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BUILDING A CASE FOR CROWDFUNDING PLATFORMS IN SAUDI ARABIA

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ABSTRACT

Purpose: No one knows more about a creative and innovative project than its architect and owner of the idea. The funding helps the startup start the project with minimal stress. Commonly startups are compelled to pay interest, equity/shareholding, be at the mercy of institutions or wealthy investors for financial resources. They also at times face massive difficulties of the bureaucratic and banking restrictions and delays. Therefore, the purpose of this research was to develop an understanding of the scholarly community on alternative sources of funding that is, crowdfunding and its dynamics. On the basis of this paper develops a case for the crowdfunding platforms mushrooming in Saudi Arabia.

Design/methodology/approach: The paper is applied conceptual in nature and benefits from secondary sources of research.

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Research limitations/implications: The data available on Saudi Arabia is limited and the entrepreneurship stakeholders are now getting abreast of the idea and welcoming it.

Practical implications: The platform(s) will serve mass number of startups in both the 'for profit' and 'not for profit' startups in Saudi Arabia. It will ease the process of fund raising and provide a foundation for the future growth and diversity in crowd funding activity.

Originality/value: This paper developing on the literature on different sources of finance available for the startups builds a case for the crowdfunding platforms in Saudi Arabia that serve middle east in general and Saudi needs in particular. It is established that different types of platforms are required for a number of business types and services.

Keywords: Crowdfunding; Saudi Arabia; Sources of finance; Startup; Entrepreneurship.

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INTRODUCTION

Startups are the first stage entrepreneurs who are in first stage of operations. These creative, innovative entrepreneurs they attempt to capitalise on developing a marketable product or service for which they believe there is a demand in the marketplace and they can make money from selling the product/service they have a great passion for and belief in.

Millions of startups are brought to life by entrepreneurs each year, and all seek to succeed unfortunately, most do not. This failure can be caused by numerous factors such as lack of planning, relying on debt and no capital funding, etc. During startup establishment, funds may be needed for any of the following activities.

1. startup costs
2. purchase of land and or building
3. construction of building
4. purchase of raw materials
5. purchase of transport
6. purchase of machinery or equipment
7. brand development and marketing
8. developing IT infrastructure for the firm
9. hiring of employees and payment of salaries, wages, benefits and perks
10. research and development
11. other working capital
12. travel and any other related activity.

The entrepreneurs/startups normally do not have all the funds required or may not invest all the required funds from their own sources. Therefore, they resort to securing funds from other sources. The sources of financing could include traditional/conventional or Islamic. The traditional finance is interest/markup-based whereas, Islamic sources are founded in Islamic sharia.

Choosing the right sources of capital for a startup is as important as choosing the right form of ownership or the right location. This decision will influence a startup for a lifetime. Therefore, entrepreneurs weigh their options carefully while committing to a particular funding source. The money/funding is available; however, the key is knowing where to look and how to look.

Knowing suitable sources of funding for the various stages of a company's growth (from setup/startup to maturity and extending the life cycle) and then taking the time to learn how those sources work is essential to success. Raising money takes time and effort. Sometimes entrepreneurs are surprised at the energy and the time required to raise the capital needed to feed their cash-hungry, growing businesses. This process of acquiring funding includes lots of promising leads, most of which take them to dead-end.

Meetings with and presentations to lots of potential investors and lenders can crowd out the time needed to set up and start a new venture. Raising capital is an ongoing job. The fund-raising is a marathon game that cannot and should not be sprinted. Some traditional sources of funds now play a comparatively lesser role in startup finance than in the past. Sources from consortiums, bank loans, grants, Islamic products, international Venture Capitalists (VCs) and more creative funding programs like crowd funding are taking shape and strengthening roots.

It is essential for startup entrepreneurs to find the financing their businesses require and use as much creativity in attracting financing as they did in concept development and finalising stages. After striking out traditional sources of funding a startup may turn to the grants, crowdfunding, foundations, angel investors, etc.

In today's competitive funding business market place the objective of securing funds is not limited to acquiring funds only, but entrepreneurs are becoming more creative and they mix the funds generation with free feedbacks, concept testing and brand development, brand equity, as less markup payment as possible.

We briefly identify and develop a basic understanding of these in the following section.

