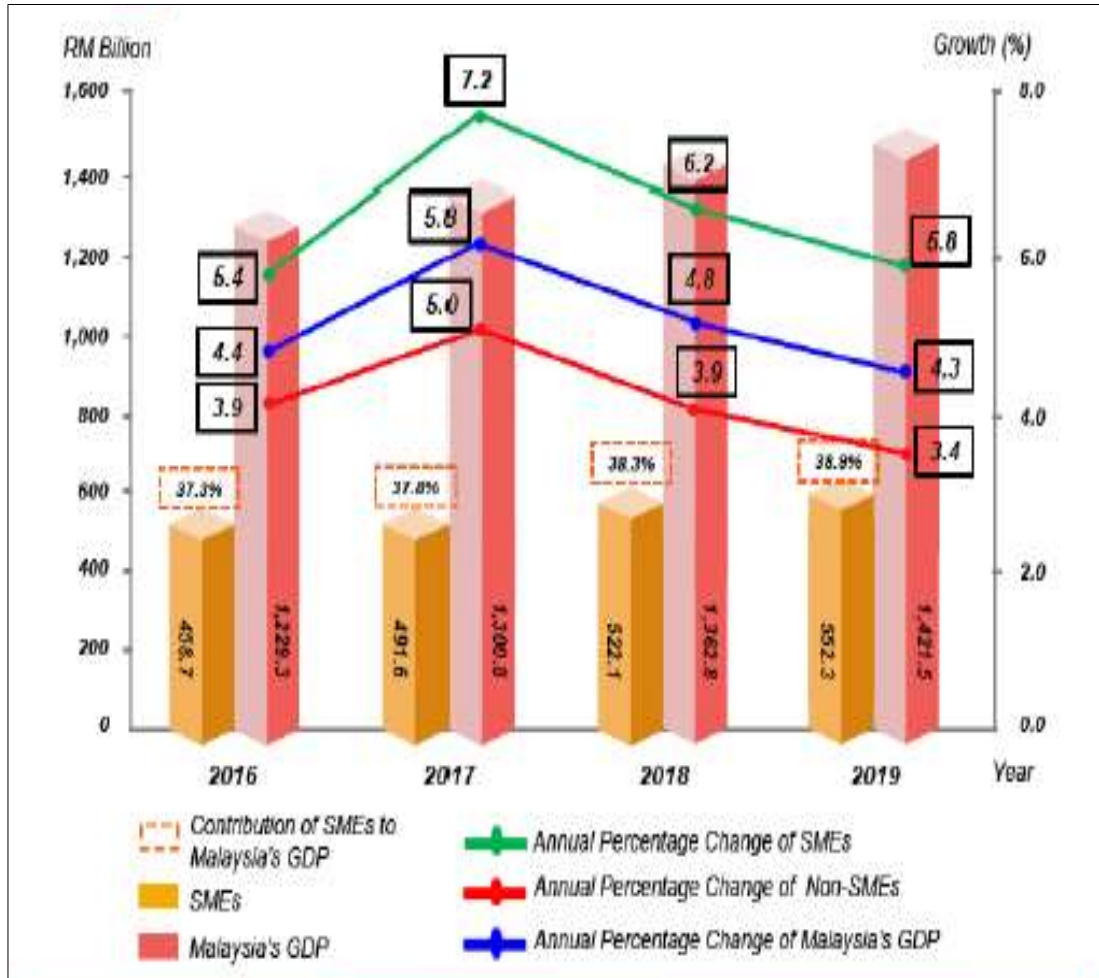
The MSMEs programs cover entrepreneurial business stages from startup, growth, and development. Some of the programs are designed to focus on both business and human capital development that expand the entrepreneur's business knowledge. The result will be reflected in MSMEs' productivity, thus increasing contribution to GDP. Among the programs include SME Industry Training, Tunas Bumiputera Young Entrepreneur (TUBE), MSMEs Capabilities Program, and the Entrepreneurship and Cooperative Training Program and Entrepreneurial Incubator for Women (I-KeuNITA).

Furthermore, the Eleventh Malaysia Plan (11MP) was introduced in May 25, 2015, and has become the most crucial plan towards achieving the 2020 aspiration. In it, entrepreneurship is recognized as one of the important sectors. The plan's goals are to toughen economic fundamentals as well as maintain economic stability and growth.

These are done by unlocking productivity potential, promoting investment, increasing

exports, increasing trade balance, increasing fiscal flexibility to ensure sustainable fiscal position with the help from agencies such as SME Corp. Malaysia, TEKUN Nasional and Amanah Ikhtiar Malaysia (AIM), and providing extensive business development opportunities for entrepreneurs.

