

# FINANCIAL INCLUSION THROUGH CROWDFUNDING IN MALAYSIA: A REVIEW

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## Abstract

*The aim of this study to review the position of Malaysia in terms of financial inclusion and crowdfunding. The goal of financial inclusion is not only to enhance a country's economic growth but also to eradicate poverty and reduce the gap between the rich and the poor within a country. Crowdfunding can be used as a banking alternative, and countries with a large number of crowdfunding platforms have demonstrated great financial inclusion. By expanding access to capital and displacing unregulated lenders, crowdfunding has the potential to promote financial inclusiveness in the society. This study employs content analysis using secondary data to explore financial inclusion initiatives that can be achieved through crowdfunding platforms. It is hoped that the review would be useful for understanding and promoting crowdfunding as one of the important tools to achieve financial inclusivity in Malaysia. The paper will be useful to researchers, professionals and others concerned with financial inclusion to understand the importance of crowdfunding as one the mechanisms to promote financial inclusiveness. Other than revealing ambiguities, gaps and contradictions in the literature, this paper provides information and guidance for other researchers wishing to embark on research on financial inclusion and crowdfunding.*

*Keywords: Financial inclusion, crowdfunding, poverty*

## INTRODUCTION

Due to the geographical location of the place and the context in which financial inclusion is utilised, there is no uniform definition of this terminology (Chinoda & Mashamba, 2021). Financial inclusion may be defined as the supply of financial services at a fair and affordable cost (Ansari & Bahari, 2021). Information on the categories of financial services is critical for promoting financial inclusion. Previous research on financial inclusion has focused on savings and credit (see, for example, Bharadwaj & Tavneet, 2020; Ouma, Odongo, & Were, 2017). Only several mentions other financial services such as banking and insurance (Heydenrych & Luiz, 2018). In determining which financial services are deemed vital for financial inclusivity, the World Bank (2022) has identified four major categories of services to which everyone in society should have access - banking transactions, savings, credit, as well as insurance.

Malaysia, in particular, has seriously addressed the agenda of financial inclusion as it serves as an essential mechanism to promote balanced and sustainable economic growth and development. The Malaysian government introduces the New Economic Model (NEM) in 2009 which aimed to transform Malaysia into a high-income economy underpinned by sustainable growth. One of the major desired results of this vision is inclusivity, combined with high income and sustainability (Bank Negara Malaysia, 2016). In order to meet the mandate of financial inclusion, a holistic framework has been articulated within BNM's Financial Sector Blueprint (FSBP) 2011-2020 to improve the overall well-being of communities in terms of convenient accessibility, high take-up, responsible usage, and high satisfaction with financial services. In achieving the desired outcomes of convenient accessibility and high take-up specifically, the strategies intended to provide both innovative channels as well as innovative products and services. This can be achieved through digital finance. "Digital financial inclusion" is a growing phenomenon (Global Partnership for Financial Inclusion, 2016) that provides innovative ways to reach underserved people.

Over the past few decades, technology has drastically impacted every aspect of people's lives. Financial services are without exception. The intersection of finance and technology has facilitated the financial inclusion agenda. Given that over 50% of people in developing nations own smartphones, digitising financial services can contribute to broader financial inclusion (Demirguc-Kunt et al., 2018). As compared to conventional financial services, digital finance is more accessible and affordable for the underserved group in developing countries to access to deposit and lending services within the mainstream financial system (Haider, 2018). Fintech is the current way of delivering financial services through technology and crowdfunding (hereafter referred to as CF) is an application of financing that utilize this mode (Baber, 2019). Over the past ten years, crowdfunding has gained popularity and established itself as a key alternative source of funding for individuals, businesses, creative enterprises, and non-profit organisations (Regner, 2020; Fanea-Ivanovici & Baber, 2021). The four types of crowdfunding have been agreed upon by the majority of authors; equity-based, lending-based, donation-based and reward-based (Dorfleitner et al., 2017; Kim & De Moor, 2017; Kirby & Worner, 2014).

This paper revisits research conducted in the area of financial inclusion and crowdfunding with a special focus on Malaysia. This study also provides a review of current crowdfunding platforms in Malaysia that has plausible potential to drive financial inclusion. The review aims to synthesize current crowdfunding platforms by exploring and identifying types of financial assistance offered to the needy.