ISLAMIC SOURCES OF FINANCING

Mudaraba

According to Obaidullah (2005, p.57) Mudaraba (Partnership Financing) is "…a mode of financing through which the bank (the owner of the capital or rabb-al-mal) provides capital finance for a specific venture indicated by the customer (the entrepreneur or mudarib)". It puts together the financial and human capital together. It is a contract of two parties, that is, investor and entrepreneur (startup) investing financial resources. Profits are shared between them (rabb-al-mal and mudarib) according to a set ratio agreed beforehand (Muhammad, 2000). However, financial losses are borne by investor whereas, the entrepreneur bears operating losses (Sadique, 2012). This is the opportunity cost of their own efforts. This is shown in Figure 1.

Musharaka

Iqbal and Molyneux (2005, p.20) explain Musharaka (Equity Financing) as a full partnerships and "…an arrangement where two or more parties establish a joint commercial enterprise

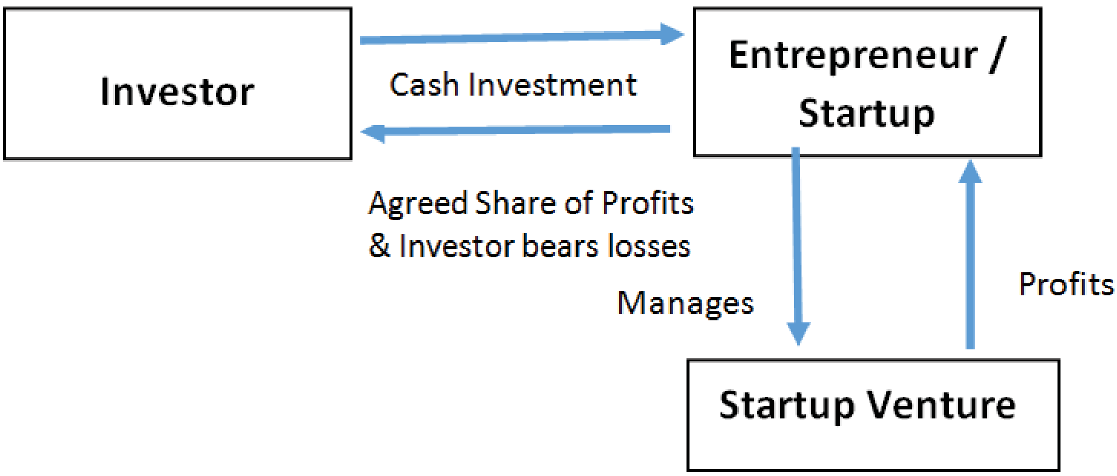

Figure 1 Mudaraba functioning

and all contribute capital as well as labor and management as a general rule". It puts together the financial and human capital together. The profits and losses are shared by the parties as agreed before start of Musharaka and are on certain ratios (Muhammad, 2000; Zaharuddin, 2006). The concept can be more understood by the following flow of the transactions in Figure 2.

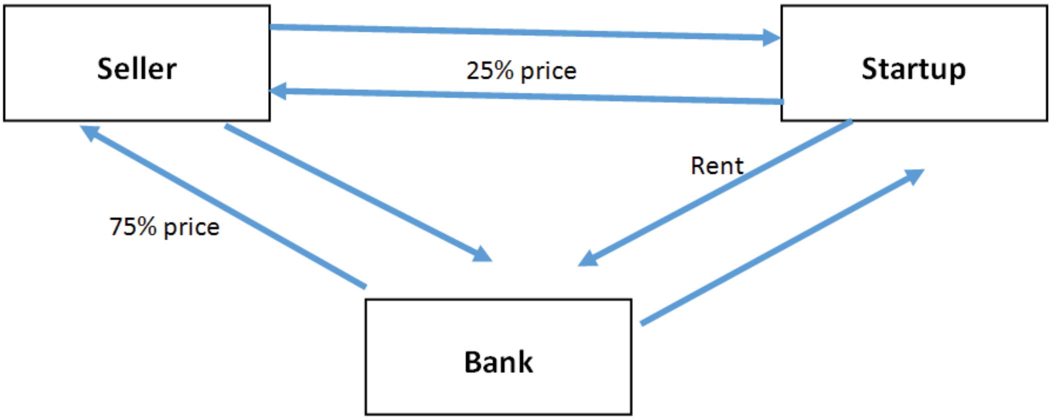

Figure 2 Musharaka functioning

Murabaha

Metwally (2006), Obaidullah (2005), Iqbal and Molyneux (2005), Lewis and Algaoud (2001), El-Gamal (2000), Hanware (2009) and Kahf (1997) assert that Murabaha (Cost-plus Financing) is used to buy and resell the purchase or import of capital items by institutions that may include banks and or firms. The banks or institutions import the product/item as per specifications provided by the entrepreneur/startup. Murabaha is a two-party buying and selling contract and involves no financial intermediation or financing. The flow of transactions can be more appreciated as revealed by Figure 3 below.

