

## PAYA DAYALI KİTLE FONLAMASINDA ŞER'İ YÖNETİŞİM: MEVCUT DURUM ANALİZİ VE MODEL ÖNERİLERİ

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### ÖZ

Türkiye'de paya dayalı kitle fonlamasının hızla yaygınlaşması, yatırımcılar arasında İslami ilkelere uygun fırsatlara yönelik önemli bir talebin varlığını ortaya koymuştur. Ancak, bu alanda resmi bir Şer'i yönetim mekanizmasının bulunmaması; güven aşınması, bilgi asimetrisi, hukuki boşluk ve sorumlulukların belirsizliği, yetersiz durum tespiti, itibar ve sürdürülebilirlik riskleri, gereksiz operasyonel yükler, gönüllü finansal dışlanma ve sistemik risk gibi bu yeni piyasanın genelini zayıflatan kritik zafiyetler yaratmaktadır. Bu çalışma literatür taraması ve tematik analize dayalı nitel bir yöntem kullanarak söz konusu yönetim eksikliğini ele almaktadır. Araştırmanın literatüre temel katkısı iki yönlüdür: Birincisi, Türkiye'nin kitle fonlama ekosistemine özgü Şer'i yönetim sorunlarını sistematik olarak haritalandırmak; ikincisi ise bu sorunları çözmek üzere üç özgün ve pratik yönetim modeli önermektir. Bu modeller; (1) merkezi bir üst kurul ile bu kurula bağlı platformlar özelinde oluşturulan kurulları içerecek şekilde oluşturan İki Aşamalı Şer'i Yönetişim Modeli, (2) mevcut platformlara bir "katılım penceresi" entegre eden Hibrit Model ve (3) bağımsız kuruluşlarca verilen uygunluk teyidini standart hale getiren Dış Kaynaklı Model. Bu modellerden herhangi birinin uygulanması, Türkiye'de paya dayalı kitle fonlamasının sürdürülebilir gelişimini teşvik edecek, riski azaltacak, güveni kurumsallaştıracak ve benzer zorluklarla karşılaşan diğer ülkeler için bir örneklik teşkil edecektir.

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## SHARIAH GOVERNANCE FRAMEWORKS FOR EQUITY CROWDFUNDING: AN ANALYSIS AND PROPOSAL

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### ABSTRACT

The rapid expansion of equity crowdfunding in Türkiye has revealed a significant demand from investors for Shariah-compliant opportunities. However, the absence of a formal Shariah governance framework has created critical vulnerabilities, including erosion of trust, information asymmetry, a clear legal void and ambiguity of liability, inadequate due diligence, reputational and sustainability risks, unnecessary operational burden, voluntary financial exclusion, and systemic risk, which undermine the integrity of this emerging market. This study addresses this governance deficit through a qualitative analysis grounded in a critical literature review. Its primary contribution is twofold: first, it systematically maps the specific Shariah governance challenges inherent in Türkiye's crowdfunding ecosystem; second, it proposes three distinct, practical governance models to resolve them. These models are: (1) the Two-Tier Shariah Governance Model, which establishes a central authority and specialized platforms; (2) the Hybrid Model, which integrates an "Islamic window" into existing platforms; and (3) the Outsourced Shariah Governance Model, which standardizes third-party compliance verification. The implementation of any of these frameworks would institutionalize trust, mitigate risk, and foster the sustainable development of equity crowdfunding in Türkiye, serving as a template for other jurisdictions facing similar challenges.

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## INTRODUCTION

Crowdfunding represents a modern financing method wherein a large number of individuals collectively fund an idea, product, service, or enterprise through online platforms. This ecosystem is composed of three primary actors: the project owner, who presents the idea or initiative; the backers (or funders), who provide financial support; and the online platform, which facilitates interaction between them. The process is initiated when a project owner submits their project to the platform, often enriched with compelling visuals, videos, and supporting documents designed to capture public interest. Individuals who are drawn to the project then provide funding through the platform's secure channels. Subsequently, these backers can monitor the project's progress periodically via the platform itself, the project's official website, or its social media channels. By enabling the realization of numerous projects that might have otherwise remained mere aspirations, crowdfunding is becoming an increasingly prevalent and publicly acclaimed financing mechanism on a global scale.

Crowdfunding methods are typically classified into two primary categories based on the nature of the return offered to the investor:

- Non-Financial Return Models
- Financial Return Models

Within the non-financial category, the most prevalent type is reward-based crowdfunding, which accounts for a significant majority of projects funded globally. In this model, project owners offer their backers non-monetary or symbolic incentives, such as personalized thank-you letters, certificates, or early access to the very product or service being developed. Particularly for product-focused initiatives, backers are effectively placing a discounted pre-order for a future item. Kickstarter and Indiegogo are seminal platforms that have popularized this approach worldwide.

The other prominent non-financial model is donation-based crowdfunding. Here, individuals contribute funds on a purely philanthropic basis, with no expectation of any material reward or financial gain. This model is predominantly used for social causes, non-profit activities, and charitable campaigns, such as funding the development of technology to combat environmental pollution. GoFundMe and GiveForward stand out as leading platforms in this domain.

Turning to financial return-oriented methods, the most prominent model is equity-based crowdfunding. In this arrangement, startups raise capital by offering company shares (equity) to investors via online platforms, thereby making them partial owners of the venture. If the startup succeeds, the value of the investors' shares appreciates, leading to a potential capital gain. Conversely, if the venture fails, the shares can lose their value, exposing investors to the risk of loss. Microventures, Crowdcube, and Companisto are notable global platforms operating under this model. In Türkiye, the legal framework for equity crowdfunding has been established by the Capital Markets Board, and its adoption has been growing rapidly in recent years.

The other primary financial return model is debt-based crowdfunding, often referred to as peer-to-peer (P2P) lending. This model facilitates direct lending and borrowing between individuals and/or institutions through an online platform. The project owner borrows the required funds under pre-determined interest rates and maturity terms, committing to repay the principal along with interest over or at the end of the loan period. In some structures, project assets may be pledged as collateral. This P2P lending model is distinguished by its potential to lower borrowing costs by disintermediating traditional financial institutions. Leading platforms in this space include Crowd2Fund, Funding Circle, and Lending Club.