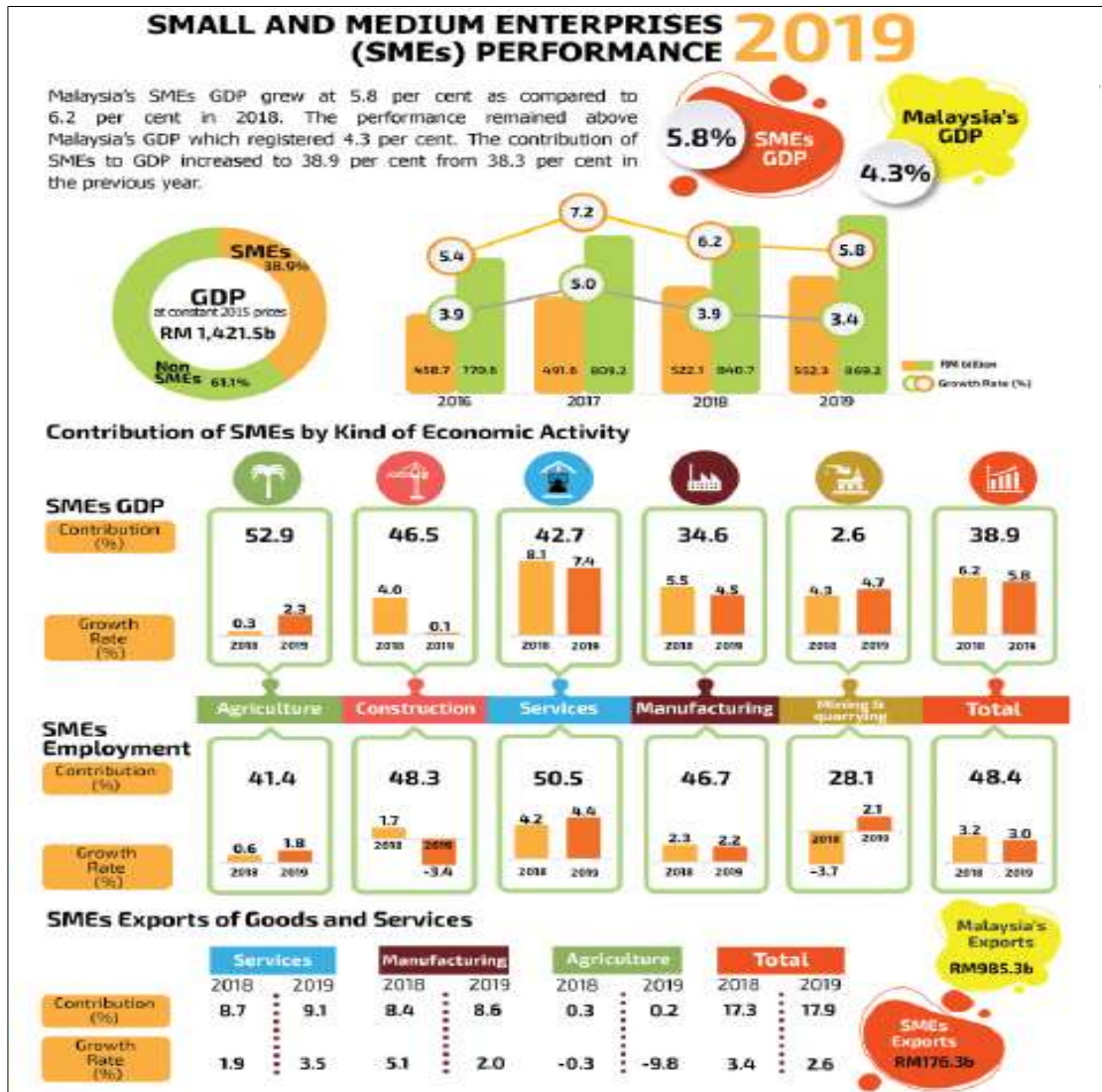
Overall, the growth performance of Malaysia's SMEs in 2019 shows a significant impact on the nation's overall economic growth rate. It contributed about 38.9% of the National's Gross Domestic Products (GDP). The MSMEs alone contributed MYR552.3 billion to the GDP. This growth involves all of the country's major economic sectors, especially the tourism industries, from outside and local demands other than the investment sector. Malaysia's exports showed MYR985.3 billion, where SMEs alone contributed MYR176.3 billion. However, SMEs' export of goods and services and employment growth rates for 2019 were slightly lower than in 2018. The statistics provided by DOSH, show GDP trends from 2016 to 2019 as depicted in Figure 2.1. Meanwhile, Figure 2.2 demonstrates the growth rate and contribution of MSMEs for the same period of time.



Source: DOSH (2020)

Figure 2.1: Value Added, Percentage Share to Malaysian GDP and Percentage Change for 2016 to 2019 at Constant 2015 Prices

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Source: DOSH (2020)

Figure 2.2: Growth Rate and Contribution of MSMEs

In addition, the first half of 2017 also shows Malaysia's GDP rate at 5.7%, which surpassed the earlier official growth forecast of 4.3 - 4.8%. Similarly, the growth of SME-GDP was expected to exceed the initial budget of 5.5 - 6.0%. Despite the many SMEs programs conducted, the participation of entrepreneurs at the early stage in Malaysia is relatively low among the developing countries regardless of the entrepreneurial environment and facilities provided (Ahmad & Xavier, 2012). This

effort requires two-way communication between the Government and the entrepreneur to materialize the strategy (Daskalakis *et al.*, 2013).

Wonglimpiyarat (2011), in his comparative study between Malaysia and Thailand on government support for financing innovation, shows that various aspects need to be improved. These include knowledge concerning finance that relates to technological advancement and specific training and policies. Furthermore, government policies relating to technological advancement need proper attention for both countries, especially when technological advancement is considered as one of the crucial factors of economic growth. Additionally, government intervention helps increase external investors' confidence, consequently improving the financial gap of the SMEs. In most cases, government support is defined in terms of financial aim, policy regulations, and bureaucracy, citing entrepreneurs' lack of entrepreneurial knowledge and skills as the reason (Hamilton, 2001; Obiora & Csordás, 2017).

2.3 FINANCIAL LANDSCAPE FOR MALAYSIA'S SMEs

Malaysia's financial environment includes financial institutions, financing, and cutting-edge financial technologies (fintech). The financial model of Malaysia's SMEs in which traditional financing moves alongside banking and financial development institutions as depicted in Table 2.1. Current innovations in the financial landscape see the introduction of platform-based financing, including equity crowdfunding (ECF), lending crowdfunding (P2P), Investment Account Platform (IAP), and Lead Entrepreneur Accelerator Program (LEAP) (SMEinfo, 2018).

This current study was conducted to investigate the ECF-funded firms in Malaysia. ECF market in Malaysia is somewhat small if compared to countries like

China, the US, the UK, and Japan (Wulandari *et al.*, 2020), but progressed positively especially during the Covid-19 (Kassim and Wahab, 2021).

Table 2.1: Financial Landscape for SMEs in Malaysia

Financial Institutions (FIs)	Traditional Financing Avenues		Fintech
1. Banking Institutions (BIs)	1. BNM Special Funds	1. Venture Capital Companies	1. Equity Crowdfunding (ECF)
	2. Guarantee Scheme by CGC & Prokhas	2. Leasing and Factoring Companies	2. Peer-to-Peer (P2P)
	3. Government Funds	3. Ar-Rahnu and Pawn Broking Firms	3. Investment Account Platform (IAP)
	4. Credit Information	4. Microfinance Institution	4. Leading Entrepreneur Accelerator Platform (LEAP)
	5. Credit Assessment by Credit Bureau Malaysia	5. Interest Schemes (Act 2016)	
2. Development Financial Institute (DFIs)			

Source: SMEinfo (2018)

2.4 CROWDFUNDING IN MALAYSIA

Albeit known and approached differently, crowdfunding is not a new concept in the Malaysian culture, especially among Malays. *Rewang* is the activity of communal help in preparing dishes, among others, for celebratory purposes. Others include the contribution in terms of tithes (*sadaqah*), endowment (*waqf*), *kutu* (Asklegal.my, 2019), and *khairat kematian* system (Muhamat, 2014). Nevertheless, the term ‘crowdfunding’ is still new to many people (Nadarajah, 2015). The concept of crowdfunding is particularly true among Malay entrepreneurs. During the event of *Global Entrepreneurship Community 2016: Reimagine the Future of Entrepreneurs* at the Kuala Lumpur Convention Centre on 08-09 December (Asianentrepreneur.org, 2016), upon interviewing 15 Bumiputera entrepreneurs about the ECF, the outcome reveals that none of them had any inclination on it.