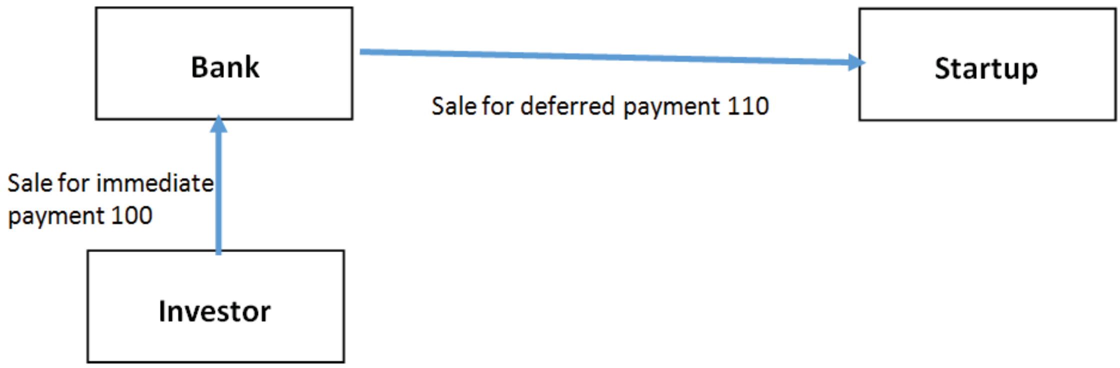

Figure 3 Murabaha functioning

Bai Muajjall

'Bai Muajjall' is a purchase and sale agreement where payment is deferred so as to allow the entrepreneur/startup to receive products now and pay for their value later. This is explained by Lewis and Algaoud (2001) and Obaidullah (2005). They suggest that this credit sales payment back could be in instalments or in lump sum.

When entrepreneurs/startups conduct a forward payment at the time of contracting for purchase the Bai Salam transaction is carried out as identified by Iqbal and Molyneux (2005). They narrate on p.25 that, "Salam is a sale contract in which the price is paid in advance at the time of contracting against delivery of the purchased goods/services at a specified future date". They further explain that the sale and purchase of an item that does not exist at the time of purchase/making agreement it falls under 'Gharar' and is not permissible; however, the 'Bai-Salaam' is a permissible and adopted by the Sunna in order to facilitate activities in agriculture and industry (Lewis and Algaoud, 2001; Iqbal and Molyneux, 2005; Obaidullah, 2005).

Ijara

Ardeshir (2010) explains that an Ijara (Lease Financing) transaction is the Islamic finance comparable to a lease. It is a bilateral contract that permits that lessor allows lessee to use his assets for a certain rental fee. The financier buys an asset from a supplier but instead of selling it to the customer he leases it to the entrepreneur/startup, Pollard and Samers (2007). The entrepreneur/startup will make regular rental payments to the lessor while the asset is in use. This rent symbolises an agreed profit, normally calculated using a benchmark, such as LIBOR and a margin.

Quard Hassan, a system of benevolent loans

Interest-free Loan (Quard-Hasan) is defined at www.muslimummah.org as an "essentially interest-free loan to corporate customers in financial distress or a welfare loan to individual client experiencing financial hardship". The borrower pay when they can. The Quard ul Hassan is to benefit individuals and society at large. As there is no formal payback mechanism therefore, in order to safeguard the interest of bank depositors and investors these types of loans are excluded from formal financing by the banks.

TRADITIONAL SOURCES OF FUNDING FOR ENTREPRENEURS

Benefitting from a number of sources including Archer and Abdel Karim (2007), Iqbal and Mirakhor (2007), Kim and Heshmati (2010), Haas and Lelyveld (2010) and Macdonald and Cheng (1997) the following summary is prepared.

Bootstrapping

According to Bradley et al. (1996) and Scott (2001) Bootstrapping is a startup without external financial resources or help. Such a startup would fund the development of business by using internal cash flow and precautions are set for expenses. At the start of a startup, a relatively smaller amount of money is set for the bootstrap process. The bootstrapping costs when are low and return on investment would be high. The Leveraged buyouts, or highly leveraged or 'bootstrap' transactions, are when an investor acquires a controlling stake in a startup or existing business and a notable percentage of this purchase price is financed through leverage/borrowing.

Bootstrapping includes the use of personal sources and funds from family and friends.