Equity-based crowdfunding has recently gained significant momentum in Türkiye, resonating strongly with the general public. This evidence indicates a public willingness to invest in profit-and-loss sharing projects.

Profit-and-loss sharing partnerships, which some economists (Askari et al., 2012; Ng, Mirakhor, and Ibrahim, 2015) regard as the investment approach most consonant with human nature, have been substantiated by real-world practice. Recognizing this growing interest, numerous firms have established online platforms that serve as intermediaries between entrepreneurs and investors. As of August 2025, the Capital Markets Board of Türkiye has officially licensed 18 such platforms (SPK, 2025). The operational maturity of these platforms varies considerably: while some have already facilitated the successful funding of multiple ventures, others are just beginning to list their initial projects, and a number are still in the foundational setup phase.

A noteworthy phenomenon observed in projects funded to date is that a segment of investors consistently utilizes the platform's Q&A section to inquire about a venture's adherence to Islamic finance principles. These inquiries are often comprehensive, covering aspects such as the startup's primary business activities, its policies on interest-bearing transactions, and its approach to practices like zakat. This consistent pattern of questioning clearly indicates the presence of a significant investor base within Türkiye's equity-based crowdfunding market with specific Islamic ethical and financial sensitivities.

This grassroots demand organically elevates the topic of formal Shariah governance from a theoretical consideration to a pressing, institutional-level agenda item for the entire crowdfunding ecosystem. Islamic financial institutions bear the fundamental responsibility of ensuring that all their products, instruments, operations, practices, and governance structures adhere to Shariah principles. Shariah governance, in this context, functions as a comprehensive system that encompasses oversight mechanisms, such as the issuance of fatwas (religious rulings), compliance reviews, and internal audits, to maintain this alignment. Consequently, a robust Shariah governance framework is considered vital for the institutional integrity and success of any Islamic financial institution (Bektaş and Yenice, 2024). The

experience gained to date within the equity-based crowdfunding sector unequivocally demonstrates that a similar need for institutionalized Shariah governance has emerged. In this sense, the article endeavors to answer the following research questions: Does the absence of proper Shariah governance in equity-based crowdfunding adversely affect key stakeholders (e.g., investors, entrepreneurs, and platforms), and if so, how and what Shariah governance mechanisms are suitable and effective for equity-based crowdfunding? Building on this observation, this study aims to propose unique and practical Shariah governance models tailored specifically for the equity-based crowdfunding ecosystem in Türkiye, a market that is currently experiencing significant growth and development.

Experience to date within the sector demonstrates that the existing Shariah governance gap in equity-based crowdfunding represents a major concern for the entire ecosystem, affecting key stakeholders, including investors, entrepreneurs, and the platforms themselves. To mitigate these risks, this study proposes three distinct and unique models for practical implementation: (1) the Two-Tier Shariah Governance Model, (2) the Hybrid Model, and (3) the Outsourced Shariah Governance Model. The analysis concludes that the proposed models would not only neutralize current threats but also substantially contribute to the long-term sustainability and structural integrity of Türkiye's burgeoning equity-based crowdfunding ecosystem.

This study begins by reviewing the existing literature on the intersection of crowdfunding and Shariah governance, considering both the Turkish and global contexts. The subsequent section provides a brief outline of the methodological approach employed. Following this, the paper analyzes the specific Shariah governance challenges encountered within Türkiye's current equity-based crowdfunding practices, drawing on empirical observations. Building upon this analysis, the study then synthesizes these practical challenges with insights from the literature to propose distinct governance models with applicability both in Türkiye and globally. The

concluding section summarizes the study's key findings and offers concrete policy recommendations for regulators and market participants. This research's key contribution, which differentiates it from earlier studies, lies in its thorough mapping of Shariah governance challenges in Türkiye's equity-based crowdfunding market and its development of three distinct, highly practical models for implementation.

## **LITERATURE REVIEW**

The body of academic literature on crowdfunding Shariah governance is notably limited. Existing research can be broadly categorized into three groups. The first group consists of a small number of studies that directly and comprehensively address the topic of Shariah governance in this context. The second group examines the issue from a narrower perspective, focusing primarily on the contractual aspects of Shariah governance (Azganin, Kassim, and Sa'ad, 2021; Boulahbel, 2021; Çıtak, 2022; Ishak and Rahman, 2021). The final group of studies attempts to offer a general Islamic viewpoint by offering different models complying with Islamic financial principles, touching upon governance only in broad strokes rather than in detail (Alma'amun et al. 2018; Al-Mulla, Ari, and Koç 2022; Kazak 2023; Rahman, Mohd Thas Thaker, and Duasa 2020; Thaker et al. 2020). Due to limited space and the extensive body of studies, this literature only reviews the first group of studies, namely those that directly address Shariah governance.

Ramli and Ishak (2022) proposed a Shariah governance framework specifically tailored for equity-based crowdfunding in Malaysia. The proposed model closely mirrors the existing governance structures of Islamic banks within the country. The proposed Shariah governance model below may be applicable to equity-based crowdfunding in Türkiye; however, adopting simpler and more practicable mechanisms appears more feasible in the Turkish context. The organizational framework is structured around three core functions: Shariah review, Shariah audit, and Shariah risk management. The primary responsibility of the Shariah review

function is to continuously monitor and scrutinize operational processes to ensure ongoing adherence to Shariah principles, as well as to report any instances of non-compliance. The Shariah audit function is tasked with conducting internal Shariah audits throughout the entire crowdfunding process and in its aftermath. Finally, the Shariah risk management function is responsible for identifying potential Shariah-related risks and providing training to employees to mitigate them.

In a similar study, Ramli et al. (2023) also underscored the need for a formal governance structure, proposing the establishment of a Shariah board operating directly under the authority of the platform's main board of trustees. This arrangement is designed to translate the strategic decisions of the board of trustees into actionable, operationally compliant practices that adhere to Shariah principles. Echoing their earlier work, the authors identified the core sub-components of this mechanism as Shariah review, Shariah risk management, and Shariah audit.

Building on similar themes, Muhamed et al. (2025) proposed a comparable governance model, this time for donation-based crowdfunding platforms in Malaysia. They asserted that the establishment of a dedicated Shariah board is essential for each platform to ensure comprehensive Shariah compliance. Furthermore, the authors identified several key components of an effective Shariah governance framework, advocating for the creation of internal committees responsible for Shariah compliance and review, Shariah audit, and Shariah risk management. Beyond the platform level, the study also highlights a critical need for policymakers in Malaysia to develop and implement specific regulations tailored to the unique characteristics of the crowdfunding industry.