The paper is structured as follows. The next section provides an overview of financial inclusion in Malaysia and the background of crowdfunding especially its

current trends in Malaysia. The methodology is presented in the following section followed by results and discussion. The final section concluded the study.

## LITERATURE REVIEW

### Overview of Financial Inclusion

The meanings of financial inclusion have been mentioned in many previous studies, for instance, “access to financial services”, “responsible and sustainable provision of financial services”, “affordable delivery to disadvantaged and low-income segments of society” and “broad range of services of high quality, with attention to consumer protection” (Ben Naceur et al., 2015). In simple understanding, financial inclusion indicates that an individual has an account with a formal financial institution, which allows them to save and borrow money (Baber, 2021). According to Zins and Weill (2016), the major criteria for financial inclusion include holding a bank account, saving and borrowing money.

According to Bruhn and Lovo (2014), financial inclusion brings economic prosperity and assists excluded persons in increasing their income by either/both saving and borrowing money. People who were previously financially excluded may now be able to spend on education, save, and start businesses, ultimately contributing to poverty reduction and economic growth (Ozili, 2018).

Financial inclusion strives to increase the number of individuals who are financially excluded from the formal financial system, by holding at least a bank account, to create inclusive economic growth (Beck et al., 2007). Financial inclusivity offers various benefits; increased resource efficiency, social and political strength, promote innovation, and economic growth (Ahamed & Mallick, 2019). People frequently face unforeseen financial crises such as illness, death and unemployment. With access to finance, people would be able to save money for such situations or borrow money from financial institutions (Collins et al., 2009).

Ozili (2018) proposed that digital finance can assist achieve greater financial inclusion since many individuals who do not have a financial account own a mobile phone. According to Malady (2016), persons who are excluded from the financial system may have access to technology, but there is a lack of confidence and reliability in electronic channels. Manyika et al. (2016) attributed digital finance for assisting banks in saving expenses by cutting client queuing times, reducing paperwork, and even reducing the number of branches.

Poverty alone cannot be blamed for financial exclusion; there are several additional causes of purposeful exclusion from the official financial system, such as religion, culture, and lifestyle. The intended financial exclusion problem may be remedied by providing communities with customized financial services, such as Islamic finance and microfinance (Baber, 2021) as well as with the infusion of digital elements to boost financial inclusion. The role of Fintech in driving financial inclusion

is supported by several studies (see for example, Baber, 2021; Venkatesh, 2019; Durai & Stella, 2019; Global Partnership for Financial Inclusion, 2016).

### **Crowdfunding at a Glance**

As crowdfunding is a novel business investment concept, its definition is still up for discussion. Crowdfunding is literally inspired by notions such as microfinance (Morduch, 1999). It is composed of the terms "crowd" and "funding," which relate to the crowd and financing, respectively; in other words, it is financing by the crowd. Nonetheless, the term derives from the concept and word "crowdsourcing" which was first used by Jeff Howe (Howe, 2006).

Definitions of crowdfunding are varying (see for example, GPFI, 2016; European Commission, 2016; IOSCO, 2015; World Bank 2013). However, they share the following common key components: (i) raising funds in small amounts, (ii) from many to many, and (iii) using digital technology (Jenik et.al., 2017). As funds are channeled directly from funders to fundraisers through a given platform, the key disruptive effect of crowdfunding is the reduction level of intermediation by traditional financial institutions to a minimum (Terry, Schwartz, & Sun 2015).

Crowdfunding is a method of raising capital by combining the effort of family, friends, customers and investors. CF is growing as a new means to attract funding and financing for individuals, small businesses and entrepreneurs around the world. The method also helps people to find investors or contributions to their business (Baber, 2021). According to Jenik et al., (2017), CF is a part of financial innovation called alternative finance where it combines crowd and finance by using technology. Regardless of the growth of CF, there are still trust issues about these projects. As is the case for other online financial platforms (such as banks), CF platforms also involve risks and uncertainties.