Personal sources

When the startup uses their own saved and earned money to start and operate a business and utilise no other source is called personal funds application. The literature suggests that using the personal sources of finances by the startups is an option employed when they have enough personal wealth. However, entrepreneurship is about creativity and sometimes innovators and new idea generators do not have personal funds and they then have to resort to other sources of funding for their ideas and concepts.

Family and friends

This source of funding is suitable when the startup entrepreneurs resort to securing the funding for business from their friends and family members. This could be grant or a soft loan similar to Quard al Hassan in Islamic finance.

Bank loans

Securing the bank loans is one the most commonly used source of funds. The transaction cost economists and resource-based theory researchers identify it as commonly used practice. There are a number of varieties and types of bank loans. For example, micro business loans, SME loans, large firm loans, Consortium based loans, international financial institutions loans, etc. These loans are provided by both the specialised and traditional banks depending upon the amount and type of loans. In many countries dedicated banks and institutions exist to fund these types of loans. Mostly the loans are provided for working capital and machinery and equipment or construction of the building of the factory/business/startup. The loans require mortgage of the startup tangible assets. The banks generally provide loans to an extent of 60% of the total project cost. The remaining has to be arranged by the startup from their own sources.

Angel investors

This is popular type of source of funds generation gaining ground in 21st century. There are numerous business people and investors who have money to invest. However, they do want to be either actively involved in the business or run and operate a venture themselves. Therefore, they invest in new ideas and reap benefits in shape of profit sharing and may be other perks depending on the agreement of investment. The startup entrepreneurs pitch their ideas to the angel investor(s) and they then decide whether to invest or not. There are certain terms and conditions set by both the parties to enter into funding agreements. There are also examples of accelerators and incubators investing in the projects where they had participated in the angel investing events. During the pitching sessions they evaluate the entrepreneurs and identify their strengths and weaknesses and develop and grow them through coaching and mentoring.

Grants

There are numerous institutions and organisations that provide markup and non-markup based grants. The size of grants depends on the project and the granting organisations. Sometimes the governments provide grants in shape of subsidies. Similarly, development banks like Islamic Development Bank, Asian Development and World Bank or International Monetary Fund, etc. also provide occasional grants other than the markup based financing.

Leasing

A lease is an arrangement through contract asking for the lessee (user) to pay the lessor (owner) for use of an asset that has been leased. Broadly speaking, a lease agreement is a contract between two parties, the lessor and the lessee. There are specialised leasing companies that provide the machinery and equipment.

The lease whether be a finance or capital lease is a commercial arrangement where the startup (entrepreneur) selects an equipment, vehicle, software, etc. The lessor/leasing company purchases the asset and gives it to the entrepreneur to use it. In return the entrepreneur pays a series of rental or installments for use of the item(s). In this manner the lessor not only recovers all the money lessor had invested to buy the equipment but also earns profit/markup/interest. After the entrepreneur has completed the rentals payment, he has the option of bargaining the purchase price of the asset.

Other forms of investments

Angel Investments and Equity Capital are also sources of finance for businesses but these are normally available by established investors for existing businesses when they require expansion or growth. VC funding is provided through a professionally managed fund where the larger monies are required which typically would be more than what angel investors normally invest. It also is available once the business has started and requires funding for growth and expansion. The VCs almost every time ask for a higher equity from companies where they intend to invest. The sources such as factoring/invoice advance, product pre-sales (rotimatic – Singapore as big example), selling own assets and credit cards are also available but are not being discussed here as the subject matter of this paper does not require.

BUILDING A CASE FOR CROWD FUNDING PLATFORM(S) IN SAUDI ARABIA

Crowdfunding is a financial resource where you announce over the internet the need for funds in the form of cash donation, sometimes in return for a service or product or a reward (Belleflamme et al., 2011; Kleemann et al., 2008), and as Ramsey noted it may also be seen as a process (2012).

There are three parties involved when crowdfunding, and they are the investor, the entrepreneur, and the intermediaries or in other words the platform used that gathers them and helps completing the investment. Investors in this instance are individuals who would generally pay a very small amount, which might be between $1 and $100 for a promotion of an idea, product or service.

EVOLUTION OF CROWDFUNDING

Even with the rapid growth crowdfunding witnessed, some people might say that it is truly nothing new. An article by Lee Williams in Salt magazine stated that this phenomena can be traced back to the Middle Ages, it has financed old building like the Crystal Palace in London and the Gothic Cathedrals (Sale, 2015, para. 2). Even the Statue of Liberty was partially financed through small donations from across the world through a campaign organised by Joseph Pulitzer using The New York Times (Sale, 2015, para. 1).