In 2015, Malaysia recorded a new history to its capital market industry when the Securities Commission of Malaysia (SC) approved six equity crowdfunding (ECF) platforms that entitled them as the first batch of licensed ECF platforms in Malaysia to pursue business intent. The ECF platforms comprise FundedByMe, Ata Plus, Crowdo, PitchIN, CrowdPlus, and Eureeca to help small enterprises and entrepreneurs to access alternative financing (Securities Commission Malaysia, 2016). In 2019, four more providers have come on board; Ethis Ventures, MyStartr, Fundnel Technologies, and 1337 Ventures (Leet Capital) (Fong, 2019). In Malaysia, several crowdfunding platforms represent equity-based and other types of crowdfunding, as well as donation and reward-based. However, ECF and P2P are subjected to guidelines set by the Securities Commission of Malaysia as per elaboration in Section 2.5.

Funding gap issues involving micro, small and medium entrepreneurship (MSMEs) and high potential startups are still prominent and unresolved (Wasiuzzaman & Nurdin, 2019). To address this problem, the Government of Malaysia initiated various efforts to ensure the Malaysian entrepreneurs can meet their funding needs (Securities Commission Malaysia, 2018). The funding gap is a global issue that MSMEs encounter, not just in Malaysia but all across the world. Nevertheless, MSMEs and startups continue to be regarded as agents that create employment and opportunities, maintain sustainability, and advance economic growth.

MSMEs are estimated to develop total global employment at about 43.5%, and this is the projection of 57.8% of total new jobs. MSMEs and startups are economic growth contributors in developing countries. MSMEs provide almost 33% of GDP and startups at about 51% in developed countries. Yet, the main obstacle for these MSMEs and startups is accessibility to financing (Howorth, 2001). The financing gap of MSMEs in developing countries has been projected to total around USD2.4 trillion.

The International Finance Corporation (IFC) database shows that G20 countries hold a USD1.3 trillion financing gap. The nature of MSMEs as highly risky, absent of collateral to pledge, and lack of financial reports causes their chances to penetrate traditional banking systems as extremely low and probably altogether impossible. Failure to access banks contributes to the rising number of MSMEs and startups being financially underserved and ending operation (Arcuri & Levratto, 2018).

In Malaysia, crowdfunding topics have also gained attention from the Islamic perspective. The standard concept of Islamic crowdfunding applied to all types of crowdfunding and accepted, in general, is also vacant. Lending-based Islamic crowdfunding (peer-to-peer lending), on the other hand, applies the Islamic contract. The concept has been designed so that Islamic law related to avoidance of *riba*, gambling, liquor, and non-halal products is combined with the permitted businesses (Paldi, 2014; Wahjono *et al.*, 2015). The application and implementation of Islamic crowdfunding are highly recommended due to the market readiness in Islamic countries and countries with many Muslims. Recently, Ab Rashid, Hasim and Zainal Abidin (2021) empirically studied the potential of Islamic crowdfunding to the sustainability of SMEs in Malaysia. They found a positive impact on SMEs if Malaysia could implement Islamic-based crowdfunding. Malaysia and the rest of the Muslim countries have higher opportunities in implementing Shariah-based crowdfunding. The projection shows that the Muslim population will increase to 35% of the world population in 2030 (Grim & Karim, 2011). Statistics show that entrepreneurs run about 15% to 25% of these countries' economies (Kelley *et al.*, 2015). They are actively involved in processing commodities activities such as mining, agriculture, plantation, and fisheries (IMF, 2020). The ECF and Islamic crowdfunding, however, are not

compared because the latter only exists until 2019, which is beyond the research investigation period 2016–2019.

In addition, the Securities Commission Malaysia has launched a class by itself, the first digital Islamic-based Sukuk, namely "*Sukuk prihatin*", on August 18 2020. The issuer is the Government of Malaysia, and the size is MYR 500 million. The main goal of issuing the Sukuk is to redevelop Malaysia's economy post-pandemic, including but not limited to medical expenses related to the Covid-19, providing financial assistance for MSMEs, and improving the internet connection in rural school and villages.

Malaysians aged 18 years and above are eligible to participate individually or through corporations. The retail investors can subscribe at the minimum amount of MYR500. The subscription date is August 18, 2020, to September 17 2020. Meanwhile, the issuance date was 22nd September 2020. The maturity date will be September 22, 2022.

2.5 CROWDFUNDING ECOSYSTEM IN MALAYSIA

The crowdfunding ecosystem particularly connects the project creator, platform provider, and investors. It involves rules and regulation regarding crowd investing, equity crowdfunding, peer-to-peer financing, and property crowdfunding. ECF is when shares are exchanged with money. This type of crowdfunding involves the transfer of ownership from the firm to the investors. Hence, it is the reason why ECF is a highly regulated type of crowdfunding. To strengthen equity-based crowdfunding platforms in Malaysia, the Securities Commission of Malaysia gazetted the Guidelines on Regulation of Markets under Section 34 (GRMS 34) of the Capital Market and Services Act 2007 (CMSA 2007). These guidelines act as a governance mechanism and confirm the legality of ECF in Malaysia. It further safeguards all of the involved parties,

especially investors. The recognized market operators' targeted entities include micro, small, and medium enterprises (MSMEs) looking for early-stage financing (Securities Commission Malaysia, 2017).

2.6 CROWDFUNDING REGISTERED MARKET OPERATORS (RMO) IN MALAYSIA

In Malaysia, the registered crowdfunding recognized market operators are divided into three types; equity crowdfunding, peer to peer (P2P) crowdfunding, and property crowdfunding. The Securities Commission Malaysia has introduced these types of crowdfunding into the Malaysia capital market since 2014. At this time, the recognized market operators in Malaysia consist of ECF, P2P and Property crowdfunding.

In 2016, Ata Plus Sdn Bhd, Crowdo Malaysia Sdn Bhd, Crowdplus Sdn Bhd, Eureca SEA Sdn Bhd, PitchIN Platforms Sdn Bhd, and FBM Crowdtech Sdn Bhd were able to secure an ECF licence. Fundnel Technologies Sdn Bhd, Leet Capital Sdn Bhd, MyStartr Sdn Bhd, and Ethis Ventures Sdn Bhd were the other four companies to gain licences in 2019. A list of Malaysia's registered recognised market operators is shown in Table 2.2. The current study, on the other hand, concentrates entirely on the ECF and ignores the other CFs.