Crowdfunding may take several forms (Slimany & Ziky, 2021; Jenik et al., 2017). The feature of the contribution (gift, loan/debt, or stock) as well as the nature of the compensation (proceeds, interest, or dividends), if any, dictate the forms. The most common categories of crowdfunding are reward, equity, lending/debt and donation (Slimany & Ziky, 2021; Dorfleitner et al., 2017; Kim & De Moor, 2017; Kirby & Worner, 2014). The first category of crowdfunding is reward-based, and it is an asset class in exchange for a reward, gifts, or products. The second one is the equity-based investment, which aims to provide investors with a percentage stake. Since information asymmetry and a lack of publicly available data in the traditional sense, this form appears to be the riskiest. The third type is based on lending. Crowdlending is the granting of a loan to a company or an individual. It is also known as peer-to-peer (P2P) credit, which refers to a loan granted without the involvement of a bank. The last form is donation-based or charity giving. The donations are simple, unrequited gifts that are typically used to fund ideas and projects in the social and charitable fields. Non-profit organizations (Macht & Weatherston, 2015; Pichler &

Tezza, 2016), or individuals are frequent recipients, for example, to fund medical treatment.

Previous studies have shown that different platforms present different levels of risk and uncertainty. Schwienbacher and Larralde (2010) claim that the disclosure requirements may differ among investors. For equity- and lending-based CF, potential investors demand more information, because they are exposed to higher levels of risk and uncertainty. Since the different CF platforms present different types of risk, some countries use initiatives to protect their investors, specifically in equity- and lending-based CF. For example, in the United Kingdom, both of these platforms are protected under the Financial Services and Markets Act 2000; their task is to protect consumers from high-risk forms of finance by requiring the operations of the company to be authorized. Meanwhile, in the USA, protection is provided under the JOBS Act 2012. Malaysia is the first country in ASEAN to implement a regulatory framework to facilitate equity CF (Mohd Nor & Hashim).

### **Financial Inclusion and Crowdfunding**

Financial inclusion is the opposite coin of financial exclusion. Research in the area of crowdfunding and financial inclusion is still rare (Slimany & Ziky, 2021). According to GPMI (2016) in the context of financial inclusion, crowdfunding refers to a market-based financing technique where funds are raised from large numbers of individuals or legal entities in small amounts, bypassing traditional financial intermediaries, and using mobile phones and online web-based platforms to connect with borrowers, whether to fund a business, a specific project, or other needs.

Crowdfunding can promote financial inclusion in various ways. Firstly, since banks are profit-driven, they are likely to disfavor poor and low-income customers. Lending-based crowdfunding can be an effective tool to address this issue. Additionally, crowdfunding acts as a new financial alternative to overcome issues that arise from traditional finance and to cope with recent digital advancements. Crowdfunding has the potential to close the supply-demand gap for entrepreneurial finance (Bruton et al., 2015).

Lending-based crowdfunding provides more transactions and sector diversity, as well as reduced commissions and costs (Hollas, 2013; Marchese, 2014) to benefit women, migrants, young, and low-educated entrepreneurs who encounter difficulty in credit access and conditions (Marchese, 2014). According to Bholat & Atz (2016), rivalry in lending-based crowdfunding can benefit consumers by decreasing the price of unsecured loans and motivating banks to develop their digital products.

Comparingly, equity-based crowdfunding is primarily used to provide equity financing to enterprises, and it is ideal for start-ups and SMEs. Many studies have proven that equity-based crowdfunding may help entrepreneurs finance their businesses (Slimany & Ziky, 2021). In addition, according to Schwartz (2013),

“securities crowdfunding is an ideal platform for bringing venture capital to rural areas”. The author shed lights that crowdfunding removes the geographic constraint that has long impeded rural entrepreneurship by allowing rural entrepreneurs to connect and obtain financing from angel investors through an electronic platform.

Moreover, donation-based crowdfunding is based on charitable contributions to a public good where the crowdfunding platform acts as a middleman between charities and non-governmental organizations (NGOs). This channel has the potential to address financial literacy issues, provide life skills and entrepreneurship training as well as improve health and safety through the provision of seed funding for a variety of programs to stimulate financial inclusion (Roig-Tierno et al., 2015).

In a nutshell, crowdfunding is a phenomenon that, could become an excellent enabler and safe environment to provide access to finance. Crowdfunding may potentially advantage disfavoured people through a few ways; improve access to finance for borrowers who are unserved or underserved; develop low-cost and community-based insurance products; and facilitate access to digital investments by people who currently have limited or no options to gain financial returns on their savings (Jenik et al., 2017).