In a related but not identical arrangement, Baştuğ (2024a) proposes the need for a two-tiered governance structure for equity-based crowdfunding in Türkiye. The author emphasizes the necessity of a supreme advisory board responsible for establishing industry-wide standards. Subsequently, at the platform level, this framework would be implemented by two key

bodies: An advisory committee to evaluate individual ventures against these standards. A compliance unit to ensure ongoing adherence. We propose a similar framework that advances the previously mentioned arrangements through additional details and context-specific modifications.

In a different study focusing on the Turkish context again, Baştuğ (2024b) evaluates the equity-based crowdfunding process through the lens of Islamic finance principles. The study advocates for a new institutional structure, beginning with the establishment of a high-level entity, such as the proposed "Turkish Participation Finance Institution," which is currently under discussion in Türkiye. Within this main institution, Baştuğ suggests the formation of a central advisory board. Reporting to this board would be a specialized sub-committee responsible for capital markets, specifically tasked with defining the professional guidelines, principles, and standards for the equity crowdfunding sector. To ensure the implementation of these standards at the platform level, the model requires several components: An advisory committee at the platform level, composed of at least three members appointed by the platform's board of directors. A Shariah compliance unit to oversee adherence. An internal audit unit to provide assurance to the platform's management, its users, and other stakeholders. Crucially, the proposal stipulates that members of the platform committee and the staff of the compliance unit must be experts with proven professional experience in the field of Islamic finance, mirroring existing best practices. This structure effectively reiterates a two-tiered Shariah governance mechanism for the Turkish equity crowdfunding market, with slight differences from what we have offered below.

Sudarwanto et al. (2024) argue that a robust Shariah governance framework for crowdfunding must be built upon four essential components. The first and most critical element is the Shariah supervisory board, situated at the platform level. This board holds ultimate responsibility for the platform's overall compliance with Shariah principles.

Supporting this board, the second component is a Shariah compliance officer, also at the platform level, who is tasked with monitoring operational processes on a day-to-day basis and reporting their findings. The third component focuses on the legal framework: ensuring that all Shariah-compliant contracts are structured in alignment with Islamic business models and that appropriate contract types are selected for transactions. The fourth and final key component is continuous oversight and transparency. This involves the constant auditing of all processes to ensure adherence to Shariah rules, with the findings of these audits being shared transparently with all stakeholders. While this proposed mechanism is primarily implemented at the platform level, Sudarwanto et al. emphasize that the platform's Shariah supervisory board is ultimately accountable to a national central board or a regulatory authority. Consequently, the platform must operate within the comprehensive framework and rules established by this higher governing body, supporting the two-tiered Shariah governance mechanism similar to the previous study.

In a study proposing crowdfunding as an Islamic financial instrument for the Turkish Republic of Northern Cyprus, Gülay et al. (2021) also briefly address the matter of Shariah governance. The authors acknowledge that outsourcing the Shariah approval mechanism could potentially increase transaction costs for crowdfunding platforms. To counteract this, they propose a novel solution: this essential oversight service should be provided on a complimentary basis by the Participation Banks Association of Türkiye. They argue that such an arrangement would not only mitigate the cost burden but would also significantly enhance the long-term financial sustainability of the platforms. Considering the current scope of work of the Participation Banks Association of Türkiye, incorporating this function could potentially broaden their operational responsibilities. Given the high volume of projects published daily, managing such an additional workload may prove challenging. Therefore, the feasibility of this application warrants careful evaluation.

Posing the question of whether crowdfunding can become a significant component of Islamic finance, Canbaz (2023) suggests that there is no definitive answer yet. However, the author argues that the inherent compatibility and practical applicability of the crowdfunding ecosystem with Islamic finance create the potential for a symbiotic relationship where both can grow by strengthening one another. While Canbaz does not detail a comprehensive Shariah governance mechanism, the study posits that related challenges can be resolved with relative ease and speed. It is noted that Islamic finance already provides established criteria for verifying the Shariah compliance of investments, such as approved business sectors and specific financial ratios. Interestingly, Canbaz introduces the idea that the ultimate decision on Shariah compliance could, in some cases, rest at the investor level, empowering them to make their own informed judgments based on these established criteria. A review of the existing literature reveals that the scholarly discussion on this topic has remained relatively narrow in scope. It is unsurprising that a significant portion of these studies originates from and focuses on the Malaysian context. Indeed, Yenice's (2025) bibliometric mapping of the Shariah governance field demonstrates that Malaysian authors and institutions exert a dominant influence on the discourse. Consequently, the prevalence of research centered on Malaysian institutions and perspectives is to be expected.

Furthermore, the first official step towards the development of crowdfunding in Türkiye was taken in 2017 through an amendment to the Capital Markets Law No. 6362, which introduced the concept of crowdfunding and granted the Capital Markets Board the authority to regulate and supervise related activities (SPK, 2017). This was later followed by the communiqué on equity crowdfunding, issued in 2021, which established the institutional framework for crowdfunding in Türkiye (SPK, 2021). However, it is observed that the communiqué does not include any provisions or guidance regarding Shariah-compliant (participation-based) crowdfunding models. In the Participation Finance Strategy Document 2022–2025, published by the Presidency of the Republic of

Türkiye Finance Office, it is emphasized that crowdfunding—particularly through its equity-based and socially oriented aspects—will play a significant role within the participation finance ecosystem. The document further highlights the strategic importance of this domain. Given these developments and the existing regulatory steps, the need for an institutionalized Shariah governance framework in equity-based crowdfunding becomes evident. This study aims to provide a conceptual foundation and lay the preliminary groundwork for such an initiative.

This study aims to fill a critical gap in literature by moving beyond this limited focus. It does so by first providing a comprehensive diagnosis of the practical challenges within Türkiye's crowdfunding sector; second, establishing a solid theoretical foundation for the discussion; and third, proposing novel governance models from diverse perspectives. In doing so, it seeks to broaden the scholarly conversation both geographically and conceptually.