Table 2.2: Recognized Market Operators in Malaysia

ECF	P2P	Property
Ata Plus Sdn Bhd Crowdo Malaysia Sdn Bhd Crowdplus Sdn Bhd	Bay Smart Capital Ventures Sdn Bhd B2B FinPal Sdn Bhd Capsphere Services Sdn Bhd	EdgeProp Sdn Bhd

Table 2.2 Cont

Eureeca SEA Sdn Bhd	Crowd Sense Sdn Bhd
Ethis Ventures Sdn Bhd	Ethis Kapital Sdn Bhd
FBM Crowdtech Sdn Bhd	FBM Crowdtech Sdn Bhd
Fundnel Technologies Sdn Bhd	MicroLEAL Plt
Leet Capital Sdn Bhd	Modalku Ventures Sdn Bhd
MyStartr Sdn Bhd	Moneysave (M) Sdn Bhd
PitchIN Platforms Sdn Bhd	Peoplender Sdn Bhd
	QuicKash Malaysia Sdn Bhd

Source: SC (2020)

2.7 MARKET REGULATION: CAPITAL MARKET AND SERVICES ACT 2007

The end of 2015 was a credential in Malaysia's history when SC issued the GRMS 34 of CMSA 2007 to facilitate ECF platforms on the procedures and operations. The introduction of these guidelines made Malaysia the first country in the Asian region to have its regulation to facilitate ECF (Securities Commission Malaysia, 2016; Tsoon & Chow, 2016). However, the guidelines have been superseded by the Guidelines on Recognized Market—revision series number SC-GL/6-2015 (R1-2016). The replacement guideline is to be read together with sub-division 4, division 2 of Part II CMSA, under section 377 of the CMSA 2007. Part F of the guideline specifically represents the additional requirements relating to a recognized crowdfunding platform's recognized market. It consists of two chapters; Chapter 12 on the ECF platform and Chapter 13 on P2P crowdfunding (Securities Commission Malaysia, 2016). The guideline is to enhance investment-related crowdfunding to safeguard the crowdfunding actors, especially investors, and ensure that this funding mechanism would benefit the SMEs (Securities Commission Malaysia, 2015).

The guideline demands the operator or director to be a suitable person and able to conduct a systematic, just, and clear marketplace. The operator has power to stop the issuer from participating in the ECF activities in the case he/she is not appropriate to

do so. The operator has to comply with the All-or-Nothing funding model (AON), where the money raised will be distributed to the issuer if only the funding goals are achieved. If the money raised is below the minimum campaign target, the platform will give the money back to those who have invested. Also, it is the operator's responsibility to safeguard the investors. In contra with the Keep-it-all (KIA) model, the issuer will get the money even though it is lower than the minimum targeted amount.

2.8 MAIN ACTORS IN EQUITY-BASED CROWDFUNDING IN MALAYSIA

The equity-based crowdfunding actors, including the entrepreneur, the platform, and the investor, have been defined by Malaysia's Securities Commission. The entrepreneur, also known as the issuer, the platform provider, who is a licenced market operator, and the investor are the primary players in the ECF ecosystem. Backer is another term for an investor.

2.8.1 Crowdfunding Issuer (Entrepreneur)

The individual or firm that begins a campaign on the ECF platform is known as a crowdfunding issuer, which is usually the entrepreneur. Prior to launching event, the issuer is subjected to a due diligence procedure to guarantee the project's viability and the firm's existence. The issuer will offer the funders ownership of the company if the funding is successful.

2.8.1.1 Limits to funds raised on ECF platform

The maximum amount an issuer can raise through the ECF platform is RM5 million. This amount excludes the issuers' capital contribution and any funding obtained through other sources. However, every 12 months, an issuer can only raise to

RM3 million irrespective of the number of projects, and the issuer may seek another RM2 million the following year (SC, 2016). On top of that, the Malaysian Government also introduced the Malaysia Co-Investment Fund (MyCIF) to encourage investors and government collaboration to grow SMEs in Malaysia. The ratio is 1:4, meaning for every Malaysia ringgit raised from ECF and the MyCIF will invest in one Malaysia ringgit. However, the maximum cap is limited to MYR 500,000.

The maximum amount raised for both investment crowdfunding platforms, the ECF and P2P, was increased from \$5 million to \$10 million during the Covid 19 in March 2020. Furthermore, both platforms are now permitted to establish secondary trading, as MSMEs have demonstrated an interest in this type of financing. In addition, the government has raised the maximum cap on MyCIF to MYR one million, with a current ratio of 1:2, as a result of the epidemic. However, in order to help entrepreneurs, the additional maximum cap, which was set to expire in September 2020 (Fong, 2020), was extended until December 2020. (Malaysia's Securities Commission, 2020).

2.8.1.2 Issuer requirements to fulfil pre-ECF campaign participation

In order to safeguard the involved ECF actors, especially the investor, the issuer has to provide detail information. Table 2.3 below provides some of the essential requirements that the issuers need to submit to the ECF platform. Upon submitting the required information, the ECF platforms will conduct a due diligence process to evaluate and decide whether the issuers are eligible to participate in the ECF campaign. These requirements are considered private and confidential. It is the responsibility of the platform to maintain secrecy. However, these requirements might vary from one ECF platform to another.

Table 2.3: Pre-requirements for Participation in ECF Campaign

Part 1	ECF Agreement requirements <ul style="list-style-type: none">– provide issuer’s company name– brand name if different from the company name– indicative amount to raise–
Part 2	ECF Application Form Guidelines <ul style="list-style-type: none">– Applicant details– Applicant business information– Applicant crowdfunding readiness
Part 3	Opening Trust Account Guidelines <ul style="list-style-type: none">– Provide company name,– Expected amount to raise (Min & Max amount)– Bank account number– Signatory Foreign Account Tax Compliance Declaration
Part 4	ECF Due Diligence – Issuer Assessment <ul style="list-style-type: none">– Company general information– Company corporate information– Shareholding structure information Financial, Legal and Intellectual Properties Information
Part 5	Issuer Financial Performance Forecast Information

Source: PitchIN (2020)

2.8.2 Crowdfunding Platform Provider

A crowdfunding platform provider is the ECF platform that operates a registered electronic facility (REF). To be legalized, the platform must be locally incorporated and fulfil the requirement stipulated in the Guidelines. The platform provider is the intermediary that connects the issuer and the funder.

