

Islamic crowdfunding practices in Malaysia: a case study on Nusa Kapital

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Abstract

Purpose – Islamic crowdfunding, an alternative way to finance social projects, is a new development in Malaysia. Little is known about its operation. This study aims to explore the practice of Nusa Kapital, the first Islamic crowdfunding platform in Malaysia.

Design/methodology/approach – This study adopted a descriptive approach. The data was collected through document analysis and interviews with two officials of Nusa Kapital. The data gathered was analyzed through the thematic analysis technique.

Findings – This research discovered that Nusa Kapital was established considering the financing needs of the growing number of small medium enterprises (SMEs) in Malaysia. It uses the murabahah concept to make financing arrangements for entrepreneurs. Murabahah is a debt-based concept where the investors, instead of giving cash to the entrepreneurs, purchase an asset and sell it to them at a cost-plus profit. The Securities Commission Malaysia (SCM) regulates the crowdfunding operation of Nusa Kapital, which sets guidelines for the different types of investors, entrepreneurs and platforms. Nusa Kapital conducts an extensive background check of the company for its creditworthiness and takes the necessary measures for the transparency of the project's operation.

Research limitations/implications – This study has unique implications for the regulatory authorities and practitioners in Malaysia and global industries. The study explored the practical scenario of the crowdfunding institution, which will be beneficial for similar industries within and outside of the country.

Originality/value – While previous literature provides a theoretical discussion of Islamic crowdfunding, this study contributes to the body of knowledge by demonstrating its practice.

Keywords Islamic crowdfunding, Shariah, Malaysia, Entrepreneur, Securities commission Malaysia

Paper type Research paper

1. Introduction

Crowdfunding is a platform to raise funds from the public. It is an alternative to the conventional banking system where the surplus unit channels funds to the deficit unit (Ishak and Rahman, 2021). Through the online crowdfunding platform, project-seeking

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entrepreneurs can connect with a large number of potential investors. Crowdfunding assists in creating public wealth through an integrated online system. Therefore, it is considered a powerful and cost-effective channel.

Crowdfunding is gaining the attention of entrepreneurs due to the possibility of getting funds at the early stage of a business, which is quite challenging to obtain from the conventional banking sector. Another advantage of crowdfunding is the ability to reach a significant number of donors and investors due to the progress of Internet technology around the world. It is possible to pool funds for a specific project from a large number of people worldwide who have an interest in that particular project. Furthermore, it provides different types of business models. A fund can be raised as a donation, an equity investment or a loan (Kromidha, 2015).

According to Alonso (2015), there are over 450 conventional and Islamic crowdfunding platforms in the world. Yomken, a Shariah-compliant institution based in Egypt and founded in 2012, has provided 18 micro finances to product-based crowdfunding companies, which could be considered a subset of reward-based crowdfunding. Another company, Liwwa, provides services exclusively to low-income populations. Similarly, as a center of Islamic finance, Malaysia also plays a significant role in halal crowdfunding for financially disadvantaged people. The primary distinction between halal crowdfunding in Malaysia and conventional crowdfunding is the use of the *Murabahah* principle, which permits entrepreneurs to finance tangible goods-based trade. Ata Plus, Waqf World, Ethis Kapital and Nusa Kapital are some of the well-established Islamic crowdfunding platforms. In conclusion, Islamic crowdfunding is typically autonomous.

According to Rey-Martí *et al.* (2019), developing a website is essential for entrepreneurs seeking funding from investors. Prospective investors will be reassured by a website that provides sufficient information regarding the project's implementation, risk mitigation strategies and other pertinent information. Moreover, internet-based crowdfunding technologies provide both expert investors and ordinary Internet users with the opportunity to invest in a project of their choosing. Despite the fact that the operation of conventional crowdfunding is well understood, there is a dearth of research on the operation of Islamic crowdfunding. Consequently, the objective of this study is to examine the operation of Islamic crowdfunding in Malaysia. It will investigate the operation of Nusa Kapital, the first Malaysian crowdfunding platform compliant with Shariah.

