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ADOPTION AND NON-ADOPTION OF ISLAMIC CROWDFUNDING AND PEER-TO-PEER FINANCING AMONG MALAYSIAN SMES: DRIVERS, BARRIERS AND PERCEPTIONS

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Abstract: *This study examines the role of Islamic financial technology (FinTech), particularly crowdfunding and peer-to-peer (P2P) financing, in addressing the financing needs of small and medium enterprises (SMEs) in Malaysia. SMEs represent the backbone of the Malaysian economy but continue to face persistent challenges in accessing conventional financing due to stringent collateral requirements, high costs, and bureaucratic barriers. Islamic FinTech offers an alternative that combines technological efficiency with Shariah-compliant financing models. Using a qualitative research design, data was collected through semi-structured interviews with SMEs, FinTech providers, and regulatory stakeholders to explore adoption drivers, barriers, and perceptions. Findings reveal that adoption is primarily driven by the accessibility of capital, faster disbursement processes, and strong alignment with Islamic principles, which fosters trust among Muslim entrepreneurs. However, barriers such as limited awareness, risk perception, and a preference for conventional financial institutions hinder broader acceptance. Non-adopters emphasized concerns regarding platform credibility, regulatory clarity, and potential operational risks. The study highlights significant differences between adopter and non-adopter SMEs in terms of financing experience, trust levels, and perceived usefulness. From a theoretical perspective, the research contributes to understanding FinTech adoption through the integration of technology adoption theories and religious congruence frameworks. Practically, the findings provide insights for policymakers, regulators, and FinTech providers on strategies to enhance market penetration, including targeted outreach programs, trust-building initiatives, and collaborative partnerships with conventional institutions. Overall, the study underscores the potential of Islamic FinTech to promote financial inclusion, strengthen SME competitiveness, and contribute to Malaysia's broader economic development agenda.*

Keywords: Financial Technology (FinTech), Small and Medium-Sized Enterprises (SMEs), Islamic crowdfunding, Peer-to-Peer (P2P) financing, FinTech Adoption

1. Introduction

Small and medium-sized enterprises (SMEs) constitute the backbone of Malaysia's economy, representing over 97% of total business establishments and contributing significantly to employment creation, innovation, and national GDP growth (SME Corp Malaysia, 2023). Despite their critical role, SMEs continue to face persistent challenges in accessing adequate financing, which constrains their growth and long-term competitiveness. Traditional financing avenues, particularly bank loans, often impose stringent collateral requirements and rigorous credit assessments that disadvantage smaller firms, especially those in early stages of development or with limited financial records (Abdullah & Shamsudin, 2021). Consequently, a substantial financing gap persists, necessitating innovative solutions that can broaden SMEs' access to capital.

In recent years, financial technology (FinTech) has emerged as a transformative force in reshaping the financing landscape for SMEs. Among various FinTech solutions, Islamic crowdfunding and peer-to-peer (P2P) financing platforms have gained attention as viable Shariah-compliant alternatives, particularly relevant in the Malaysian context where Islamic finance plays a central role in the financial system (Hudaefi et al., 2022). These platforms promise easier access to funds, lower transaction costs, and alignment with Islamic ethical principles, making them attractive to both entrepreneurs and investors. However, the rate of adoption among SMEs remains uneven, with many firms either unaware of or hesitant to engage with these financing models (Omar et al., 2023).

The problem addressed in this study lies in the gap between the potential of Islamic crowdfunding and P2P financing as inclusive financing mechanisms and the relatively low adoption rates among Malaysian SMEs. While some SMEs recognize the advantages of these platforms, such as rapid access to capital and assurance of Shariah compliance, others remain reluctant due to concerns about risks, trust, regulatory clarity, and limited awareness (Ali et al., 2024). This disparity raises critical questions about the drivers and barriers that shape SME decision-making in adopting or rejecting Islamic FinTech-based financing solutions.

Accordingly, this study is guided by the following research questions: (1) What are the key factors driving Malaysian SMEs to adopt Islamic crowdfunding and P2P financing? (2) What barriers hinder SMEs from engaging with these platforms? (3) How do SMEs perceive the relative advantages and disadvantages of adopting such alternative financing models compared to conventional options?