## **METHODOLOGY**

This study adopts a qualitative research design centered on a critical literature review and thematic analysis. The rationale for adopting a qualitative research design lies in the fact that equity-based crowdfunding is still in its developmental stage, making systematic data collection challenging. Furthermore, the construction of an appropriate governance model necessitates an in-depth conceptual exploration rather than a quantitative assessment. The methodology unfolds in three distinct stages.

First, a comprehensive review of existing academic and industry literature on Shariah governance and crowdfunding was conducted. This involved systematically identifying, evaluating, and categorizing prior studies to map the current state of the scholarly discourse and pinpoint existing theoretical gaps. This was more or less applied in the literature review section.

Second, a qualitative content analysis was performed on publicly available data from Turkish equity-based crowdfunding platforms. This included an examination of platform websites, submitted documents, and investor communications (such as public comments and forums) to identify recurring Shariah-related concerns, ambiguities, and practical challenges faced by stakeholders. The data were collected from the official websites of the platforms registered with the Capital Markets Board (SPK, 2025).

Finally, the insights from the literature review and content analysis were complemented by informal and unrecorded discussions with a select group of scholars and investors who are actively engaged in the sector. Although these conversations were not part of the formal data collection process, they provided valuable contextual understanding that informed the development of the proposed governance models.

### **The Absence of Shariah Governance in Equity-Based Crowdfunding and Its Adverse Impact on Stakeholders**

The growth and globalization of the Islamic finance sector have fostered institutionalization at the firm level and prompted regulatory and supervisory initiatives at the national level. The limitations of modern corporate governance theories in addressing the distinctive nature of Islamic financial institutions have highlighted the need for an alternative framework. In response to this need, Islamic corporate governance emerged by integrating Shariah advisory committees into the conventional corporate governance structure (Yılmaz and Şencal, 2022). Shariah governance embedded within the organizational framework of Islamic financial institutions guarantees adherence to Shariah principles and mitigates the likelihood of top management involvement in high-risk activities (Keramat and Kahf, 2022).

In Türkiye's equity-based crowdfunding market, the primary mechanism for investors to assess a venture's adherence to Islamic principles is through direct, informal inquiries posed to entrepreneurs, typically within

a platform's public Q&A section. Consequently, investment decisions are often predicated on these verbal assurances. This method, however, is fraught with risk as it lacks a formal accountability structure. The oral nature of these declarations, coupled with the absence of a dedicated legal and regulatory framework for Shariah governance in the crowdfunding space, means that entrepreneurs bear no legally binding obligation to uphold their compliance claims. This governance deficit creates significant and tangible threats for all key stakeholders: it exposes investors to the risk of non-compliance, places compliant entrepreneurs at a competitive disadvantage against those who are not and undermines the long-term credibility and integrity of the platforms and the entire ecosystem.

From the investor's standpoint, the primary and most critical risk is the ***erosion of trust***, which is manifested in two principal forms. The first occurs when an entrepreneur, after a successful funding campaign, fails to adhere to their stated Shariah compliance commitments. The second, more subtle form arises when the scope of the entrepreneur's initial commitment is significantly narrower than the investor's interpretation. A specific case from one platform vividly illustrates this second scenario. An investor, having inquired about the venture's policy on interest and received assurances of its sensitivity to the matter, decided to invest. In subsequent years, however, periodic reports revealed that the company had accepted interest-bearing government incentives, justifying the decision by arguing that the interest rate was below inflation. Upon discovering this, the investor repeatedly voiced their grievances via the platform, contending that the entrepreneur's initial declarations were not fully transparent and had created a misleading impression of a comprehensive commitment to being interest-free. This incident highlights how a mismatch in expectations, stemming from a lack of standardized disclosure, can directly lead to investor disillusionment and a breakdown of trust.

A second significant issue impacting investors arises when entrepreneurs, motivated to secure funding, provide initially positive yet deliberately

vague responses regarding their commitment to Islamic principles, only to deviate from these assurances after the investment. This practice exacerbates the problem of *information asymmetry* and accelerates the erosion of trust. Over time, as negative experiences accumulate, an investor's confidence in the ecosystem inevitably wanes, directly influencing their future capital allocation decisions.

The absence of a written, legally binding commitment creates an accountability vacuum. In the event of a dispute, this allows the platform to deflect responsibility by positioning itself as a mere "intermediary," while the entrepreneur can dismiss grievances by claiming their verbal statements were "misunderstood." This lack of institutional oversight and formal representation for compliance issues gives rise to fundamental problems: *a clear legal void and an ambiguity of liability* that severely impedes an investor's ability to seek recourse.

On a macro level, these repeated negative experiences risk damaging the integrity of the Islamic economy itself. They foster a perception that foundational concepts like "halal," "Islamic," or "participation" are being devalued from genuine principles into mere marketing tools. A cynical view may take hold: that these terms are being hollowed out, strategically employed simply to attract a specific segment of capital without any substantive commitment.

Furthermore, the problem of *inadequate due diligence* is compounded by the fact that most retail investors lack the specialized expertise required to conduct a comprehensive Shariah audit of a business. A robust assessment of a company's Shariah compliance necessitates a holistic analysis of both its operational activities and its financial structure. The current practice, however, falls short of this standard. Instead, the evaluation process is fragmented, relying on isolated questions posed by individual investors based on their personal priorities, rather than a systematic and in-depth investigation.

This ad-hoc approach inevitably creates a gap between investor expectations and a venture's actual practices. The issue of zakat serves as a pertinent example. An entrepreneur's declaration that zakat is a matter of individual shareholder responsibility, rather than a corporate obligation, may be acceptable to some investors while constituting a critical issue for others. This divergence in investor sentiment on such a core principle underscores a fundamental flaw in the ecosystem: the complete absence of a standardized, commonly accepted benchmark for what constitutes "Shariah compliance."

Over time, these persistent compliance issues inevitably translate into significant *reputational and sustainability risks* for the platforms themselves. The crowdfunding ecosystem is particularly susceptible to network effects and herd behavior, where investor sentiment can shift rapidly and collectively. A negative perception, amplified through community channels, can quickly tarnish a platform's brand and become a formidable barrier to its long-term viability. Moreover, the current ad-hoc system creates operational inefficiencies. Entrepreneurs are forced to repeatedly address the same Shariah-related inquiries from different investors, imposing a significant and unnecessary *operational burden* on their limited resources. Ultimately, platforms that fail to establish a transparent, trustworthy, and standardized environment for Shariah compliance will struggle to realize their full potential. They risk not only failing to attract a key demographic of ethically-minded investors but also facing marginalization within the broader financial ecosystem as more robust and reliable alternatives emerge.