The crowdfunding phenomenon has become connected with several business and social activities. Given the significance of crowdfunding, some organizations play an important role in the development of social financing. Malaysia is still in the preliminary stage of crowdfunding and has lower acceptance (Asian Institute of Finance, 2016). In general, to start up a business or small medium enterprise (SME), an entrepreneur mostly begins with their savings as their common source of finance. The institutions manage funds through personal relationships and support the people without high monetary returns (Defourny and Nyssens, 2008). They perceive that access to funding is complicated when they have to face particular rules to obtain microfinance in the banking sector.

The Internet, or online platform, plays a significant role in the management and financing of company funds. Nonetheless, anyone can contribute to the projects via the online system for a specific project (Profatilov *et al.*, 2015). Islamic financing in the banking sector has created a successful history of its own in offering multiple financing plans to various individuals and groups, but the problem is the financial inclusion of the SME sector, one of the many issues that are expected to arise. To address and resolve this critical issue, the novel concept of crowdfunding was developed. However, no research has yet been conducted in Malaysia on how this new mechanism of modern crowdfunding with microfinance as the underlying contract operates. As crowdfunding is still in its infancy, few literature reviews have been discovered. The legal and regulatory framework for crowdfunding in Malaysia

and Shariah requirements for a Shariah-compliant crowdfunding platform must be understood. This research takes the lead in uncovering the significance of crowdfunding that must be taken into account before investors proceed with the deal process to fund the projects or business ideas of entrepreneurs. Thus, the purpose of this study is to investigate the organizational structure and operational mechanisms of Nusa Kapital. This study seeks to answer the question, “What is the operational process at Nusa Kapital?”.

This research has important practical contributions to crowdfunding platforms, social entrepreneurs and public investors. For crowdfunding platforms, it seems clear that the improvement of technology platforms will allow start-up crowdfunding for greater use. At the same time, it increased awareness of the services they offer, although the legally recognized market in Malaysia is still in its infancy stage. The existence of crowdfunding platforms such as Nusa Kapital provides a great opportunity for social entrepreneurs to present their initiative and contact potential investors comprehensively and consistently. Meanwhile, for public investors, the low barrier to entry is an opportunity for anyone to invest with a minimum investment and make the investment a potentially higher return if the business is successful.

This paper begins with an introduction, followed by a literature review that defines conventional and Islamic crowdfunding and describes various types of crowdfunding mechanisms in the second section. The third section describes the study’s research methodology, while the fourth section describes the study’s findings and discussion. The final section of the paper contains some limitations and recommendations.

2. Literature review

2.1 Islamic crowdfunding

Achsien and Purnamasari (2016) state that crowdfunding is generally in line with the objectives of Islamic finance. In principle, Islamic finance is based on Shariah rules and follows universal ethical principles and socially responsible financing principles. The ultimate goal of Islamic finance is to make sure that there is justice in terms of benefits and obligations among all parties involved in a transaction. Likewise, crowdfunding also holds these similar principles and provides new opportunities for the development of Islamic finance. Islamic finance goes along with the crowdfunding practice while considering the clients as investors and providing them with the opportunity to get higher potential returns. Furthermore, transparency, accountability, mutual trust and responsibility have the highest consideration in both crowdfunding and Islamic finance (Lajis, 2019; Hidayat and Machmud, 2019).

Shariah acclaims risk-sharing, providing funds for real economic activities and channeling funds for the development of the community (Achsien and Purnamasari, 2016; Kamaruddin and Ishak, 2020). Therefore, Islamic crowdfunding can be defined as the practice of collecting a small amount of money from a large number of people or organizations to fund a specific business venture, or individual or societal needs through an internet-based platform following Shariah principles. However, in order to be Shariah-compliant, crowdfunding organizations are required to abide by a few rules and regulations. Crowdfunding organizations should get formal certification from recognized Shariah advisory boards. In the same way that Islamic banks have a Shariah supervisory board, crowdfunding organizations may also have one.

2.2 The parties and types of crowdfunding

There are three parties in the practice of crowdfunding, which are (1) the creator or issuer, (2) the lender or investor and (3) the platform. The creator or issuer is usually an entrepreneur, a

business owner or an artist who provides the business idea and starts the project but requires a fund. The lender or investor is typically a donor, or a prebuyer, or a fund contributor who has confidence in the particular business venture, and therefore, provides assistance to carry out the project. Finally, the platform is the organization that provides a web-based arrangement to connect the investors to the issuers (Achsien and Purnamasari, 2016). Based on the purpose of the issuers, investors and platforms, the crowdfunding platforms can be divided into four types: (1) equity-based, (2) lending-based, (3) reward-based and (4) donation-based.