However, others state that the real turning point in modern crowdfunding is the advancement and dimension the internet provided. Specifically, the addition of the Web 2.0 which added the ability to have new internet applications that hugely enhanced two way communications within the Internet. As well as that with the Internet revelation and the light of industrial society history, the dynamics of the relationship between consumer and the firm has endured far-reaching changes. Consumers are not merely takers of goods and products created or provided by a company, instead they are actively and directly being more involved in the production process (Kleemann et al., 2008).

In the 1990s artists and musicians started to collect funds from fans on the internet. For example British rock band 'Marillion' funded their tour in the US by collecting over $60,000 through online donations from their fans. Owing to this success the first online platform dedicated to crowdfunding only 'Artistshare' in 2000 was launched. At that time, charities also noticed a spike in online and grass root donations rather from larger corporations. Fast forward to 2005, peer to peer and micro lending strongly came into the picture and launch of 'Zopa' the first peer to peer lending website was realised in 2010. 'Fundrise' announced the first real estate Crowdfunding Model in 2010. In order to provide individuals opportunity to invest in and benefit from real estate development in 2012, a jobs act was signed by president Obama allowing equity funders and private businesses to publicly seek funds (Sale, 2015; Valanciene and Jegeleviciute, 2013). This helped development of crowd funding platforms a great deal.

CROWDFUNDING AS A SOURCE OF VENTURE FUNDING

Studies including Davis (2012), Hollas (2013), Manchanda and Muralidharan (2014) and Crowdfunding Industry Report (2012, p.14); assert that almost $1.5 billion was raised in 2011 from over 1 million crowdfunding campaigns. It signals that crowdfunding is swiftly becoming mainstream source of startup funding (Crowdfunding Industry Report, 2012, p.14). Moreover, the UK crowdfunding market in 2012 was estimated by Nesta (UK-based innovation charity) to be worth £200 million, the equivalent of $303 million (Davis, 2012).

However when discussing crowdfunding as a source of startup funding and VC we will focus on equity crowdfunding in specific. Significant literature agree that crowdfunding in general fills the gap of financing the startups and nascent startups. This is especially true in the product and service sector where VCs as well as angel investors are less keen to invest in. Most VCs and angel investors tend to invest in tech-ventures more than any other industry (Hollas, 2013; Manchanda and Muralidharan, 2014). Judd (2013) identifies that almost 50% of the companies using crowdfunding are product/service companies an area which only received 10% by angel investors and VCs fund (Venture Capital, 2013). VCs can help identify promising startups through crowdfunding (Manchanda and Muralidharan, 2014).

Judd (2013) argues that with the great deal flow, low charges, industry diversification options, possible earnings and competitive fee structures; the online crowdfunding has, it might potentially be strong enough to stand on its own as oppose to being a minor addition to entrepreneurial capital sources. Also that 75% of companies who participate in crowdfunding require capital that is less than $500,000 (2013). Another study states that although regulatory systems has been developed in the UK and the USA towards crowdfunding, crowdfunding is still rapidly evolving and more financial research should be conducted to determine whether it is a shift to the early stage capital market or a small complement to it (Crowdfunding and the revitalization of the early stage risk capital market: catalyst or chimera?, 2013).

Borello et al. (2015) argue that the characters found in the lending-based crowdfunding (aka peer to peer lending) and the equity crowdfunding found in their research are crucial for crowdfunding's future development as an alternative to capital resource.

CROWD FUNDING TYPES

The Table 1 provides information on crowdfunding types and their features.

Table 1 Crowdfunding types and their features

Type	*Features*
Reward-based	• Investors receive gifts or services • Increased use of 230% in 2012 alone • No interest offered to investors • No profits offered to investors • Typically for small projects • Suitable for philanthropic projects of investors
Lending-based	• Funds paid back after agreed period • Issue of protection of investor and startup's own funds • Higher risk • Three types of lending models (Client segregated, notary and guaranteed return models)
Donations-based	• Funding for charitable, humanitarian and philanthropic causes • Smaller funds required • NGOs using successfully
Equity-based	• Investors obtain a stake in the startup • Risks for both the investor and startup • Expertise and skills of investor are available