A further challenge at the platform level is the inherent difficulty in monitoring a venture's ongoing adherence to its initial Shariah compliance pledges. In the absence of a formal, institutionalized audit mechanism, verifying compliance becomes an impractical burden for the individual investor. This accountability gap fosters suspicion among ethically-driven investors, potentially leading them to opt out of the ecosystem entirely—

a phenomenon that can be described as *voluntary financial exclusion*. This self-exclusion has direct and detrimental consequences for the entire market. It restricts the expansion of the capital base for new ventures, effectively alienating a significant pool of investors who possess both Islamic sensitivities and investment capacity. Consequently, this not only hinders the ability of startups to gain broad-based support but also demonstrably impacts their potential to achieve successful funding outcomes. The lack of a reliable governance structure, therefore, acts as a direct impediment to capital formation within the ecosystem.

In aggregate, the previously discussed deficiencies in Shariah governance constitute more than a series of disparate problems; they represent the foundation for *systemic risk* within the crowdfunding ecosystem. A single high-profile compliance failure on any one of the growing number of platforms could capture public attention, triggering a contagion of distrust that jeopardizes the entire market's integrity. Therefore, establishing a standardized Shariah governance framework is not merely a corrective measure but a strategic imperative. Such a framework would eliminate operational inconsistencies and, more critically, mitigate the potential for future systemic crises. An institutionalized governance mechanism is essential to ensure the healthy development and deepening of Türkiye's rapidly accelerating crowdfunding sector. Beyond creating value for all domestic stakeholders, building a sophisticated and transparent governance infrastructure offers a profound strategic opportunity. It has the potential to elevate Türkiye's status, positioning it as a premier investment hub for international investors and global Islamic funds seeking markets with robust, credible, and compliant financial ecosystems.

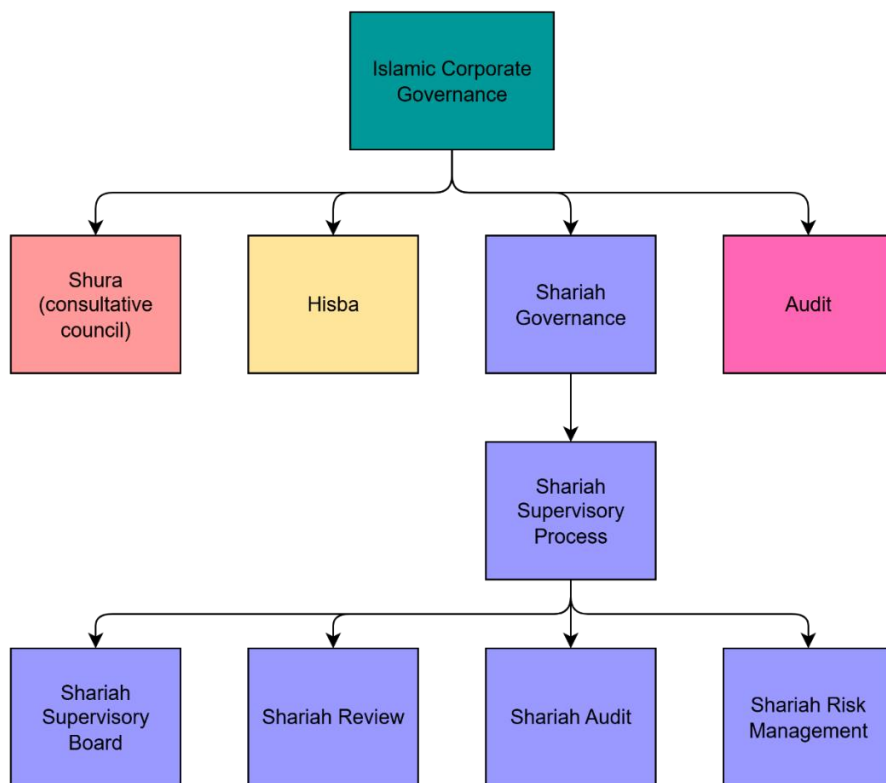
### **A Proposed Shariah Governance Framework for the Crowdfunding Ecosystem**

This paper proposes Shariah governance models tailored for Türkiye's equity-based crowdfunding ecosystem. Before presenting these models, however, it is essential to first establish the theoretical underpinnings of

the discussion by clarifying several foundational concepts. The ultimate objective (maqsad) of the economic system envisioned by Islam is to achieve societal prosperity and well-being (falah) and to establish social justice and equity ('adalah) among individuals. Within this framework, corporations, as key economic actors, assume a critical role in realizing these higher goals. According to the foundational work of Lewis (2005) Islamic corporate governance is built upon four core pillars: Shura (consultation and participative management), Hisbah (accountability and public good supervision), Shariah audit (religious compliance verification), and financial audit (financial verification).

It is important to note that the comprehensive Islamic corporate governance framework described by Lewis has not yet been fully realized in practice anywhere in the contemporary world. Nevertheless, over the course of their evolution, Islamic financial institutions have developed their own internal structures to ensure compliance. They have established specialized functions and departments, such as Shariah supervisory boards, Shariah review, Shariah audit, and Shariah risk management. The collective activities performed by these units constitute what is now broadly termed in the literature as Shariah governance (Çıkıryel, 2023). This applied framework, which focuses specifically on the mechanisms for ensuring religious compliance within an organization, is summarized in Figure 1 below.

**Figure 1 Islamic Corporate Governance Framework**



**Source:** Author

At this juncture, it is crucial to distinguish between the concepts of Islamic corporate governance and Shariah governance. Islamic corporate governance refers to the overarching set of rules and practices, derived from the guidance of Shariah, that determines how a company is directed, managed, and controlled, defining the rights and responsibilities of all its stakeholders. In essence, Islamic corporate governance represents the holistic operational philosophy of an institution grounded in Islamic principles. In contrast, Shariah governance is best understood as an essential sub-component within the broader Islamic corporate governance framework. Its primary focus is narrower and more operational: ensuring

that an Islamic financial institution's day-to-day activities, products, and operations strictly adhere to Shariah principles. In modern institutions, the scope of Shariah governance encompasses a range of practical functions, including: Guiding product development processes, drafting and approving contract templates, auditing transaction flows and marketing materials, assessing and managing Shariah non-compliance risk, identifying and purifying impermissible income, and calculating and facilitating the distribution of zakat. As this distinction illustrates, Islamic corporate governance represents the entire corporate architecture, while Shariah governance constitutes the specific compliance engine within it. As Sencal and Asutay (2021) emphasize, since Islamic financial institutions build their brand on an Islamic identity, it is imperative that their management and governance structures authentically reflect this identity. This provides the fundamental rationale for establishing a robust and sustainable Islamic corporate governance structure, with an effective Shariah governance system at its core.