(1) Equity-based crowdfunding

In this type of crowdfunding, securities are issued by the business owners who collect funds from the investors. Revenue generated from the business is shared between the entrepreneur and the investor. The investors have voting rights in the management of the project (Pierrakis and Collins, 2013). This model is the most popular among all other types of crowdfunding models. However, regulatory restrictions related to this type of model are a challenge to its growth (Vulkan *et al.*, 2016; Mochkabadi and Volkmann, 2020).

(2) Lending-based crowdfunding

In this model, the fund-providers lend money to entrepreneurs through online platforms. This model evolved from the peer-to-peer (P2P) lending model, where an individual lends to another individual. However, a peer-to-business lending model is also in practice where an individual lends money to a business. The funders of this type of crowdfunding are entitled to receive a fixed return along with the capital invested. The lending-based model is the most popular in the world after the equity-based model (Gulati, 2014).

(3) Reward-based crowdfunding

Under this type of crowdfunding, the fund providers are offered nonmonetary benefits for their loans. The funders are often offered to repurchase the goods or services for the business to get sufficient funds. The donors are usually given a token of appreciation, which is typically a low-value item. Better rewards are sometimes given for larger donations (Ahlers *et al.*, 2015; Vulkan *et al.*, 2016; Mochkabadi and Volkmann, 2020).

(4) Donation-based crowdfunding

The fund providers donate money to a project that they are motivated to assist without expecting any reward. Donors are encouraged to support the project in exchange for spiritual rewards. Usually, this type of project has a widely accepted purpose, i.e. constructing houses for the homeless, providing rehabilitation services for disabled individuals and providing medical care to underprivileged people (Pierrakis and Collins, 2013).

2.3 *The applicable law in Malaysia*

Community fundraising has been practiced in Malaysia directly or indirectly since 1982. After several efforts and open discussions had been undertaken with interested state holders, the first framework was approved by the Securities Commission Malaysia (SCM) on February 10, 2015. It is also the first law on public crowdfunding in the ASEAN region (Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand and Vietnam) (Cheah, 2015).

On 15 December 2015, the SCM issued guidelines on recognized markets (SC-GL/6-2016; R1-2016), which supersedes the guideline on regulation of markets as stated in guidelines item 1.10. It advocates recognizing the market as an alternative trading venue, marketplace or facility that brings together purchasers and sellers of capital market products. The new

guidelines on recognized markets also assist the regulations in facilitating P2P financing, which was put into effect on 2nd May 2016.

The guidelines of SCM consist of seven (7) parts, which are further divided into chapters. These guidelines provide the requirements for the registration of a person as a recognized market operator (RMO) for both equity crowdfunding and P2P platforms (Rusni and Ulfah, 2016). The four (4) salient features of the guideline are as follows:

- (1) Requirements for platform operators' registration
- (2) Requirements for reporting and disclosure
- (3) Requirements for Shariah compliance
- (4) Anti-Money Laundering

2.4 Nusa Kapital

Malaysia is a country where crowdfunding platforms are highly regulated. According to the Securities Commission Malaysia (2020), there are ten equity crowdfunding platforms registered in Malaysia. Besides, there are 11 P2P financings and one property crowdfunding platform. Based on current information, two platforms conduct their operations based on Shariah principles, namely Nusa Kapital and Ata Plus. However, this paper is limited to discussing only the operations of Nusa Kapital. Nusa Kapital is the world's 1st regulated Shariah-compliant P2P crowdfunding platform, operated by Ethis Kapital Sdn. Bhd. and was established in Malaysia in 2017. Nusa Kapital is a Malaysian-based FinTech company registered and regulated by the Securities Commission of Malaysia. Nusa Kapital is fully Shariah-compliant and has been approved by well-known Islamic certification bodies in Malaysia. It is regulated by the SCM and advised by the International Shariah Research Academy for Islamic Finance (Malaysia) (ISRA Consultancy).