Table 2 Diversity of crowdfunding

Crowdfunding Platform	*Application*
www.gofundme.com	Over $1 Billion raise for personal fundraisers.
www.kickstarter.com	Personal fundraising not allowed. Creative only.
www.angel.co	Find a startup job.
www.groundbreaker.com	Real estate investments marketplace removing the middleman. Direct connection.
www.indiegogo.com	To make any idea a reality.
www.lendingclub.com	World's largest online marketplace connecting borrowers and investors.
www.justgiving.com	Donate for a cause.
www.emphas.is	Photojournalism crowdfunding platform.
www.startsomegood.com	Non-Profit-Based Crowdfunding.
www.pledgemusic.com	Working for development of music industry and artists related to it.
www.fundanything.com	Fund Anything is a platform for causes and creative projects.
www.giveforward.com	A website to fundraise for medical expenses, (the personal cause fundraising industry).
www.youcaring.com	Raise money for a variety of humanitarian causes.
www.lendingclub.com	Lending-Based Crowdfunding.
www.WazoKu.com	International-based crowdfunding platform.
www.offbeatr.com	Film-Based Crowdfunding.
www.capitalfactory.com	Crowdfunding Accelerators, Boot Camps and Incubators.
www.flablabs.com	Design-Based Crowdfunding.
www.kiva.org	Empower people with loans.
www.fundrazr.com	Donation-Based Crowdfunding.
www.pubslush.com	Publishing-Based Crowdfunding.
www.ulule.com	Discover and help make wonderful projects happen.
www.donorschoose.org	Provide teachers with materials.
www.assob.com	
www.quirky.com	
www.growthgroup.com	
www.ifunded.com	Equity-based crowdfunding.
www.pledgemusic.com	Music fans become part of the music making experience itself.
www.crowdrise.com	Raise money for awesome causes.
www.tilt.com	Communities to collect, fundraise or pool money securely and effectively online.
www.crowdcube.com	Invest in innovative British businesses.
www.crowdlords.com	CrowdLords is a soon-to-be released platform that connects landlords and investors to enable more people to benefit from the UK Buy-to-let market.
www.massivemove.com	Rewards-based crowdfunding site.
www.helpersunite.com	Disaster-based crowdfunding website.

CROWD FUNDING APPLICATIONS

Benefitting from Hoskins (2015), Gerber et al. (2012) and Ramsey (2012) along others it is seen that there are a number of applications of the crowd funding. The Blogging, journals, and startups are experimenting the use of crowd funding. Since crowd funding became popular even in cinemas field crowd funding campaigns became to have more attention. Also more innovative platforms have emerged to combine a traditional funding for creative work with branded crowdsourcing such as 'RocketHub', where platforms try to help and assist entrepreneurial brands without the need for a middleman.

Numerous crowd funding websites are available for use by the startups as detailed in the www.crowdfunding.com; www.crowdsourcingweek.com; www.crowdcrux.com; www.crowdmapped.com and https://crowdfundingpr.wordpress.com. The table below shows some of the prominent platforms and their application. It also shows the diversity of the crowdfunding concept as such platforms can be used from personal loans, to medical expense solutions, study, social enterprise and more equity-based financing like in real estate, construction, manufacturing, service and process industries. These include sites for equity, Rewards, Perks and donation-based fundraising campaigns. However, the applications of the crowd funding platforms is not limited to only these. It is more a diverse concept. These are shown below in Table 2.

Table 3 Crowd funding and its elements

Crowd funding Tasks	*Community Role*	*Use of Technology*
Prepare: Preparing the campaign material	• Provide general advice blogs. • Offer specialised skill expertise. • Provide feedback to the idea/concept.	• Crowd funding platform search. • Third party project search platforms (e.g. Kickspy). • Blogs.
Test: Test the Campaign Material	• Give feedback on campaign materials. • Provide opinion on design direction. • Help build and finalise the concept.	• E-mail Crowd funding campaign page. • Social networking platforms (Facebook, Twitter and others).
Publicise: Market the project by using campaign materials	• Spread the word. • Build an audience.	• Social networking platforms (Facebook, Twitter and others). • Online forums (Reddit).
Follow through: Follow through with project goals and send rewards	• Provide manufacturing or shipping support • Offer specialised skill expertise. • Provide feedback and assistance in brand development.	• Online skill marketplaces (e.g. oDesk). • Manufacturing support platforms (e.g. Backerkit, Fullfillrite, Teelaunch).
Reciprocate: Reciprocate resources back to the crowd funding community	• Provide advice. • Provide financial resources.	• Blogs. • Personal webpages. • E-mail. • Crowd funding platform donations.

CROWD FUNDING TASKS, ROLE OF COMMUNITY AND TECHNOLOGY

As discussed above the community and technology are basic constituents and elements in a crowdfunding platform. We lay below in Table 3 the crowdfunding tasks, community and technology role.