This section focuses on possible Shariah governance mechanisms in equity-based crowdfunding. As a cornerstone of the Shariah governance framework in modern Islamic financial institutions, the Shariah advisory board is entrusted with a wide array of critical responsibilities. These include guiding product development, ratifying contract templates, auditing operational flows and marketing materials, assessing Shariah non-compliance risk, identifying and overseeing the purification of impermissible income, calculating and managing zakat distribution, and conducting ongoing compliance reviews (Çıkıryel, 2023). Building upon the theoretical groundwork established above, this section will now analyze potential Shariah governance models applicable to Türkiye's equity-based crowdfunding platforms, with a specific focus on the Shariah advisory board.

## **1. The Two-Tier Shariah Governance Model**

The prevailing Shariah governance model in Türkiye is characterized by a decentralized, institution-level framework. As mandated by the Capital Markets Board, each entity operating under interest-free finance principles is required to establish its own internal advisory committee. This body is tasked with the oversight of the institution's activities and financial structures to ensure Shariah compliance. Crucially, the resolutions passed by these committees are binding solely on their respective institutions and are not subject to the ratification or review of a higher, centralized authority. While the Participation Banks Association of Türkiye does host an advisory board to foster standardization and coordination across the sector, its resolutions serve merely as recommendations and lack legal enforceability.

The necessity of a central advisory board has recently emerged as a prominent topic of debate in Türkiye, prompting various public institutions to explore its feasibility. The current model suffers from a lack of standardization and significant inefficiencies, as disparate boards repeatedly address similar issues, often arriving at contradictory conclusions. Establishing a centralized structure is posited as the solution to overcome these challenges and is anticipated to make a substantial contribution to the maturation of Islamic finance. Indeed, the divergent practices arising from the absence of a central authority have been observed to erode trust within the sector. Consequently, the establishment of a two-tiered governance model is deemed essential: a central board to define overarching principles and standards, complemented by institutional advisory committees to ensure continuous corporate compliance with these mandates.

The implementation of such a governance structure would also pave the way for establishing "participation-based crowdfunding platforms." Operating on a model analogous to participation banks, these platforms would exclusively feature projects that adhere to participation principles.

A fundamental prerequisite for any project seeking funding would be a firm commitment to these principles, ensuring all subsequent activities are conducted in full compliance. Accordingly, these platforms must be mandated to publish semi-annual reports detailing the venture's activities. Crucially, each report must be accompanied by a Shariah compliance assessment from the institutional advisory committee, providing complete transparency for investors. Should any compliance issues be identified during a reporting period, the company will be required to take corrective action. Furthermore, any income generated through means deemed incompatible with the guiding principles must be subject to purification.

A critical aspect of the model's operational viability lies in the composition of the institutional advisory committees. To optimize functionality, it is essential that these committees are predominantly composed of economists or finance professionals who possess expertise in fiqh al-mu'amalat. Those economists or finance professionals may also be trained in the area of fiqh al-mu'amalat to conduct such processes. Significantly, there should be no impediment to these members concurrently serving on the platform's investment committee. This dual-role capacity would effectively eliminate the need for the platform to bear the additional financial burden of a separate advisory body. Furthermore, the existence of a central advisory board, which will establish the overarching framework, will substantially alleviate the workload at the institutional level. The primary function of these committees will shift from formulating complex jurisprudential rulings (ijtihad) to ensuring compliance with pre-established principles, thereby rendering the entire process more efficient and less arduous.

The institutional advisory committee should be a lean body, ideally comprising two to three members with a majority being economists or finance professionals. To complement this committee, a dedicated audit function—preferably a single, highly qualified individual—must be established. The auditor would be tasked with a dual verification mandate:

ensuring that the institutional advisory committee's rulings are correctly implemented and that all activities remain in strict compliance with the overarching principles and standards decreed by the central authority. This streamlined, two-part structure intentionally avoids the creation of multiple, overlapping units such as separate Shariah review, audit, risk management, and control departments, which often lead to redundancy and unnecessary complexity. Indeed, historical experience shows that many contractual arrangements approved under such convoluted systems have later been deemed flawed by scholars, academics, and customers alike. With the central authority setting the definitive principles, the institutional committee's responsibility is simplified to ensuring compliance, while the audit function verifies every step, thus optimizing the process for maximum simplicity and effectiveness.

It is crucial to emphasize a key distinction at this juncture: the proposal for establishing platforms compliant with Islamic finance principles should be considered independently of the two-tiered Shariah governance model. The primary recommendation of this study is, first and foremost, to facilitate the creation of these participation-based platforms. Even without the establishment of the debated central authority, the proposed institutional framework—with its own advisory and audit functions—is viable on a standalone, firm-by-firm basis. While this would still contribute to resolving certain issues, it would inevitably lead to the re-emergence of contradictory rulings across different platforms. However, when integrated with a central authority, this practice transforms into a complementary and powerful structure, poised to significantly accelerate the sector's advancement.

## **2. The Hybrid Model**

In the current landscape, crowdfunding platforms typically present investors with a mixed portfolio of ventures: those that adhere to Islamic finance principles alongside conventional ones with no such commitments. The fundamental problem with this arrangement is that the onus of due

diligence falls entirely upon the individual investor. To ascertain a company's compliance, an investor's only recourse is to directly question the venture's management through the platform's Q&A section. As previously established, this situation creates a range of adverse consequences for investors, the platforms themselves, and the broader ecosystem.