2.5 The theory of philanthropy

To strengthen the development and contribute to a deeper understanding of the crowdfunding method using the Internet mechanism, an appropriate model and previous literature were explored, supported by the theory of philanthropy. According to Hammersley (1995), theories are used by researchers primarily in qualitative research, which shows how the influence of positive views and focusing on particular views portrays them as constituting specific principles. The main theory used by the researcher in this study is the theory of philanthropy. The Theory of Philanthropy focuses on the hypothesis of how specific foundations contribute to the crowdfunding platform. The foundation specifies how and why a specific foundation directs its resources to support the objective and aim changes based on the donor's intention, mission, vision, values and priorities (Duncan, 2004).

Articulating philanthropic theory allows a foundation to provide an internal and external resolution to significant questions, as well as comprehend and play a significant role in improving performance by increasing alignment across the project or campaign. Furthermore, the philanthropy theory is critical for forecasting specific philanthropic behaviors based on charitable intentions. For instance, the motivation acquired by donors, the pleasure of giving something for free and the personal satisfaction derived from the act of giving itself in reward and contribution based on crowdfunding provide options for the portfolio of initiatives and institutions, providing a platform to invest in funds and other resources (Efrat *et al.*, 2022).

Engaging with this philanthropy theory, which was adopted because it is believed to be able to predict the intentions of investors and donors, increases the platform's effectiveness, self-awareness, coherence and external transparency, and generates knowledge and strategies. In addition, it appears to be the most suitable indicator for monitoring the

platform's operating strategy, governance system, and culture. The following is a summary of the research methodology, data collection and data analysis procedures.

3. Research methodology

Given the objective of this study, a qualitative research method was applied to explore the practical scenario of Nusa Kapital. A single case study was applied to Nusa Kapital to explore the overall activities. The study employs document analysis and semi-structured interviews for data collection to understand the scenario. Document analysis helped to determine the regulations related to the operation of crowdfunding. Documents analyzed for this study include disclosure statements, application forms, terms and conditions of the campaign, and SCM's guidelines.

Qualitative interviews are conducted to achieve in-depth information (Turner, 2010). For this study, in-depth interviews were conducted with two officials of Nusa Kapital. Interviews were mainly carried out in Kuala Lumpur, Malaysia. The duration of an interview session was between 60 and 120 min. Interviews were recorded with a digital recorder during each session. Any further necessary clarification was achieved through e-mail and personal contact after the interview.

The data was analyzed thematically after being gathered through document analysis and interviews. According to Guest *et al.* (2012), thematic analysis is one of the most common forms of analysis in qualitative research, which tends to emphasize pinpointing, examining and recording themes within data. Thematic analysis is performed through the process of coding in six phases: data familiarity; preliminary coding; theme searching; review of the themes; name and definition of the themes; and generating the report (Braun and Clarke, 2006). The data from document analysis and interviews were categorized based on several themes, which are: (1) the background of the establishment; (2) the operation; (3) regulation and governance; and (4) the application guidelines.

4. Findings and discussions

Nusa Kapital was established in Malaysia in 2017 and is operated by Ethis Kapital Sdn. Bhd. It is a Malaysian-based fintech company registered under the SCM. Its objective is to complement the increasing international recognition of Islamic finance with modern technology to provide seamless trade between financing businesses and generate income through investments. SMEs can gain funding easily through Nusa Kapital, and investors may get better returns on their investments.

Nusa Kapital is solely concerned with Shariah issues and considers itself a halal-compliant enterprise in accordance with the Islamic finance principle due to its transparency, social content and the team of specialists in the field. Nusa Kapital has the following deal campaign:

- (1) Corporate merchandising
- (2) Predevelopment of affordable homes
- (3) Suruhanjaya Syarikat Malaysia (SSM) corporate merchandising

With the maximum public awareness and understanding of crowdfunding, Nusa Kapital has plans to expand abroad in the future.

4.1 The background of the establishment

SMEs make up 95% of businesses in Southeast Asia and provide around 70% of total jobs in the region based on government statistics, yet only 15–20% of SME loans are approved by banks. In fact, by SME's Units Publication in 2011, the SME industry in Malaysia forms about

90% of the Malaysian economy, combining manufacturing businesses, services and the agricultural sector. Despite their social and economic importance, it is difficult for SMEs to get funding and grow their businesses, specifically in Malaysia.