## **METHODOLOGY**

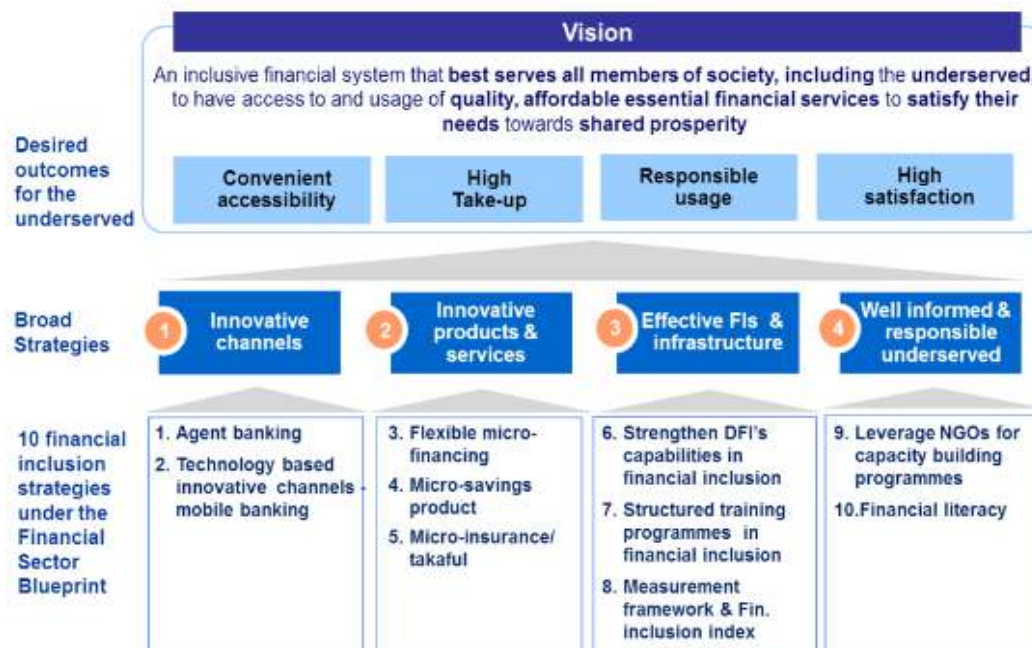
This study utilizes content analysis to examine the current financial inclusion agenda in Malaysia and to explore the crowdfunding platforms in Malaysia which promote the financial inclusion agenda. Content analysis is defined as a method used in research to identify the pattern in recorded communication by collecting data systematically from a set of text (oral, written, or visual). It was extensively applied in multiple disciplines such as anthropology, cognitive science, media studies, and many social science disciplines. The objective of content analysis is to produce meaning and organize the data collected to produce a realistic conclusion (Bengtsson, 2016). Others will utilise this strategy to understand the reference and logical interpretation for certain texts, as well as how terminology has been employed. (Handayani, et al., 2019).

## **FINDINGS AND DISCUSSION**

### **Financial Inclusion Agenda in Malaysia**

The goal of financial inclusion is not only to boost a country's economic progress but also to eradicate poverty and close the wealth gap within a country. The New Economic Model (NEM) is introduced by the Malaysian Government in 2009 to support sustainability agenda through financial inclusion. Inclusiveness, alongside high income and sustainability, is one of the important desired outcomes of this vision (Bank Negara Malaysia, 2016).

The Central Bank of Malaysia Act 2009 further strengthened Bank Negara Malaysia's strategic focus on driving financial inclusion programmes. In order to fulfill the mandate of financial inclusion, a holistic framework has been articulated within BNM's Financial Sector Blueprint (FSBP) 2011-2020 to improve the overall well-being of communities in terms of convenient accessibility, high take-up, responsible usage, and high satisfaction of financial services (see Figure 1).



Source: Bank Negara Malaysia (2016)

**Figure 1: Holistic Financial Inclusion Framework for 2011-2020**

The financial inclusion framework aimed to create an inclusive financial system that best serves all members of society, particularly the underserved, by providing access to and utilisation of quality, affordable essential financial services to meet their needs and contribute to greater shared prosperity. The vision's accomplishments are assessed by the expected results for clients, which include convenient accessibility, high take-up, responsible usage, and high satisfaction with financial services. The FSBP has recognised 10 primary action plans focused on strategic results via innovative channels and goods and services, financial knowledge empowerment of the disadvantaged population, and building financial institutions and infrastructure. These action plans are currently being carried out and are at varying degrees of completion.