To resolve these issues, a new regulation specific to equity-based crowdfunding could be added to the existing capital markets legislation under the headings of "Interest-Free Finance" or "Participation Finance." The general framework for this regulation could be determined in consultation with the advisory board of the Participation Banks Association of Türkiye, and its operational criteria could be designed to mirror those used for stocks accepted into the Borsa Istanbul Participation Index. Pursuant to this regulation, each crowdfunding platform would be required to establish its own internal Shariah Advisory Board. This board would be responsible for evaluating and classifying fundraising ventures against the criteria set by the Participation Banks Association of Türkiye advisory board. It would also monitor the company's adherence to its stated commitments for a period of five years. During this time, in addition to the standard semi-annual activity reports, a dedicated Shariah Compliance Report summarizing the company's status would be presented to investors. Critically, entrepreneurs would be asked at the outset whether they commit to operating in accordance with participation principles for the next five years, and their affirmative response would constitute a binding commitment.

If any issues with Shariah compliance are detected during the monitoring period, the company will be granted a specific timeframe to rectify the problematic areas. Should any income be generated from activities inconsistent with these principles, it must be purified from the company's earnings. After the initial five-year commitment period, companies wishing to continue adhering to participation principles must periodically engage

fihi advisory firms to prepare and share updated Shariah Compliance Reports with their investors. A critical component of this model is the clear definition of an exit mechanism. A company cannot abandon its commitment to participation principles. Should a company decide to cease following these principles after the initial five-year period, it is obligated to formally notify its investors at least one year before implementing the change. This one-year transition period grants investors a reasonable timeframe to reassess their situation, adjust their positions, or divest their shares. Such a requirement protects investors from sudden policy shifts and reinforces the system's reliability and predictability.

This model, by presenting two distinct pathways for entrepreneurs, is analogous to the "Islamic window" structure common in global banking. Although not practiced in Türkiye, many international banks offer both Islamic and conventional services within a single corporate entity. Crowdfunding platforms can adopt a similar approach, allowing entrepreneurs to select their preferred compliance framework at the outset and tailoring the fundraising process accordingly. This segmentation would not require separate platforms; rather, it could be seamlessly integrated via a "Shariah Compliance" section on the venture's main fundraising page. This section would transparently display the company's official declaration and binding commitment, empowering investors to make informed decisions. We project that this model would serve as a substantial remedy to the challenges previously outlined.

Finally, there is one more critical point to emphasize. The rules governing the BIST Participation Index famously require companies to comply not only with permissible business activities but also with specific financial ratios. However, these ratios—such as the stipulations that interest-bearing debt and interest-generating assets must not exceed 33% of market capitalization, and that revenue from prohibited activities must not exceed 5% of total income—face persistent criticism from both investors and industry representatives, who argue they lack a robust foundation and

are merely provisional. It is therefore crucial that the new framework for crowdfunding, to be developed by the Participation Banks Association of Türkiye advisory committee, moves beyond these flexible and contentious "provisional" ratios. Instead, it should establish clearer criteria that aim for full compliance and fully respect Islamic principles. Such a step would satisfy both sides, prevent voluntary financial exclusion, facilitate the broader distribution of capital, and potentially accelerate the reform of the BIST Participation Index's own temporary standards.

### **3. The Outsourced Shariah Governance Model**

A recent trend has been observed in several project listings where entrepreneurs are obtaining a "Shariah Compliance Certificate" from fiqhi advisory firms before presenting their ventures to investors. By uploading this certificate among the campaign documents, entrepreneurs aim to signal that the company is managed in accordance with Islamic finance principles, thereby attracting the support of investors who share this sensitivity. This proactive approach has the potential to help ventures reach a broader audience and contribute to a wider distribution of capital investment.

However, this practice, in its current form, presents two fundamental problems. The first and most significant is the lack of standardization. When each fiqhi advisory firm evaluates a venture based on its own proprietary criteria, the process becomes vulnerable to arbitrariness and potential exploitation. The absence of a standard benchmark can raise questions about the credibility of these certificates and risks adding a new item to the list of criticisms often levied against various Islamic finance products. To eliminate this problem, and echoing the proposal from the previous model, a new regulation (or directive) for equity-based crowdfunding could be introduced into the existing capital markets legislation under the headings "Interest-Free Finance" or "Participation Finance." The general framework for this regulation could be established in consultation with the Participation Banks Association of Türkiye advisory

board. Subsequently, a set of minimum compliance standards, analogous to the BIST Participation Index criteria, could be defined. This would enable fiqhi advisory firms to conduct their assessments according to this official framework, preparing a Shariah compliance report that entrepreneurs can then use for their fundraising campaigns.

The second fundamental problem is the static nature of the certificate. A Shariah compliance certificate obtained at the outset can lose its validity over time, as a venture may, knowingly or unknowingly, deviate from compliance in later stages of its operations. To overcome this issue, a system of mandatory periodic audits should be established, requiring companies to update and upload their compliance status on a regular basis. Echoing the previous model, companies that commit to Shariah compliance at the beginning must uphold this commitment for a period of five years. These updated reports should be presented to investors alongside the standard semi-annual activity reports for the duration of this five-year period, allowing investors to continuously monitor the company's status through the platform. For reporting beyond the initial five years, a separate, independent platform could be developed where all ventures can inform their investors, regardless of the original fundraising platform. Furthermore, if a company decides to cease adhering to these principles after the five-year period, it must formally notify its investors at least one year prior to the change taking effect. This one-year transition period would give investors a reasonable timeframe to reassess their situation, adjust their positions, or divest their shares. Such a requirement protects investors from sudden policy shifts and reinforces the system's reliability and predictability.

Adopting this method would facilitate the resolution of issues related to both standardization and continuous disclosure. At the same time, this model imposes no additional operational burden on the crowdfunding platform, as the responsibility for auditing and reporting lies with the external advisory firm and the entrepreneur. The only new burden on the

entrepreneur is the additional cost of obtaining the Shariah compliance certificate. While this may seem like a disadvantage initially, it is reasonable to predict that as the number of fiqhi advisory firms operating in the sector increases, competition will emerge, bringing these costs down to more affordable levels.

In summary, under this model, the entrepreneur initiates their campaign by first obtaining a Shariah Compliance Certificate from an external fiqhi advisory firm, in accordance with pre-defined standards. They also commit to adhering to these principles and rules for a minimum of five years. This certificate and its subsequent updated reports are presented to investors for their review alongside the semi-annual activity reports. If a fiqhi issue is identified during this period, the entrepreneur is granted a specific timeframe to rectify the problem, during which investors are kept fully informed. Should any income be generated that does not conform to these principles, measures are taken to purify it from the company's earnings.