Nusa Kapital's director, Dr. Shahridan Faiez, was inspired by the idea of crowdfunding and wanted to develop a crowdfunding model suitable for Malaysia by referring to and creating a joint venture with Ethis Kapital. They aim to solve this problem and ensure SMEs remain one of the crucial pillars of the country's economic development. They level the playing field by offering Southeast Asian SMEs a crowdfunding platform to raise short-term cash for goods and capital purchases.

4.2 The operation

Nusa Kapital is a Shariah-compliant P2P crowdfunding platform that encourages people to support each other financially and virtually. People donate small amounts of money for greater support, which supports the theory of philanthropy. Naturally, they provide quicker and easier business services and the application procedure is practical.

The business model applied in Nusa Kapital is Shariah-compliant and an ethical model that is interest-free and executed through a cost-plus profit sales structure known as *Murabahah*, which is an agreement where a commodity is sold for a cost-plus profit, where both the SME and the investor know the cost and the profit involved. Essentially, this financing method has become the most popular financing avenue among Islamic banks, used widely for consumer finance, real estate, the purchase of machinery and short-term trade financing. The operation of *Murabahah* in Nusa Kapital is shown in Figure 1 below.

Nusa Kapital buys and sells the asset that the SME wants and concludes a *Murabahah* master agreement. This means combining or bringing together the SME, the platform and the investor in a document of understanding that will execute a contract, stating that the SME

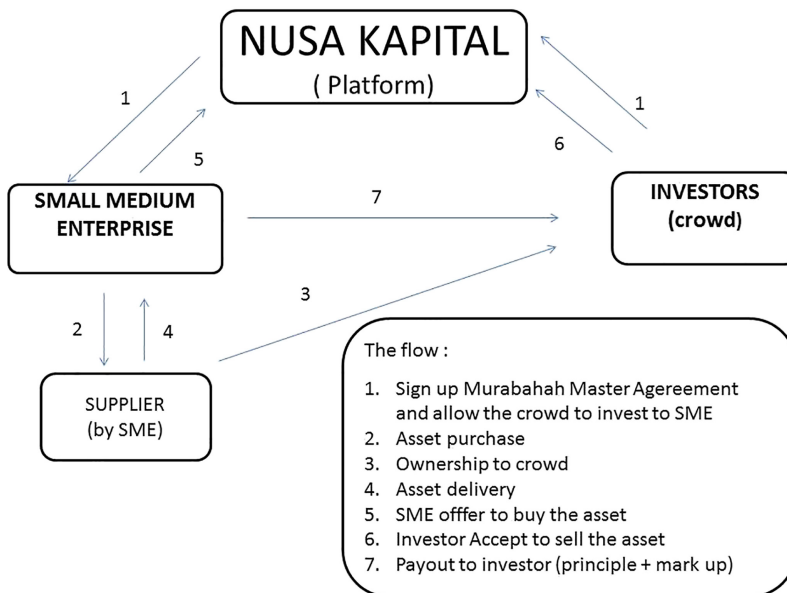


Figure 1.
The operation of
Murabahah in Nusa
Kapital

Source(s): Developed by Authors

submitted a funding campaign through the website. If an investor wants to help fund this campaign, they must agree to buy the contracted assets for the SME. These assets are then ordered for immediate use on behalf of Nusa Kapital's investors.

After they purchase the asset from the supplier, using the case provided by the investor, the supplier will transfer ownership of the asset to the investor. That asset belongs to the investor because it was bought using the investor's money. The SME will sign a contract, agreeing to purchase the same assets from the investor to transfer the asset ownership at the original cost-plus profit in the near term. The profit margin from this transaction is the return of the fund to the investor.

In the near future, Nusa Kapital will undergo rigorous screening and in-depth analysis to establish the appropriate funding amount, funding cost and funding period. The reporting schedule for monthly monitored projects will be done before examining any project or procedure. Nusa Kapital will conduct a comprehensive background check on any potential issuers or investors. This will assist them in determining whether to approve the project.