The main objectives of this study are threefold. First, it seeks to examine the motivations and enablers that lead SMEs to adopt Islamic crowdfunding and P2P financing. Second, it aims to identify the barriers and challenges that discourage SMEs from adoption. Finally, the study aspires to analyze SMEs' perceptions of these financing alternatives in order to provide practical insights for policymakers, regulators, and FinTech providers to enhance awareness, build trust, and strengthen financial inclusion among SMEs in Malaysia.

By addressing these issues, the study contributes to the growing body of literature on FinTech adoption within the context of Islamic finance and SME development. It also offers practical implications for expanding the reach of Shariah-compliant alternative financing mechanisms, thus aligning with Malaysia's broader aspirations to advance financial inclusion and sustainable economic growth.

2. Literature Review

2.1 SME Financing Landscape in Malaysia

The financing landscape for small and medium-sized enterprises (SMEs) in Malaysia has been characterized by persistent constraints despite the sector's significant contributions to the national economy. Conventional banking institutions remain the dominant source of SME financing, yet many SMEs face challenges in fulfilling collateral requirements, credit history checks, and compliance with stringent loan procedures (Abdullah & Shamsudin, 2021). These barriers disproportionately affect micro and small enterprises, which often lack formal documentation or assets to pledge as security. As a result, financing gaps remain a central obstacle to SME growth, innovation, and internationalization (SME Corp Malaysia, 2023).

In response, the Malaysian government has introduced various initiatives to enhance SME financing, including guarantee schemes, venture capital funds, and the promotion of digital financing platforms (Bank Negara Malaysia, 2022). Within this evolving landscape, Islamic finance has played a distinctive role, aligning with Malaysia's position as a global leader in Islamic financial services. Islamic crowdfunding and peer-to-peer (P2P) financing platforms have emerged as alternative sources of capital that not only address conventional financing limitations but also adhere to Shariah principles, thereby widening their appeal among Muslim entrepreneurs (Hudaefi et al., 2022).

2.2 Awareness, Trust, and Perceived Usefulness in FinTech Adoption

Despite the potential benefits, the adoption of FinTech platforms by SMEs remains uneven, with awareness, trust, and perceived usefulness serving as pivotal determinants of engagement. Awareness plays a foundational role, as SMEs unfamiliar with the existence or operational mechanisms of crowdfunding and P2P financing are unlikely to consider them viable alternatives (Omar et al., 2023). Moreover, even when awareness exists, adoption is mediated by trust. Trust encompasses both institutional trust—confidence in regulatory oversight and platform governance—and relational trust, particularly in ensuring that funds are managed transparently and ethically (Ali et al., 2024).

Perceived usefulness, a central concept derived from the Technology Acceptance Model (TAM), further influences SMEs' decisions to adopt or reject FinTech financing solutions (Davis, 1989; Rahman et al., 2023). SMEs are more inclined to adopt Islamic crowdfunding and P2P financing when they perceive these platforms as providing tangible benefits such as faster access to capital, lower transaction costs, and alignment with their financing values. However, concerns about risks, default rates, and insufficient legal protection continue to hinder adoption, particularly among smaller firms with limited digital and financial literacy (Hassan & Karim, 2022).

2.3 Conceptual Framework

The conceptual framework of this study is informed by technology adoption theories and contextualized within the Islamic finance environment. Specifically, the Technology Acceptance Model (TAM) highlights perceived usefulness and ease of use as functional drivers of adoption (Davis, 1989), while the Unified Theory of Acceptance and Use of Technology (UTAUT) emphasizes the role of social influence and facilitating conditions (Venkatesh et al., 2003). In the context of SMEs, these dimensions capture the interplay between technological readiness, peer networks, and institutional support in shaping adoption decisions (Omar et al., 2023).

The Diffusion of Innovations (DOI) theory further expands the analysis by explaining how innovation attributes such as compatibility, observability, and trialability influence the spread of Islamic crowdfunding and P2P financing among SMEs (Rogers, 2003). Compatibility with Shariah principles enhances SMEs' acceptance, while observability through visible case studies or pilot programs strengthens confidence in these platforms (Hudaefi et al., 2022). Finally, Religious Congruence Theory underscores the significance of Shariah compliance as a unique determinant of trust and adoption in Islamic financial contexts (Worthington et al., 2003; Ali et al., 2024).