### **Conclusion and Policy Implications**

Equity-based crowdfunding has gained significant momentum in Türkiye recently, with numerous platforms successfully connecting many startups with investors. The experience gained thus far shows that a segment of investors exhibits sensitivity to Islamic principles and makes investment decisions based on these considerations. However, when the interaction between entrepreneurs and investors is limited to informal inquiries in the Q&A sections of these platforms, a clear concern arises that an uncontrolled structure will emerge—one that could ultimately threaten the integrity of the entire ecosystem. As detailed throughout this article, such a structure gives rise to a host of problems, including erosion of trust, information asymmetry, a clear legal void, ambiguity of liability, inadequate due diligence, reputational and sustainability risks, unnecessary operational burdens, voluntary financial exclusion, and systemic risk.

Recent experience in the equity-based crowdfunding sector reveals an undeniable demand from investors for ventures that adhere to Islamic principles, creating a clear need for institutionalized Shariah governance. In response, this study puts forward unique and practical governance models designed specifically for the rapidly expanding equity crowdfunding ecosystem in Türkiye. These proposed models are: (1) the Two-Tier Shariah Governance Model, (2) the Hybrid Model, and (3) the Outsourced Shariah Governance Model.

The proposed Two-Tier Shariah Governance Model addresses the lack of standardization in Türkiye's current decentralized system by establishing a central advisory board to set binding, overarching principles for the Islamic finance sector. This central authority would be complemented by smaller, institutional-level advisory committees at each "participation-based crowdfunding platform," which would exclusively host Shariah-compliant projects. These institutional committees, primarily comprised of finance professionals with expertise in *fiqh al-mu'amalat*, would shift their focus from complex rulings to ensuring ongoing compliance with the central board's framework, as verified by a dedicated internal auditor. This streamlined structure is designed to be efficient, reduce the operational burden on platforms, and ensure transparent, continuous monitoring through semi-annual reports, which would include rectifying any compliance issues and purifying non-compliant income. While the creation of these specialized platforms could function independently, integrating them into a two-tiered system with a central authority is presented as the optimal solution for fostering trust, consistency, and growth in the ecosystem.

The Hybrid Model proposes a new regulation for equity crowdfunding that allows platforms to continue offering both conventional and Shariah-compliant ventures, similar to an "Islamic window" in banking. Under this model, entrepreneurs would make a binding five-year commitment at the outset to adhere to participation principles, which would be clearly

displayed on their campaign page. Each platform would establish an internal Shariah Advisory Board responsible for evaluating ventures against a new, more robust set of criteria developed by the Participation Banks Association of Türkiye, moving beyond the criticized provisional ratios of the BIST Participation Index. For the five-year commitment period, companies must submit semi-annual Shariah Compliance Reports alongside their standard activity reports, with clear protocols for rectifying issues and purifying non-compliant income. Crucially, the model includes a mandatory one-year notice period if a company decides to cease its adherence after the five years, providing a structured exit mechanism that protects investors from sudden policy changes and ensures transparency within the existing platform structure.

The Outsourced Shariah Governance Model formalizes the emerging practice of entrepreneurs obtaining third-party "Shariah Compliance Certificates." It addresses the core problems of non-standardization and the static nature of a one-time certificate by proposing a new regulation that establishes a single, official framework for compliance, developed in consultation with the Participation Banks Association of Türkiye. Under this model, entrepreneurs would engage an external fiqhi advisory firm to secure a certificate based on these official standards and make a binding five-year commitment to adhere to them. To ensure ongoing compliance, the entrepreneur—not the platform—is responsible for providing updated, semi-annual compliance reports alongside standard investor updates. This structure, which includes a one-year notice period for companies wishing to exit the commitment after five years and protocols for rectifying issues, aims to create a reliable and transparent system without imposing an operational burden on the crowdfunding platforms themselves.

These ongoing debates have given rise to several policy proposals. The prevailing decentralized approach to Shariah governance poses a palpable threat not only to the crowdfunding ecosystem but to the integrity of Islamic financial institutions at large. The path forward lies in establishing

a central advisory board tasked with defining binding and comprehensive principles for the entire sector. Such a body would resolve the critical lack of standardization, transforming the current system into one that is both transparent and accountable.

A concrete step in this direction would be to introduce a new regulation specific to equity-based crowdfunding within the existing capital markets legislation, perhaps under the designation of "Interest-Free Finance" or "Participation Finance." The general framework for this regulation could be developed in consultation with the advisory board of the Participation Banks Association of Türkiye, using the operational criteria of the Borsa Istanbul Participation Index as a foundational model. However, it is imperative that this new framework transcends the flexible and contentious "provisional" financial ratios currently used by the index. To command confidence and ensure true alignment, it must instead establish clearer, more robust criteria aimed at full compliance with foundational Islamic principles.

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### **ARAŞTIRMACILARIN KATKI ORANI**

Yazarın her birinin mevcut araştırmaya katkı oranı aşağıda belirtildiği gibidir:

Yazar'ın araştırmaya katkı oranı %100'dür.

### **ÇATIŞMA BEYANI**

Araştırmada herhangi bir kişi ya da kurum ile finansal ya da kişisel yönden herhangi bir bağlantı bulunmamaktadır. Araştırmada çıkar çatışması bulunmamaktadır.

### **ARAŞTIRMANIN ETİK İZNI**

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### **HAKEM DEĞERLENDİRMESİ**

En az iki dış hakem / Çift Taraflı Körleme

### **AUTHORS' PERCENTAGE-BASED CONTRIBUTION**

The contribution rate of the author to the present research is as follows:

The author's contribution to the study is 100%.

### **DECLARATION OF CONFLICTING INTERESTS**

There is no financial or personal relationship with any person or institution in this research. No conflict of interest exists in the study.

### **ETHICAL APPROVAL OF THE STUDY**

All rules stated within the scope of the "Instruction on Research and Publication Ethics for Higher Education Institutions" were strictly followed during the study. None of the actions specified under the section titled "Actions Against to Scientific Research and Publication Ethics" in the second chapter of the Instruction were carried out in this study.

### **PEER REVIEW**

Reviewed by at least two external referees / Double-Blind Review.