In addition, all transactions will be recorded and updated to avoid discrepancies in the account. An efficient communication system between the trustee and Nusa Kapital will be adopted to ensure all transactions are well recorded. As a result, the payment to the investor will be transferred to the trust account by an entrepreneur, and they will be notified via email. The investors will have the option of transferring the funds to their accounts. Finally, Nusa Kapital helps businesses to publish a polished crowdfunding campaign on the website, and SMEs will indirectly get more benefits, such as better rates of approval in funding, an increase in risk sharing with investors and short-term working capital financing. At the same time, in the next two years, Nusa Kapital aims to list more than 100 projects on its site to fund Asian small businesses and seek to obtain a substantial return to promote innovation in Malaysia's economies.

4.3 Regulation and governance

Nusa Kapital is one of the P2P platforms operated by Ethis Kapital, a joint venture company of EthisCrowd and Kapital Boost, which is the world's first Shariah-compliant P2P platform operator. Nusa Kapital is a licensed medium-sized P2P lending platform operating in Malaysia. The P2P platform is also subjected to chapter 13 in Part F of the guidelines of recognized markets by SCM, which contains 31 subtopics.

The guidelines define a P2P operator as a RMO which runs a P2P platform. A P2P platform indicates a digital platform that explicitly or implicitly assists the development and offering of Shariah-compliant investment notes. The Shariah advisory council endorses a Shariah-compliant investment note after examining its underlying contracts, agreements and documentation. Each P2P operator should have a minimum paid-up capital of RM5 million, and it must be locally incorporated.

There are some obligations that P2P operators must follow in item 13.05, which are stated in the guidelines to monitor and ensure compliance with its rules, accomplish any education programs for the investor, monitor anti-money laundering requirements and inform investors of any changes regarding the issuer's proposal. In the event of any default by the issuers, the P2P operator has to manage the process and policies.

In addition, a P2P operator must maintain an investor trust account to safeguard the accuracy and currency of investors' funds. Both issuers and investors are required to perform the tasks related to a trust account. For issuers, P2P operators must establish and maintain a trust account designated for the issuer's funds hosted on their platform at a licensed institution. For investors, the P2P operator is responsible for managing the trust account for money received as investor repayments.

There are some guidelines and eligibility to be taken into account for both investors and issuers. For investors, Nusa Kapital set the criteria that they must be 18 years of age, declare

the subject of categories and amount of investment and provide an Malaysian Business Angels Network (MBAN) number for an angel investor. The service is designed for Malaysian residents. However, nonMalaysian citizens are solely responsible for ensuring their compliance with relevant Malaysian laws.

There are three types of investors involved in P2P lending: sophisticated investors, angle investors and retail investors. Individuals who qualify as sophisticated investors under the Capital Market and Services Act of 2007 (CMSA) include venture capital corporations, venture capital management corporations, private equity corporations and private equity management corporations registered with the SCM. There will be no restrictions or limitations on the amount they can invest. Angel Investors have accredited members of the MBAN who are permitted to invest without restrictions and in any amount. Retail investors are all investors other than the first two, who can only invest up to RM50,000 at a time. This includes all other investors.

For issuers, some obligations have been set by the SCM in a recognized market. An issuer is permitted to raise at least 80% of the target amount on a P2P platform. The issuer shall submit information to the P2P operator if it wants to be hosted on a P2P platform, including the purpose of the investment note or Islamic investment note and the targeted offering amount. Information about the characteristics of the business, business plan and his intention to seek funding from any other P2P platforms concurrently is also necessary to be included. Additionally, the following financial information about the business must be disclosed:

- (1) *For offering below RM500,000*: Audited financial statements of the issuer have been established for at least 12 months. If audited financial statements are unavailable or if the issuer is newly established, certified financial statements or information from the issuer's management must be provided.
- (2) *For offerings above RM500,000*: The company's audited financial statement is required.

An issuer must ensure that all information provided to a P2P operator is true and accurate. On top of that, it must not have any false or misleading information or statements, nor can it omit important materials.

On the other hand, an issuer is not permitted to host another campaign for the same purpose on multiple P2P platforms. Despite that, an issuer is authorized to be listed on a P2P platform and an equity crowdfunding (ECF) platform at the same time, subject to disclosure requirements as may be specified by the platform operators.