2.8.2.1 Platform obligations

Securities Commission Malaysia gazetted the platform provider's key responsibilities to safeguarding the ECF ecosystem in Malaysia. ECF in Malaysia is

legal. Thus, in order to attract more participants that are issuers and funders, proper governance mechanism is essential.

The platform conducts due diligence on prospective issuers who plan to use its platform, which includes conducting background checks on the issuer to ensure the issuer's board of directors, officers, and controlling owner are fit and proper, as well as verifying the issuer's business proposition.

The platform monitors the conduct of the issuer and take action against the misconduct of the issuer, carries out investor education programs, ensures the issuer's disclosure document lodged with the ECF operator is verified for accuracy and made accessible to investors through the platform.

If a reasonable doubt exists, the platform must notify investors of any major unfavourable change to the issuer's proposal, such as detecting false and misleading statements, omission of important information from the disclosure document, or anything else related to the offering and the issuer. Issuers should be monitored to ensure that the fundraising limitations placed on them are not exceeded.

Before investing on an ECF platform, the platform's obligations to the investor include, but are not limited to, monitoring the investors' investment limits and obtaining and retaining the self-declared risk acknowledgement forms from the investors. Aside from that, the platform must have mechanisms in place to monitor anti-money laundering standards and ensure that personal data is kept private in accordance with the Personal Data Protection Act 2010. Furthermore, the platform must establish and manage designated trust accounts in the licenced institution for fundraising on its platform. The funds will be distributed if the target amount has been met, no material changes have occurred during the offer period, and the six-day cooling-off period has expired.

2.8.3 Crowdfunders (Investors)

The Securities Commission of Malaysia underlines further requirements for crowdfunders or investors. A person may invest in any listing on the ECF platform subject to the following limits:

Sophisticated investors: No restrictions on investment amount. Angel investors: A maximum of RM500,000 within a 12-month period. Retail investors: A maximum of RM5,000 per issuer with a total amount of not more than RM50,000 within a 12-month period.

2.9 REGISTERED MARKET OPERATORS IN MALAYSIA

The registered ECF platform operators in Malaysia prior to 2018 comprise of six players. In 2019, four more platforms have been registered; Ethis Ventures, MyStarttr Sdn Bhd, Leet Capital Sdn Bhd, the special purpose company established by 1337 Ventures Sdn Bhd (Lin, 2019), and Fundnel Technologies Sdn Bhd.

i. FBM Crowdtech Sdn Bhd

Alix Global was founded in the year 2013 and has formed a partnership with FundedByMe, a Swedish crowdfunding platform that has a connection with Scandinavian investors. It was initially operated by professionals with vast experience internationally and the expertise of people from diversified fields. It highlights Neo Marketing as a tool in uniting innovation, integration, and inspiration to ensure abundant success to the clients.

ii. PitchIN Platform Sdn Bhd

PitchIN started in 2012 as a reward-based platform. Two years after, it received a license as an ECF platform provider. It has been described as Malaysia's national crowdfunding platform due to its outstanding accomplishment entitling it to become the most successful rewards-crowdfunding platform in South East Asia. It holds records for projects that raised the most funds and the number of backers for a single project. It executed ground-breaking crowdfunding projects during the Indie Festival in Penang, TAPAUfest, Movie GoGo – an on-demand movies project, PitchIN-MaGIC Challenge, MDEC's social project to assist flood victims in East Malaysia, and SeeSomethingNice, an apparel project in celebration of Malaysian Day and Independence 2014. PitchIN also helped Wok It, a Malaysian mobile kitchen that serves quick and customized meals while raising capitals to set up permanents and kitchen-building.

iii. Crowdo Malaysia Sdn Bhd

Crowdo is a regional fintech company offering a complete crowdfunding solution portfolio, including ECF and P2P. Launched in 2013, Crowdo is one of the region's longest-running and largest crowdfunding platforms with over 17,000 members with offices in Kuala Lumpur, Singapore, and Jakarta. Crowdo's mission is to connect the region's best high growth companies from the startup and small-medium business segments with Global Smart Capital. To date, it has helped companies from five different continents raise financing from over 50 other countries. Crowdo Malaysia Sdn Bhd is one of the first companies to be registered by the Securities Commission to offer equity crowdfunding. Crowdonomic has the backing of US and Japanese investors as well as a presence in Singapore.

iv. CrowdPlus Sdn Bhd

CrowdPlus.asia is an equity crowdfunding platform backed by Netrove Ventures Group, a regional tech-based venture capital firm and Propellar Corporation Ltd, an equity crowdfunding operator based out of Hong Kong. The platform's concept of leveraging on a tried and tested deal sourcing and selection process enhances the quality of deals presented to the crowd for equity funding. The platform also launches its unique QMI or Qualified Mentors, and Investors feature that unites capable mentors and investors across the region to achieve more extraordinary value creation and enhance success for companies funded through CrowdPlus.asia. Using Malaysia as the equity crowdfunding hub for Asia, CrowdPlus.asia is collaborating with various government agencies in Malaysia and the region to tap into multiple early-stage incubators and investing networking groups across the region to build an ecosystem for entrepreneurs to mix with the "right crowd."

v. Ata Plus Sdn Bhd

Ata Plus is a crowdfunding platform, matching Shariah-compliant businesses with investors seeking substantial business opportunities. The firm focuses on local MSMEs and social impact initiatives. It is a blockchain-enhanced equity crowdfunding online platform that introduces businesses seeking growth and funding with investors who want to partner in building sustainable world-class companies. As a platform designed to assist stakeholders in making sound decisions, Ata Plus actively seeks to leverage technology as tools to facilitate and promote transparency and good governance in investing. The platform delivers extensive services from supporting companies to compellingly showcasing their business and educate investors on the best ways to evaluate their investment opportunities. More importantly, Ata Plus strives to

be part of the crowdfunding ecosystem driven by communities seeking to democratize wealth and bring capital to a productive outcome through encouraging risk-sharing and enhancing the financial inclusion of those with savings. Therefore, the model will get more comprehensive business access to financing and stimulate positive social benefits through entrepreneurship.