CONTEMPORARY SAUDI ARABIAN STARTUP SCENARIO

This section provides an insight to Saudi Arabian startup funding sources and the limits the sources place on financing.

Rahatullah (2013, 2015) pointed out that Szabó (2006) and Isenberg (2011) studies underline the importance of easily accessible finance and friendly repayment policies.

There are a number of strategic/government and institutional private banks and organisations providing medium to long term financing to entrepreneurial projects. Some of the prominent organisations and their lending limits are shown below. The financing available for such projects ranges from SR. 1000 to SR. 3 million. However, in some cases where required the upper limit levels of investments are very high and may run into billions of Saudi riyals (1 riyal equals 3.75 US$). For more details please see Rahatullah (2013, 2015). The following Table 4 provides details on some leading organisations in Saudi Arabia in providing funding for the startups and VC.

The above table shows that the governmental strategy caters to the requirement of those potential or existing entrepreneurs who need Islamic financing; hence Islamic financing instruments like, ‘Murabaha’, ‘Musharaka’ and others are also available.

Table 4 Sources of Startup and VC Funding in Saudi Arabia

S#	*Sources of Startup and VC Funding in Saudi Arabia*	*Financing Limits in SR.**	
		Minimum	*Maximum*
1	Saudi Industrial Development Fund (SIDF)	Up to 75% of the total project cost	
2	Centennial Fund	50,000	200,000
3	Saudi Credit and Savings Bank	50,000	400,000
4	**King Abdullah University of Science and Technology (KAUST)	Up to 75,000	
5	Bab Rizk Jameel (Small Projects) – (***Mumayez program limit is up to SAR 300,000)	10,000	150,000
6	Al Rajhi Bank	100,000	2,000,000
7	National Commercial Bank (NCB)	****Kafala Up to 3,000,000	
8	Al Zamil Holding Group SME	1000	in kind 100,000
9	Riyad Bank	100,000	2,000,000
10	Al Jazira (SME)	100,000	2,000,000
11	Al Jazira Kafala	80,000	1,600,000
12	Prince Sultan Fund	Up to 3,000,000	

**KAUST.
***Mumayez Program.
****Kafala – (*All amounts in SAR (Saudi Riyal – equal to 3.73–3.75 per US$)).

ADVANTAGES AND DISADVANTAGES OF SOURCES OF FINANCING

The following summary of some of the major advantages and disadvantages is derived from the studies including Valanciene and Jegeleviciute (2013), Macdonald and Cheng (1997), Zaharuddin (2006), Abdul Rahim (2010), Wilson (2000), Stiglitz (1990), Sadique (2012) and Muhammad (2000). The websites including www.usheproduction.com; www.entrepreneurship.org also provided valuable inputs. The advantages and disadvantages of the Islamic sources of finance is shown below in Table 5 together as there is a lack of information especially on disadvantages.

Keeping the above in view we see a case for the crowd funding platform in Saudi Arabia.

Table 5 Advantages and Disadvantages of Startup and VC Funding

Sources of finance	*Advantages*	*Disadvantages*
Bootstrapping	• Startups to keep control of the venture and enables them to focus on business growth and customers instead of investors. • It helps startups to spend with discipline. • It helps avoid markup/interest.	• The personal money or monies belonging to close friends and family are at risk. • The funds generated may be limited.
Leasing	• Commitment of own financial resources to purchase assets can be evaded • Can use own funds for other purposes. • The rental, can be paid from revenue generated from use of the asset.	• Depending on the taxation policy and legislation, leasing may be undesirable. • In some legal systems lease arrangements can result in inequality between the parties as the lessor gains economic dominance.
Grants	• Free money and may not be returned. • In some economies the information about the availability of small business grants is easily available to find online.	• Time consuming process if quite long. • Purpose justification is required. • Tough competition and strict eligibility criteria. • Sometimes strings are attached.
Bank Loans	• Tax and Financial Planning Advantages. • Ownership of the money obtained. • Flexibility to spend.	• Difficulties in Obtaining Loans. • Cost of loans and monthly installments. • Fix repayment period. • Mortgage of assets of the startup. • Debt to equity ratio and collateral.
Angel Investors	• Swift due diligence and the investment also usually comes in the form of a lump sum. • Utilisation of angel investors' network, reputation and influence for startup.	• Angel investors are likely to be risk-averse, and rarely make follow-up investments. • Future Arguments and disagreements over key business decisions. • Angel can feel entitled to some control over your company's future.