BNM also has been a prominent supporter of the financial inclusion agenda on a global scale. This is demonstrated through substantive contributions and active involvement in the Alliance for Financial Inclusion (AFI) and the ASEAN Working Committee on Financial Inclusion (ASEAN Working Committee on Financial Inclusion) (WC-FINC). Furthermore, BNM has partnered with the Irving Fisher Committee on Central Bank Statistics, AFI, the Organisation for Economic Co-

operation and Development (OECD), and the World Bank on financial inclusion capacity development programmes for global policymakers. BNM has also collaborated with Asian Banking School to provide leadership and technical training to regional microfinance practitioners<sup>8</sup>.

In terms of financial inclusion assessment, BNM has established an index of financial inclusion (IFI) to assess the efficacy of formal financial institutions in providing financial goods and services to all sections of society. This is a critical instrument for tracking the development of efforts and measuring the impact of policies aimed at increasing access to the financial sector. A national IFI also gives a holistic picture of the development of an inclusive financial system, therefore supporting the government's reform efforts (Abd Rahman, 2013).

### **Current Crowdfunding Platforms Related to Financial Inclusion Initiatives in Malaysia**

Crowdfunding is a model that can promote financial inclusion as a quick route to alternative capital to gain money. CF has the potential to attain financial inclusion. In other words, CF can be an excellent opportunity for developing economics where it can reduce poverty. Recently, CF platform also plays an important role to help people affected by COVID-19 especially those in the low-income category. During the pandemic, most organisations face financial disruptions. To make it worse, when the government has imposed a movement control order, people cannot go anywhere and are stuck at home. Many communities rely on NGOs and social enterprises to help them, especially those affected by COVID-19.

As a solution, CF platforms become one of the 'places' for people who are interested to help other people. In fact, a number of project owners from social enterprises and NGOs have stepped up to support people who are affected by promoting their projects using the CF platform. For instance, projects that relate to social enterprise to help underprivileged families. By using Kitafund and Kita Bantu.com platforms which partner with NGOs, the projects have successfully distributed supplies that include rice cooking oil, flour, salt, sugar and other essential items for daily usage for needy families. The above examples signify the extension of financial inclusion practice through CF.

On top of those, there are several other CF platforms that contribute to the financial accessibility agenda which not restricted or specifically responded to COVID-19. Table 1 presents examples of CF platforms in Malaysia that support financial inclusion.

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<sup>8</sup> For more details on the activities and achievements from these collaborations, refer [http://www.bnm.gov.my/index.php?ch=fi&pg=fi\\_ovr&ac=471&lang=en](http://www.bnm.gov.my/index.php?ch=fi&pg=fi_ovr&ac=471&lang=en)

**Table 1** Examples of crowdfunding platforms in Malaysia that support financial inclusion

| Crowdfunding platform      | Background  | Target                   |
|----------------------------|---|--------------------------|
| Propeller Crowd Plus (PCP) | PCP has a track record of SME companies   | SMEs                     |
| PitchIn                    | PitchIN is widely recognised as Malaysia’s national crowdfunding platform. One of the very exciting platforms to have achieved a lot of success with startups. PitchIn was Malaysia’s biggest ECF platform in 2021, accounting for 38% of all funding raised through equity crowdfinancing campaigns in 2021 (RM 84.3 million (US\$19 million). Apart from being a rewards-based crowdfunding platform, PitchIN also operates as an equity crowdfunding platform. | Startups                 |
| MyStartr                   | MyStartr is the Malaysia’s largest crowdfunding platform for businesses to bring their creative projects into reality. With RM 46.9 million secured in 2021, Mystartr recorded one of the strongest growth rates in 2021, with total funding raised jumping 179%.   | SMEs                     |
| Crowdo                     | Popular as a Peer-to-Peer (P2P) lending platform and has a track record of startups   | Individuals and startups |
| Ata Plus                   | AP has a track record of funding social enterprises. AP aims to democratise financial inclusion by matching capital with exciting businesses.   | Social enterprises       |
| Eureec                     | Has reportedly funded businesses in the UK and the Middle East  | SMEs                     |
| Ethis Group                | Ethis recently was awarded Malaysia’s first Shariah-compliant Equity Crowdfunding in late 2021, licensed by Securities Commission Malaysia.   | Individual               |
| GlobalSadaqah.com          | Focuses on Islamic social finance. It helps to match charity funds for sadaqah, zakat (a form of wealth tax) and waqf (a form of endowment made for religious purposes) from both the public as well as financial institutions such as Islamic Banks. Donations are made to high-impact charity campaigns.  | Individuals & SMEs       |
| LaunchGood.com             | Established its representative office in Malaysia, it is the world’s largest donations and reward Islamic crowdfunding platform, based in the United States. As of March 2018, it has raised US\$35 million in over 102 countries and funded 3,274 campaigns, with a large emphasis on personal fundraising campaigns, while also raising funds for disaster relief and humanitarian aid in conflict zones.   | Individuals              |