4.4 The application guidelines

Nusa Kapital offers only locally registered sole proprietorships, partnerships, incorporated limited liability partnerships and private limited and unlisted public companies the opportunity to be an issuer. As per the guidelines, the following are prohibited from raising funds through a P2P platform: commercially or financially complicated structures; publicly listed companies and their subsidiaries; companies with no particular business plan or companies with a business plan to merge or acquire an unidentified entity. Companies that intend to use the funds raised to provide credit or make an investment in other entities and another type of entity that is specified by an issuer must not be hosting the same campaign concurrently on another P2P platform. Therefore, any company wishing to access the website as an issuer must be registered as a member, and the process is explained below.

Nusa Kapital provides three stages of screening and assessment processes for issuers or entrepreneurs on how to apply for the campaign:

- (1) The first level of screening – minimum requirements

To be eligible for the Nusa Kapital fund via Ethis Kapital, the issuer must at least meet any of the following requirements: It must be operated for at least one year, have annual sales of at least RM300,000, demonstrate positive operating cash flow in the past 12 months, and have a purchase order to back up the size of funding.

(2) The second level of screening – credit scoring

Once a business meets the minimum requirements for funding, Nusa Kapital will request additional information and a discussion with the management, either through a phone call or a meeting session. Subsequently, they will undertake due diligence to ensure the company is rightfully registered. It must have a good reputation, with no history of bankruptcy and not be involved in any legal cases.

(3) Additional for the level of screening – partnerships

Partnerships with issuers offer another level of due diligence screening of potential clients. Nusa Kapital can assist with the verification of their members who approach them for funding. Finally, it will be in the interest of Nusa Kapital that members of crowdfunding via Nusa Kapital are those who are likely to repay investors on time. Due to reputational risk, a default or delayed payment by one of the members may affect the funding costs and the ability of other members of the organization to raise finance.

5. Conclusion

This paper discussed the operation of Nusa Kapital, the first Shariah-compliant crowdfunding platform in Malaysia, which was established to provide financing for SMEs. The SCM, which regulates Nusa Kapital, provides a set of guidelines for its sound operation. Nusa Kapital uses the *murabahah* concept for its operations, which is a cost-plus-profit sale the investors purchase an asset and sell it to the entrepreneurs with a deferred payment. Nusa Kapital is required to monitor the project and take several actions to ensure transparency in financial reporting (Ramli and Ishak, 2022). A trust account is opened by Nusa Kapital to make repayments to the investors. There are several rules for the three types of investors, i.e. sophisticated, angel and retail investors. There is a rigorous screening of every business in terms of its viability, creditworthiness and partners (Lin, 2017).

As crowdfunding is gaining momentum for financing SMEs, a more Shariah-compliant platform is needed, considering the importance of Shariah-compliant financing in Malaysia and the need for a competitive market for Islamic crowdfunding. Furthermore, several other alternative Shariah-compliant modes of financing are necessary. *Murabahah* is a debt-based financing mode. Nusa Kapital may consider Shariah-compliant equity-based modes for improving their services (Alam *et al.*, 2019). The study has unique implications for the regulatory authorities and practitioners in Malaysia and global industries. The study explored the practical scenario of the crowdfunding institution, which will be beneficial for similar industries within and outside of the country. This study is a descriptive study of the operation of Islamic crowdfunding in Malaysia. More research could be done to ascertain how Islamic crowdfunding affects the economy in Malaysia.

The study is limited to a single institution instead of multiple crowdfunding institutions within Malaysia. Based on comparisons and data gathered from questionnaires, it would be possible to identify additional types of crowdfunding if more platforms were researched and methodologies were used. Due to time constraints, the researchers were unable to study anything other than this company and its descriptive methods. Finally, this research contains shortcomings that are susceptible to exemplariness. The provision in the guidelines appears to be more generous towards operators than issuers or investors, and Shariah's requirements are not specified. Due to their hectic schedule and nonresponse to interview invitations, it was

difficult to perform multiple interviews with them to obtain in-depth information. Faced with limitations, the amount of data acquired from interviews and documents analyzed to accomplish the purpose of this study was insufficient. Future research can investigate overall Malaysian practices and global practices as well. Studies can provide more attention to Indonesian crowdfunding practices. It would be interesting to expand the analysis to different platforms or countries to compare results. In addition, a quantitative approach, such as a questionnaire or other descriptive statistical tools, should be examined.

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