vi. Eureeca SEA Sdn Bhd

Eureeca Limited is authorized and regulated by the Financial Conduct Authority (FCA) in the UK (No. 624555). Eureeca Limited is regulated by the Dubai Financial Services Authority (DFSA) as a Representative Office (No. F003216). Eureeca SEA is authorized and regulated by the Securities Commission in Malaysia as a registered electronic facility under Section 34 of the CMSA 2007. It is also regulated by the Netherlands Financial Market Authority for its operation as a branch. Eureeca as the first global ECF platform provides substantial networks from retail to an institutional investor to invest in the potential ventures around the globe. It is a multi-regulated platform, having received licensing from the UK FCA Authority and the Securities Commission Malaysia in 2015 and the Netherlands Authority for the Financial Markets and DFSA. From its offices in Dubai, London, Kuala Lumpur, and Amsterdam, Eureeca offers high-yield potential investment opportunities from the Middle East, Europe, and Southeast Asia to its 12,000-strong investor network. Businesses raising funds can leverage this network for capital, strategic connections, and expansion into new markets. Dubai-based Eureeca is a UK FCA regulated entity, which provides Malaysian companies with an opportunity to raise funds from the Gulf region.

vii. Leet Capital Sdn Bhd

Leet Capital Sdn Bhd obtained a platform provider license in May 2019. It is a special purpose company created by 1337 Ventures for ECF activities. 1337 Ventures is known as a pioneer in technology accelerator and has initiated many accelerators for multinational corporations (MNCs) and government-linked companies (GLCs) in Malaysia such as Malaysian National Bank, Maybank, CIMB, Telekom Malaysia, Khazanah Nasional, and Malaysia Digital Economy Corporation (MDEC).

viii. Ethis Ventures Sdn Bhd

Ethis Ventures is a Shariah-based crowdfunding platform registered in Malaysia. It starts with donation-based crowdfunding and has established Global Sadaqah, a prize-winning Shariah-based social finance platform to cater for *zakat*, *waqf*, *sadaqah*, and CSR. It also has been granted a license on property-based crowdfunding in Indonesia and Dubai. Recently, it has been awarded a license from the Securities Commission Malaysia to operate as a legal ECF platform provider. Ethis is the only Shariah ECF platform provider in Malaysia (The Edge Malaysia, 2019).

ix. Fundnel Technologies Sdn Bhd

Fundnel Technologies Sdn Bhd is a company registered in Malaysia. Originated from Singapore, Fundnel partnered with Midana Capital, the investment in the Asia Pacific to assist Malaysia's SMEs' growth in raising the required funding or connecting with the strategic partnership (NST Business, 2018).

x. MyStartr Sdn Bhd

MyStartr Sdn Bhd started as the donation type crowdfunding. In 2012, it initiated a program, entitled "Dream Factory", which has progressed to competition

programs for startups in 2017. The programs enable the startups to obtain adequate entrepreneurship knowledge and mentoring assistance before entering the pitching competition. MyStartr was awarded a license as a legal ECF market operator in May 2019 by Securities Commission Malaysia. The main goal of Mystartr is to assist the startups in getting the funding by educating the investors to make wiser investments and for the startups to scale up (MyStartr, 2020).

2.10 FINANCIAL-BASED CROWDFUNDING ACTIVITIES AMIDST COVID-19

In Malaysia, the ECF market is seeing a rise in financing supply to SMEs. Table 2.4 demonstrates the ECF achievement as of March 31, June 30, September 30, and December 2020. The fundraisers engaged with the ECF platforms as they have the shares to offer to investors. The number of successful fundraisers was 113, and the number of successful campaigns was 119. As of September, the ECF market has raised more than MYR120 million. Investment of MYR500K and below represents 41% of the total amount raised. The ECF activities also show that the major investors are from the retail category, and 46% of the investors who participate in the ECF campaigns aged below 35 years. In Malaysia, retail investors can invest not more than MYR 50,000 a year and are subject to a maximum of MYR 5,000 per issuer. However, angel investors can invest in financial-based crowdfunding up to MYR 500,000 per year, and sophisticated investors face no restriction on the investment amount (Securities Commission Malaysia, 2016).

Table 2.4: Equity Crowdfunding Statistics (Mar.-Dec. 2020)

EQUITY CROWDFUNDING		Crowdfunding Statistics as at			
		31 st March'20	30 th June'20	30 th Sept'20	31 st Dec'20
1	CAMPAIGNS AND ISSUERS				
i	Successful Campaigns	94	106	119	159
ii	Amount Raised (MYR)	90.36 m	110.26 m	129.64 m	199.23 m
iii	Successful Issuers	91	102	113	150
iv	Distribution				
	MYR500K and below	48%	42%	41%	34%
	>MYR500K – MYR1.5M	30%	31%	30%	33%
	>MYR1.5M – MYR3M	22%	26%	26%	28%
	>MYR3M	0%	1%	3%	5%
2	INVESTORS				
i	Investor Age				
	<i>Below 35</i>	47%	46%	46%	45%
	<i>35 – 45</i>	30%	31%	31%	31%
	<i>46 – 55</i>	13%	13%	13%	14%
	<i>>55</i>	10%	10%	10%	10%
ii	Types of Investors				
	<i>Retail</i>	59%	60%	59%	61%
	<i>Sophisticated</i>	21%	19%	19%	16%
	<i>Business Angel</i>	18%	19%	20%	21%
	<i>Institutional</i>	2%	2%	2%	2%

Source: Securities Commission Malaysia (2020)

Table 2.5 displays the P2P accomplishments of March 31, June 30, September 30, and December 2020. Under P2P, the fundraisers offer to pay the investors the principal they borrow and the interest they have been promised. From the table, we can see that P2P platforms have conducted more campaigns than ECF platforms. The amount raised via P2P shows more than MYR 900 million. It involves 2,502 fundraisers and more than 13k successful campaigns. In terms of allocation, 73% represents an investment amount of MYR 50,000 and below. Additionally, 88% of the investors are retail investors. Meanwhile, 62% of them are aged below 35 years.