Taken together, these theoretical insights suggest that adoption of Islamic crowdfunding and P2P financing by SMEs is driven by technological, social, and religious considerations. At the same time, adoption outcomes are conditioned by barriers such as low awareness, risk perceptions, and regulatory complexity. The conceptual framework therefore positions drivers (e.g., access to capital, Shariah compliance, technological readiness) and barriers (e.g., lack of awareness, trust deficits, risk concerns) as the central determinants shaping SMEs' decisions to adopt or reject Islamic FinTech financing solutions in Malaysia.

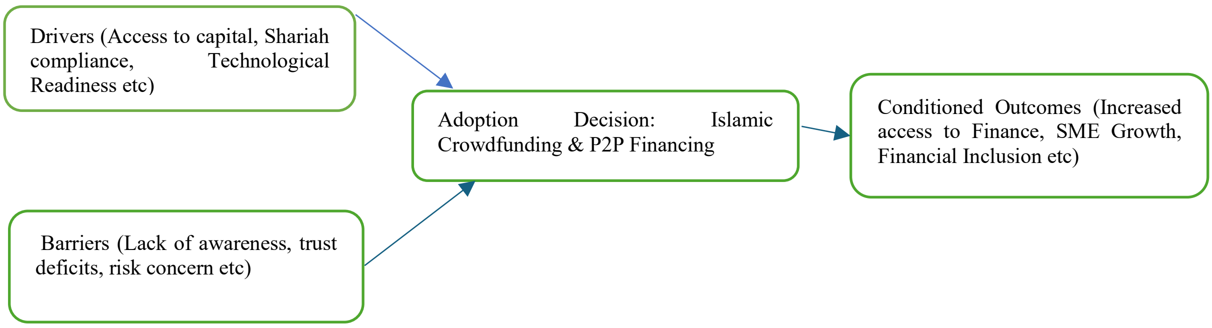

Figure 1: Conceptual Framework

3. Methodology

3.1 Research Design

This study adopts a qualitative exploratory design to capture the nuanced perceptions, motivations, and barriers influencing the adoption and non-adoption of Islamic crowdfunding and peer-to-peer (P2P) financing among small and medium enterprises (SMEs) in Malaysia. Given the limited empirical evidence in this field, a qualitative approach is particularly suited to uncover rich insights into the lived experiences and decision-making processes of SME owners and managers (Creswell & Poth, 2018).

3.2 Respondent Segmentation

To ensure comprehensive representation, SMEs were segmented into two main groups:

i. Adopters – SMEs that have utilized Islamic crowdfunding or P2P financing platforms for their financing needs.
ii. Non-Adopters – SMEs that have not engaged with Islamic FinTech platforms and continue to rely on conventional financial institutions or internal funding sources.

This segmentation allows the study to compare the drivers of adoption, such as perceived accessibility, speed of financing, and Shariah compliance, against the barriers to adoption, including limited awareness, risk concerns, and preference for traditional financial instruments (Hussain et al., 2022; Omar et al., 2023). By contrasting these two groups, the research identifies not only enabling factors but also contextual constraints that impede wider participation in Islamic FinTech solutions.

3.3 Data Collection Methods

Data was collected through semi-structured interviews, which allowed for flexibility in probing deeper into respondents' experiences while ensuring consistency in covering key themes. Interviews were conducted with SME owners and managers across diverse sectors, including manufacturing, services, and retail, to reflect the heterogeneity of the SME landscape in Malaysia. This approach enabled the capture of both breadth and depth in perspectives, particularly in relation to financing challenges, perceptions of FinTech, and trust in Islamic crowdfunding and P2P financing.

In addition, document reviews of policy reports, industry white papers, and regulatory guidelines were carried out to triangulate the interview findings and situate them within broader institutional and policy contexts (Yin, 2017). The combination of primary and secondary data enhanced the validity and reliability of the findings.

3.4 Data Analysis

The collected data were analyzed using thematic analysis, guided by the principles of Braun and Clarke (2006). This method enabled the identification of recurring patterns across adopter and non-adopter SMEs, highlighting the interplay between technological, regulatory, and socio-religious factors shaping adoption decisions. Codes were generated inductively from the data and then organized into broader themes that aligned with the study's research questions.