Source: Adopted and added from Lim (2022), Fintech News Malaysia (2022) and Mahmoodul Hasan (2021).

## **Financial Inclusion through Crowdfunding: Opportunities for Low Income Group and Small and Medium Enterprises (SMEs)**

As has been suggested by Iqbal & Mirakhor (2013), conventional finance is not entirely successful in addressing the issue of being financially excluded as the existing conventional financial instruments do not really reach the poor. Crowdfunding has the ability to help with financial inclusion efforts by increasing access to finances and financial assets (Jenik et al., 2017). Crowdfunding has been referred to as financial innovation, FinTech, the fastest-growing financial business, and the next big thing in finance. The term "crowdfunding" often refers to a technique of financing in which modest sums of money are raised from a large number of individuals or legal organisations to finance enterprises, specialised projects, individual consumption, or other needs. It entails avoiding traditional financial middlemen in favour of using online web-based platforms to link fund consumers with retail funders. Crowdfunding definitions vary, but they frequently include the following fundamental components: (i) raising funds in small amounts, (ii) from many to many, and (iii) utilising digital technologies (Jenik et al., 2017).

As a result of the technological advancements (European Commission 2016) also known as FinTech and the impacts of the 2008 financial crisis, a new type of crowdfunding has emerged, offering up new options for innovation (Slimani & Ziky, 2021). Crowdfunding platforms are emerging as a result of the continuous digitalization of processes and communication, as well as the rise of internet communities, and operate as facilitators, connecting needy individuals or organisations with possible donors.

Specifically, CF could drive financial inclusion through the following opportunities:

i. Enhanced access to finance

According to World Bank (2013), up to 344 million people in developing countries have the ability to participate in crowdfunding. Debt crowdfunding in particular, as a type of digital credit, is quite important. Crowdfunding platforms may be positioned to assist MSMEs, start-ups, and people with little to no credit history due to its alternative scoring feature. Crowdfunded loans then may become a gateway to traditional lenders, because they will allow fundraisers to build their credit history over time.

Considering that transactions can be completed more rapidly and inexpensively, crowdfunding platforms may also be able to outcompete traditional lenders. Therefore, crowdfunding can assist those who are needy and have limited access to formal financial institutions to manage their spending and deal with financial instability (such as job loss, illness, crop failures, natural disasters, or accidents) without having to resort to drastic measures like reducing food consumption or selling off valuable assets (DFID 2012). The speed of

crowdfunding transactions and its adaptability to different use cases are crucial factors in facing emergency scenarios in general (UNOCHA, 2015).

In countries with underdeveloped capital markets and a dearth of venture capital offerings, the problems of limited access to finance and a lack of market-based financing are alarming (IFC and McKinsey 2010). Equity crowdsourcing could serve as a crucial tool for SMEs to close the funding gap that exists in the market by reducing transaction costs and information asymmetries. This could set the scene for other market-based funding opportunities to develop over time, especially in the presence of an adequate regulatory framework.

ii. Innovative models

Crowdfunding has the potential to accelerate the digitization of traditional forms of finance. With mobile money, digital credit, and digital microinsurance, new technologies have already changed the commercial sector. Crowdfunding platforms may follow the same trend by applying basic financial products and services, as well as by adapting new technology to supplement existing financial institutions. Table 2 below shows examples of opportunities provided by the innovative CF models worldwide to attain financial inclusion.