Table 2.5: P2P Crowdfunding Statistics (Mar.-Dec. 2020)

P2P LENDING CROWDFUNDING		Crowdfunding Statistics as of 30 th			
		March 2020	June 2020	Sept 2020	Dec 2020
1	CAMPAIGNS AND ISSUERS				
i	Successful Campaigns	9,989	10,824	13,039	15862
ii	Amount Raised (MYR)	738.99mill	798.32mill	921.83mill	1.14 bill
iii	Successful Issuers	2,100	2,231	2,502	2801
iv	Distribution				
	MYR50K and below	72%	71%	73%	72%
	>MYR50K – MYR200K	20%	21%	20%	21%
	>MYR200K	8%	8%	7%	7%
2	INVESTORS				
i	Investor Age				
	<i>Below 35</i>	63%	63%	62%	62%
	<i>35 – 45</i>	24%	24%	24%	24%
	<i>46 – 55</i>	9%	9%	9%	9%
	<i>>55</i>	4%	4%	5%	5%
ii	Types of Investors				
	<i>Retail</i>	95%	88%	88%	88%
	<i>Sophisticated</i>	4%	4%	4%	4%
	<i>Business Angel</i>	0	8%	8%	8%
	<i>Institutional</i>	1%	0	0	0

Source: Securities Commission Malaysia (2020)

Indirectly, Table 2.4 and Table 2.5 illustrate the potential of financial-based crowdfunding as alternative entrepreneurial funding for SMEs in Malaysia, especially during the pandemic. Further, to gain more information about financial-based crowdfunding in Malaysia, this study zooms into PitchIN, the most popular ECF platform in Malaysia. It runs both as a reward crowdfunding and ECF platform. PitchIN has dominated the ECF-funded campaigns so far in terms of amount raised, the number of ventures, and investors' participation. Compared to other platforms, PitchIN provides more inputs as possible to increase stakeholders' interest and trust. Thus, this is one reason why many fundraisers and investors have approached PitchIN to raise and offer funds, respectively.

2.10.1 PitchIN and ECF Activities amidst Covid-19

The platform's ability to assist SMEs in raising operating capital is demonstrated by active ECF activity during Covid 19. Table 2.6 shows the activities of the successful campaign conducted by PitchIN during the Covid-19 outbreak from March 18, 2020, until April 25, 2021. It exhibits that PitchIN has assisted ventures in obtaining their funding. A total of 47 successful campaigns have been launched during the crisis involving 2,032 investors, and the cumulative amount raised was above MYR 79 million. Policy Street recorded the highest success campaign and raised MYR 5,280,657 while the lowest amount raised was MYR 250,500 by Airuphere. The highest shares offered was 48.78% by Accos, an e-commerce platform, and the smallest percentage of ownership was 1.51% provided by Far Capital, a digital infrastructure provider. In terms of the highest and lowest number of investors' participation, 274 and three were recorded. Surprisingly, the single largest investment showed that seven investments were worth MYR1 million and above from a single investor. The business activities vary from agriculture-based, entertainment, foods and beverages, event management, educational platform, water dispenser supplier, and others, but the campaigns reflect technology-related activities or industry dominance.

Table 2.6: PitchIN Platform's Success Campaigns during Covid-19

No.	Company Name	Business Activity	Amount Raised MYR	Shares Offered %	No. of Investors	Single Largest Investment MYR
1	GenYouth	Employment Platform	3,040,000	16.70	13	1,000,000
2	Zupital Holding	Cleaning and Disinfection Supplier	2,991,300	16.63	18	991,200
3	Jtel Marketing	Leben brand water dispenser	678,300	9.52	18	222,300
4	Coffeeprint	Digital platform-Cloud printing	1,088,000	13.04	19	360,000
5	Traitily	Digital platform-psychometric assessment	910,800	10.00	10	302,400
6	HarvestNet	Software solution provider	596,500	6.98	9	174,000
7	Virtual Level Up S/B	Virtual event specialist	3,016,440	13.05	13	1,023,120
8	Apex Biocare Sdn Bhd	(Online)Pharmaceutical and Wellness Ind.	1,200,000	20.00	5	432,000
9	Quivine Tevacous Foodstuff Sdn Bhd	Food Technology Company	385,560	10.00	9	270,540
10	EduReviews Co	Education Directory	1,076,600	12.50	14	214,200
11	Whizzl	Feedback and Rating Systems Apps	1,871,250	5.21	76	343,125
12	Kravve	Handmade food and Groceries platform	1,255,000	11.11	159	222,500
13	Fatberry	Insurance products Online	2,519,340	33.26	19	1,036,010
14	Brandt International	Business process outsourcing (BPO) firm	2,095,017	9.97	54	1,026,260
15	Evulx International	Digital learning simulation provider	319,000	8.57	23	90,000
16	XTS Technologies S/B	Factory automation	1,688,400	7.41	87	313,200
17	Govicle Sdn Bhd	Digital parking Apps (Formerly known as Jompakir)	1,567,208	12.50	13	498,750
18	Alpha Red Services	Cloud-based Technology platform	622,200	12.02	27	120,780
19	iConstruct	Digital construction material platform	452,250	6.94	23	150,750
20	SERV	Vehicle Super App	1,506,190	5.26	77	500,760
21	MAHSA Nexgen	One Stop Digital Platform	2,999,000	16.67	10	999,000
22	Kosumy	Cloud Training Platform	710,000	19.35	12	235,000

Table 2.6 cont

23	Accos	E-Commerce	2,998,920	48.78	15	990,360
24	Sentuh Sinergi	Digital Platform	734,400	8.16	74	221,400
25	Far Capital	Digital Infrastructure provider	263,500	1.51	3	250,000
26	Smart Security Solutions	Digital Smart Lock Systems	684,250	10.24	34	226,100
27	Brick House	Café, Catering, Event Management	3,000,000	6.98	9	1,000,000
28	Newleaf Eco Dev.	Durian Massive Plantation	920,000	N/A	51	270,000
29	Simply Giving	Platform Fundraising for Social Ent.	317,912	10.99	9	129,412
30	MAHSA Healthcare	Healthcare	3,000,000	10.71	8	1,000,000
31	Yin's Sourdough	F&B	1,139,468	15.00	59	220,806
32	RentGuard	Platform-Digital property	644,600	4.63	107	165,600
33	Policy Street	Insurance technology	5,280,657	11.71	274	998,058
34	VMO	Platform-Event	2,085,052	9.10	24	692,464
35	Newswav	Platform-AI & BD	1,520,178	18.74	7	550,016
36	Everpeaks	E-commerce	941,000	25.17	48	500,000
37	SecondLife	Technology/ e-commerce	268,800	9.11	14	150,000
38	Speedrent	Platform-rent property	2,592,962	10.27	106	639,744
39	Carpedia	Platform-gig income	552,500	15.00	87	139,400
40	Regov Tech	Bitcoin	2,830,423	8.40	132	895,752
41	Superceed	Artificial Intelligence	3,110,555	7.29	31	998,296
42	Airuphere	Platform-Sport Organizer	250,500	9.04	9	100,500
43	Deemples	Golfer platform	1,440,000	16.78	59	450,000
44	Talent Ap Mgmt	Marketing solution provider	3,000,800	25.05	19	1,038,400
45	NU Vending	Automation	2,457,200	10.53	27	736,400
46	Translife Education	Live streaming education platform	1,975,680	18.19	8	882,000
47	eShoplive.asia	Social Live Streaming Platform	4,830,272	12.50	81	1,551,872
48	RexKL	F&B services platform	1,181,295	12.50	29	60,000
TOTAL			79,427,984		2,032	25,382,475