4. Findings

4.1 Adoption Motivators

The study reveals that SMEs adopting Islamic crowdfunding and peer-to-peer (P2P) financing are primarily motivated by the need for accessible capital. Many SME owners emphasized that traditional banking institutions often impose strict collateral requirements, lengthy approval processes, and rigid credit assessments that exclude smaller enterprises with limited financial history. In contrast, Islamic crowdfunding and P2P financing platforms provide more inclusive pathways to funding, particularly for start-ups and microenterprises that struggle to meet conventional banking requirements. This accessibility enables SMEs to secure working capital for operational expansion, product development, and business continuity, positioning FinTech platforms as viable alternatives to conventional finance.

Another strong motivator relates to the speed and efficiency of financing. Participants noted that FinTech platforms significantly reduce the bureaucratic delays associated with loan processing in traditional banks. The digital nature of crowdfunding and P2P platforms enables faster application reviews, automated risk assessment, and quicker disbursement of funds. For SMEs that often face urgent liquidity needs, such as managing seasonal demand or responding to unexpected business opportunities, this efficiency represents a compelling advantage that enhances their operational agility.

The importance of Shariah compliance emerged as a distinct and non-negotiable factor influencing adoption. Many SMEs, particularly those in rural or semi-urban areas, highlighted their preference for financial products that align with Islamic principles. The assurance of Shariah-compliant structures—free from riba (interest) and gharar (excessive uncertainty)—not only fosters trust but also enhances the ethical legitimacy of the financing arrangement. For some SME owners, Shariah compliance is not merely an additional benefit but the central reason for choosing Islamic crowdfunding and P2P platforms over conventional financial services. This reflects the embeddedness of religious values in financial decision-making among Malaysian SMEs.

4.2 Non-Adoption Reasons

Conversely, the findings indicate that a significant proportion of SMEs remain hesitant to adopt Islamic crowdfunding and P2P financing due to multiple barriers. A central challenge is the lack of awareness. Many SME owners are either unaware of the existence of these platforms or hold limited understanding of their functions and benefits. This knowledge gap is especially evident among SMEs operating in rural communities, where exposure to FinTech innovations remains minimal compared to urban areas. Without targeted awareness programs and outreach efforts, these SMEs continue to rely on familiar financing avenues such as bank loans, personal savings, or informal lending networks.

Another major barrier is risk perception. Several SMEs expressed concerns over the reliability and sustainability of crowdfunding and P2P platforms, citing fears of fraud, default risk, and inadequate investor participation. The relative novelty of these platforms in Malaysia contributes to heightened uncertainty, as many SMEs perceive them as untested compared to established banking institutions. In some cases, the absence of strong success stories within local business networks further reinforces skepticism, limiting willingness to experiment with new financial models.

Finally, the preference for conventional loans persists among many SMEs, particularly those with established banking relationships. Such SMEs often value the perceived stability, credibility, and familiarity of bank financing, even when access is more restrictive. For some business owners, the personal relationships developed with bankers over years provide a sense of security that outweighs the efficiency advantages of FinTech platforms. Others perceive that conventional loans carry reputational weight, signaling financial stability and credibility to suppliers, partners, and customers in ways that crowdfunding and P2P financing have yet to achieve.

The findings illustrate a dual reality: while adopters view Islamic crowdfunding and P2P financing as inclusive, fast, and ethically aligned solutions, non-adopters remain constrained by limited awareness, high risk perceptions, and entrenched preferences for traditional finance. These insights highlight both the transformative potential and the persisting challenges of expanding Islamic FinTech adoption among Malaysian SMEs.

Table 1. Adoption and Non-Adoption Motivators

Adoption Motivators	Description	Non-Adoption Reasons	Description
Access to Capital	Provides inclusive funding for SMEs excluded from bank loans due to collateral and credit requirements.	**Lack of Awareness**	Many SMEs, particularly in rural areas, are unaware of platform existence and benefits.
Speed and Efficiency	Faster application, review, and disbursement compared to lengthy bank processes; suits urgent liquidity needs.	**Risk Concerns**	Fear of fraud, default, and uncertainty due to platforms being relatively new and less proven.
Shariah Compliance	Ensures financing aligns with Islamic principles (no riba, gharar); builds trust and ethical legitimacy.	**Preference for Conventional Loans**	Established banking relationships and reputation value encourage SMEs to stick with traditional financing.