**Table 2** Examples of potential innovative crowdfunding models targeting emerging markets and developing economies (EMDEs) for financial inclusion

| Crowdfunding platform                                    | Background  | Target     |
|--|---|------------|
| M-Changa   | A Kenyan crowdfunding platform that “digitizes” the practice of “Harambee”—community fundraising— by allowing people in the same community to use their mobile money to make donations to individuals (e.g., to support a relative’s education) or to the community causes.   | Individual |
| Orange Collecte  | Orange, a mobile network operator in Côte d’Ivoire, has established a mobile crowdfunding platform. Private individuals and charities can use this platform to fund personal (weddings, birthdays, etc.) and philanthropic projects by making an appeal via their mobile network. Investors can then donate funds using their Orange Money electronic wallet. | Individual |
| eMoneyPool, Monk (an app-based crowdfunding), and Puddle | Digitization of the rotating savings and credit associations Practice.  | Individual |
| Kiya   | The platform has helped facilitate more than 1 million loans from funders in developed economies to low-income entrepreneurs in developing countries.   | SMEs       |

| Crowdfunding platform | Background  | Target                 |
|-----------------------|---|------------------------|
| Babyloan              | French platform dedicated to fighting poverty and aimed at small entrepreneurs without access to the financial system. It has teamed with Total to create the first crowdfunding platform dedicated to energy access. The alliance intends to foster the development of local microbusinesses that will build distribution networks to reach isolated areas in Africa, Asia, and Latin America.                                       | SMEs                   |
| EmergingCrowd         | An equity crowdfunding platform that offers retail investors the opportunity to directly buy shares and bonds in companies based in emerging markets.   | Individual             |
| Homestrings           | Provides investment opportunities in real estate, financial services, telecoms, and SMEs in 13 African countries.   | Individual & SMEs      |
| Farmable.me           | Ghanaian crowdsourcing platform aiming to offer funds to alleviate the country's reliance on imported beef. Online investors who invest in a cow through the Farmable website become "CowBackers," and they are linked to their own cow on a real farm in Ghana. Each cow costs \$500 and is comprised of "cowshares." CowBackers can fund a whole cow or invite friends and family to split a cow, a practise known as "CowSharing." | Country/<br>Government |

Source: Adopted and added from Jenik et al. (2017).

### iii. Access to a new asset class

Crowdfunding provides customers with access to investment alternatives that are currently broadly unavailable to them at the BoP. According to a new theory of change for the microfinance business (Gash & Gray, 2016), poor households' use of financial services helps them anticipate, adjust to, and/or recover from the consequences of shocks in a way that protects their livelihoods, lowers chronic vulnerability, and enables growth (resiliency).

Aside from credit and insurance, asset building (saving, investment) can help attain more resiliency. Crowdfunding may provide such an investment opportunity in the future, as excluded and underserved customers presently have exceptionally limited access to formal financial products built for resilience and asset creation.

Due to the few options that this disfavoured group has, they are vulnerable to a range of risks, including fraud. Many people, including this underserved segment, have been victims of fraudulent investment schemes in recent years (see for example, Kamau 2016).

## CONCLUSION

Crowdfunding is a promising way to promote financial inclusion. Crowdfunding is viewed as a quick and inexpensive way to raise cash, and its potential audience reach is boundless, owing to the increasing use of digital advances such as smartphones. Lending-based crowdfunding alleviates poverty by lending to low-income and low-income clients who cannot access traditional sources of credit. Individuals seek capital gain from cheaper interest rates as a consequence of contact with lenders, and their bond rating improves as a result of their strong willingness to repay loans. Equity-based crowdfunding allows small firms that are underserved by traditional contributors to make up the difference for the general public.

Nonetheless, despite the potential benefits indicated, crowdfunding has yet to have a meaningful influence on financial inclusion. The essential test of crowdfunding in terms of how much of it is utilised to drive and promote financial inclusion as well as economic growth is warranted rather than to generate cash fast and inexpensive way to finance unsustainable and risky investment opportunities, for example.

After all, with an increasing emphasis on financial services' social duties, crowdfunding could be viewed as an innovative tool to increase financial inclusion. Adequate legal and regulatory frameworks, tested credit scoring models, improved access to technology, and increased awareness and trust become important enablers and support to the agenda.

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