Table 5 Advantages and Disadvantages of Startup and VC Funding *(continued)*

Mudaraba Musharaka Murabaha Ijara Bai muajjall Istisna	• The availability of these contracts not only fulfils the religious requirements of Muslim customers but also provides diverse and range of products suiting different customers. • The profit-sharing contracts have several distinct economic advantages for society. • Improve the allocation of resources and ensure justice and fairness among the contracting parties. It leads to a more stable financial system. • A favourable impact on economic growth and any losses are compensated from profits future. • Encourages equity and discourage debt.	• Risk of financial loss for lenders. • Entrepreneurial dishonesty. • Business secrecy is compromised. • Startups may be unwilling to share profits. • Incurred losses are recovered from future profits. • Without interest rates the monetary authorities have no control over monetary policy.
Quard Al Hassan	• Applied to improve the people welfare and offered by the generous depositors. • Mostly free loan.	• The startup/potential entrepreneur may not use the money it has been provided for. • May lead to startup dishonesty.
Crowd funding	• It has the ability to test marketability and increase brand awareness. • Helps the communities. Platforms for numerous causes exist from philanthropic/social projects to 'for profit' firms. • Decision making in the hands of startups. • Relatively faster way of financing. • A lot of market feedback and the concept could be refined before testing and implementation. • Startups may also gain the benefits of angel investment without its negative impacts.	• The project must reach a specific monetary goal within a specific period of fundraising activity. If the goal was not reached the project will fail taking nothing from what has been funded already. • Administrative and bookkeeping difficulties. • Intellectual property rights violations are easy.

CONCLUSION

No one knows more about a creative and innovative project than its architect and owner of the idea. The aim of funding for startups is to help the startup start the project with minimal stress. Startups should be provided huge support from both the strategic and institutional entrepreneurship ecosystem (Rahatullah, 2013) stakeholders. Startups are creative and innovative individuals who should be encouraged to do more with least bother. Such people are engines of growth for the economies and communities. It is pity that they are compelled to pay interest, equity/shareholding, be at the mercy of institutions or wealthy investors for financial resources. They at times face massive difficulties of the bureaucratic and banking restrictions and delays even though they will be helping the growth and development of both the economy and a society in near future acting as role models for the next generation.

The above discussions show that most of the elaborated forms of funding are either interest or equity/shareholding-based transactions where banks/investors take deposits and provide loans. The angel investments may also be interest or equity-based where the startup would lose some equity for investment. The angel may not invest profit/shareholding proportionate time and resources. The banks may create and destroy money and interest rate may not related to real economy, high price distortion. This may also lead to highly cyclical, booms and busts, uncertainties, unpredictable growth and massive bankruptcies, contagion, bailouts. There could also be situations where the startups are compelled to dishonesty as free monies may make the person dishonest. The startup may end paying high markups that may be more than the profits they make. The issues of economic dominance and necessity of funds may also trigger compromises by the startups leading to financial and equity sharing blackmailing. The recent recession that shook the world is an evidence. Similarly the loans are difficult to obtain and majority of times the investment institutions tend to provide loans to safer projects whereas, the startups are normally riskier and there is not established track record. The banks in such cases may be risk averse and startups may suffer. Many a times for the startups the number of financing options for philanthropic and social enterprises is extremely limited.

The crowd funding is diverse in nature and provides a chance for the startup to implicitly test the concept of their product/service before and during the process of the relatively swift financing. The startups remain their own boss and take appropriate decisions for their project. Crowd funding also ensures that a large body of people conduct word of mouth marketing for them, which is one of the essential requirement for a startup (Ordanini et al., 2011). This is automatically carried out during the crowd funding pitching, feedback sessions and later activities of the ‘crowd’.

Saudi Arabia is a fast growing developing economy where according to CIA factbook (2015) more than 65% population is between the ages of 15 and 54 and youth dependency ratio is more than 42%. The median age for males is 27 and for females is 26. It is a huge potential bed for innovation and creativity. Saudis have proven that through 993 patents registered from 2001 to 2014 according to US patents and trademarks office website http://www.uspto.gov/web/offices/ac/ido/oeip/taf/cst_all.htm. It makes the KSA second most innovative and creative nation among Muslim countries.

This shows that the young people may not have ample opportunities to express themselves and become economically independent. The ecosystem also do not identify any such platform that offers as many opportunities and benefits for the first stage entrepreneurs as does the crowd funding. Therefore, reward, lending, donations and equity-based crowd funding platforms may be built for engineering, medicine, specialised services, publishing and printing and other profit and non-profit platforms by universities, research organisations, chambers of commerce and strategic stakeholders including ministries of labour and industries.

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