5. Discussion

The findings of this study reveal distinct differences in the perceptions and behaviors of SMEs that adopt Islamic crowdfunding and peer-to-peer (P2P) financing compared to those that do not. For adopters, the primary drivers include greater access to capital, speed of funding, and alignment with Shariah principles. These factors illustrate that Islamic FinTech platforms can provide an inclusive and ethical alternative to traditional banking, especially for SMEs facing collateral and credit constraints (Rahman et al., 2023; Hussain et al., 2022). In contrast, non-adopters highlight barriers such as lack of awareness, perceived risks, and preference for conventional financial products. This divide underscores the heterogeneity of SMEs in terms of financial literacy, risk tolerance, and institutional trust, which shapes their financing decisions (Omar et al., 2023).

The comparative analysis indicates that adopters are often more open to innovation and value the agility of FinTech platforms, while non-adopters lean towards established financing methods due to familiarity and perceived stability. This aligns with the Diffusion of Innovations theory, which posits that early adopters tend to perceive higher relative advantages in innovative solutions, while late adopters are influenced by risk aversion and social norms (Rogers, 2003; Hudaefi et al., 2022). Moreover, the trust dimension, particularly in relation to Shariah compliance, is a unique determinant in the Islamic FinTech context, reinforcing the role of ethical legitimacy in adoption (Ali et al., 2024).

From a market penetration perspective, these findings suggest several implications. First, targeted awareness campaigns are crucial to reduce informational gaps among SMEs, particularly in rural and semi-urban areas where non-adoption is prevalent. Second, partnerships with industry associations, chambers of commerce, and government agencies can build legitimacy and trust in Islamic crowdfunding and P2P financing, thereby addressing risk concerns. Third, showcasing success stories and case studies of SMEs that have benefited from such platforms can enhance observability and reduce uncertainty, thereby accelerating adoption rates (Worthington et al., 2003; Omar et al., 2023). Finally, regulators and platform providers should focus on strengthening consumer protection mechanisms, as greater transparency and security can mitigate risk perceptions and foster broader acceptance.

While adoption among SMEs is driven by accessibility, speed, and Shariah compliance, non-adoption persists due to awareness gaps, risk aversion, and entrenched reliance on conventional loans. Addressing these barriers through education, partnerships, and policy support will be key to expanding the market reach of Islamic FinTech solutions in Malaysia. short acknowledgement section can be written between the conclusion and the references. Sponsorship and financial support acknowledgments should be included here. Acknowledging the contributions of other colleagues who are not included in the authorship of this paper is also added in this section. If no acknowledgement is necessary, this section should not appear in the paper.

6. Conclusion and Recommendations

This study highlights the divergent perceptions and experiences of SMEs regarding Islamic crowdfunding and peer-to-peer (P2P) financing in Malaysia. While adopters emphasize the benefits of accessibility, speed, and Shariah compliance, non-adopters remain hesitant due to limited awareness, perceived risks, and an entrenched reliance on conventional financing.

These findings underscore both the potential and the challenges in expanding the reach of Islamic FinTech solutions to a wider base of SMEs. By addressing informational, perceptual, and structural barriers, Islamic crowdfunding and P2P platforms can play a more transformative role in bridging the SME financing gap and promoting inclusive financial development.

To advance adoption, targeted outreach and education strategies are essential. Many SMEs, particularly in rural and semi-urban areas, are unaware of the opportunities offered by Islamic FinTech platforms. Structured awareness programs, workshops, and digital campaigns tailored to SME contexts can help improve financial literacy and demystify the operational aspects of crowdfunding and P2P financing. In addition, integrating Islamic finance principles into these campaigns can further enhance relevance and acceptance among Muslim entrepreneurs who prioritize Shariah-compliant financial solutions.

Equally important are partnerships that build trust and awareness. Collaborations between FinTech providers, government agencies, chambers of commerce, and SME associations can enhance the legitimacy of Islamic crowdfunding and P2P platforms. Such partnerships can also provide SMEs with a stronger sense of security and reliability, thereby mitigating risk perceptions. Moreover, highlighting success stories of SMEs that have benefitted from these platforms through official networks can create positive spillover effects and strengthen observability, one of the key factors driving innovation diffusion.

In conclusion, fostering an enabling ecosystem for Islamic crowdfunding and P2P financing requires a dual focus on education and collaboration. Through systematic outreach and strategic partnerships, stakeholders can enhance trust, increase awareness, and ultimately expand the adoption of these platforms. By doing so, Islamic FinTech has the potential to significantly improve SMEs' access to ethical and inclusive financing, contributing to Malaysia's broader economic and social development goals.

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