Source: Author's Illustration

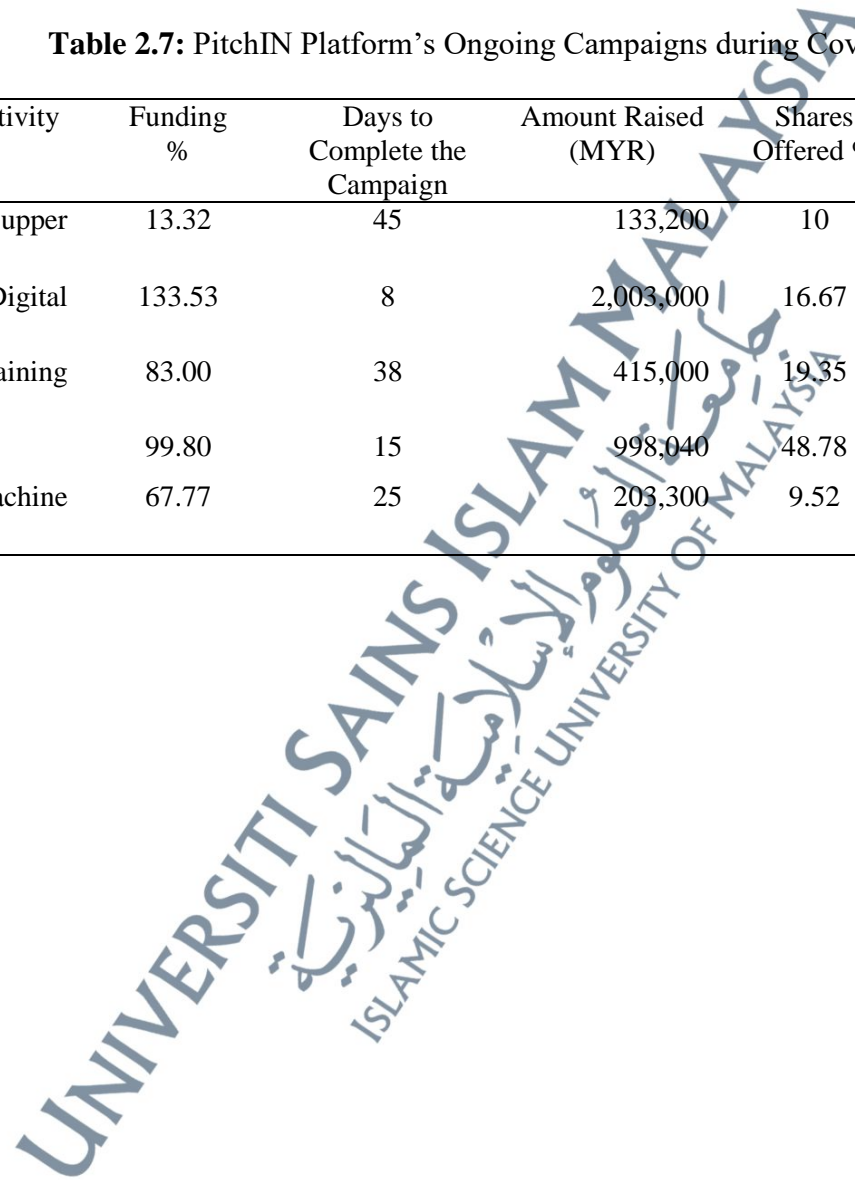
Meanwhile, Table 2.7 presents the ongoing campaigns. So far, there are five campaigns, and out of the five, four are technology-based campaigns. MAHSA Nexgen offers 16.67% of the ownership. It has exceeded its target funding goal by 33.53% and is waiting for eight more days to complete the campaign. As of date, more than MYR2 million has been raised from 10 investors, with the most extensive single investment recording MYR500k. Accos, an e-commerce provider, offers 48.78% stakes and is nearing its funding target (99.80%), which should end in another 15 days and has managed to attract nine investors. SERV, a new take-off campaign, offers 10% shares and has another 45 days to complete the campaign.

However, these campaigns will only be regarded as successful when 100% of the funding goal has been achieved and that the cooling-off period of six days following the end of the campaigns has been met. The ECF investors may withdraw the total amount of their investment before the cooling-off period ends. Furthermore, the platform accountability is to communicate immediately with the investors of any significant changes about the issuers. The investors also have the option to withdraw their investment if they choose to do so within 14 days after the said notification (Securities Commission Malaysia, 2015).

Table 2.7: PitchIN Platform’s Ongoing Campaigns during Covid-19

PitchIN	Business Activity		Funding %	Days to Complete the Campaign	Amount Raised (MYR)	Shares Offered %	No. of Funders	Largest Single Investment (MYR)
SERV	Vehicle Apps	Supper	13.32	45	133,200	10	26	18,000
MAHSA Nexgen	One Stop Digital Platform		133.53	8	2,003,000	16.67	10	500,000
Kosummy	Cloud Platform	Training	83.00	38	415,000	19.35	11	100,000
Accos	E-Commerce		99.80	15	998,040	48.78	9	300,000
JTel Marketing	Water Rental	Machine	67.77	25	203,300	9.52	13	51,300

Source: PitchIN (2020)



In 2020, PitchIN made history after securing the target amount of MYR100 million which was raised from its ECF activities. According to its chief strategy officer, the new announcement of fundraising limits early this year has encouraged entrepreneurs to seek their funding via the ECF platform. Other than that, the increase in fundraising limits and the introduction of MyCIF as additional financial assistance for eligible ECF and P2P campaigns also contributed to PitchIN's success. Additionally, the recent 2021 budget announcement of tax rebates for ECF investments and the agenda of PitchIN's secondary market projection are capable of attracting more potential investors (MSME Admin, 2020).

2.11 CHAPTER SUMMARY

This chapter has provided the background of entrepreneurship and ECF environment in Malaysia, the leading players in the ECF ecosystem, the related Acts, and the funding activities by the financial-based crowdfunding platforms during the recent Covid-19 pandemic. During Covid-19, the traditional financial institutions were unable to accommodate the entrepreneurs' financial discrepancies faced by the entrepreneurs. The pandemic has thus shown the potential of financial-based crowdfunding, especially ECF, in overtaking the traditional financial institutions' responsibility, especially during the current crisis. This therefore motivates and justifies the current investigation.