



## POTENTIAL OF SHARIA-BASED EQUITY CROWDFUNDING FOR MICRO SMALL AND MEDIUM ENTERPRISES (MSME) FINANCING IN INDONESIA

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### **Abstract**

*Micro, small and medium enterprises (MSMEs) play a critical role in Indonesia's economic growth and development. MSMEs make a significant contribution to the national GDP. However, the development of MSMEs faces challenges in obtaining financing from the banking sector. The advancement of technology has resulted in significant changes in the financial industry. Equity crowdfunding is emerging as a new financing option for MSMEs. This study investigates alternative financing for MSMEs via equity crowdfunding and the use of sharia concepts. Equity Crowdfunding is a financing concept that uses the internet to connect issuers and investors through stock offerings. This enables business actors to obtain financing without returning capital in the form of loan interest but rather in the form of profit sharing (dividends) to shareholders. The results show that the practice of equity crowdfunding is conceptually under sharia principles. Because practicing the equity crowdfunding mechanism has fulfilled the provisions in the form of contracts and avoided Maghrib (maysir, gharar, and usury). The various opportunities for sharia-based equity crowdfunding to grow and become new alternative financing for MSMEs in Indonesia are unquestionably exciting.*

**Keywords** : Medium Enterprises, Equity Crowdfunding, Sharia Financing

### **A. INTRODUCTION**

In recent years, equity crowdfunding has become one of the funding facilities that have been used in several countries. Equity crowdfunding is a form of funding that involves a crowd financing a project. In equity crowdfunding using a share offering scheme, the funds invested in business actors are collected from small contributions in large amounts, meaning that investors or the public will invest a certain amount of money in a business project and then investors get a return in the form of share ownership of the funded business.

The concept of crowdfunding takes inspiration from the concepts of microfinance and crowdsourcing, but crowdfunding has a different method of

fundraising, which is facilitated by the internet system (Mollick 2014). This phenomenon developed as a result of the industrial revolution 4.0, which brought changes in business systems. One of them is a financial technology (fintech), which is now emerging in a variety of forms and filling new funding channels, including in Indonesia.

Fintech has developed in Indonesia since 2016 and the Indonesian Fintech Association (Aftech) explained that the development of the Indonesian Fintech industry has increased according to the number of Fintech companies registered as Aftech members. In 2016 there were 24 companies, then in 2019 there were 275 companies, and in the second quarter of 2020, there were 362 companies. Aftech represents 80% of all licensed Fintech startups in Indonesia. Initially, fintech in Indonesia was only engaged in two business models, namely digital payments and peer-to-peer lending. It has now grown to include aggregators, innovative credit scoring, financial planning, equity crowdfunding, and project finance services.

Until the end of the second quarter of 2020, among the four categories of Fintech business models, online loans were the most popular with a percentage of 44%, the digital financial innovation (IKD) category was 24%, then digital payments were 17%, followed by crowdfunding at 1%. The rapid growth of technology in Indonesia is influenced by investment in the growing technology sector and widespread internet access, which is used by many groups of people who have not been touched by banking services and a conducive regulatory environment.

The rapid development of fintech in Indonesia in terms of funding is one consequence of the lack of access to funding for the public. Currently, many entrepreneurs do not have access to funding from banking institutions. In particular, micro, small, and medium enterprises (MSMEs). It was recorded that since the end of 2018, the number of MSMEs was 62 million business units and dominated the number of businesses with a proportion of 99.99% of the total business actors in Indonesia. Lack of access to funding is one of the problems faced by MSMEs. Banking institutions assess funding in this sector to have considerable risk due to limited assets that can be used as collateral, business uncertainty in the future, weak financial management, and lack of track record of MSMEs (Malik 2018).

In a 2018 report, the ministry of finance explained that the competitiveness of MSME sector products in Indonesia is still low when compared to products from large enterprises. The low competitiveness of MSMEs is influenced by internal and external factors that affect the competitiveness of MSMEs. Internal factors related to the low competitiveness of the MSME sector are labor productivity in the MSME sector and the relatively low level of innovation. The external factors that affect the low competitiveness of the MSME sector are the level of ease of entrepreneurship in Indonesia; access to finance and capital; market access; infrastructure support; and the business cycle. To overcome these problems, new alternatives are needed in the development of MSMEs, especially the provision of working capital, so that the prospects for MSMEs will be even greater.



To overcome funding problems for MSMEs, equity crowdfunding is present as an alternative new financing facility. Equity crowdfunding activities, when viewed from the number of companies/organizing platforms, are still too few. The Financial Services Authority (OJK) explained that by the end of 2020, four companies had obtained equity crowdfunding permits, namely, PT Santara Daya Inspiratama (Santara), PT Investasi Digital Nusantara (Bizhare), PT Crowddana Teknologi Indonusa (CrowdDana), and TP Numex Indonesian Technology (LandX). Until now, OJK has continued to increase the number of companies/platforms implementing equity crowdfunding in Indonesia by opening up opportunities for the registration of business licenses for companies that want to become organizers.

The majority of equity crowdfunding operators in Indonesia use conventional systems. However, if viewed from the national banking system adopted in Indonesia, it is a dual banking system. This system allows banking institutions to conduct business activities in a conventional and Islamic manner. This system comes into effect with the amendment of Law No. 10 of 1998 concerning banking. In addition, the development of fintech that affects changes in business direction and is followed by the development of a halal lifestyle also forms a new business ecosystem, including in Indonesia, where the majority of the population is Muslim. From this phenomenon, the application of sharia-based fintech may develop rapidly in Indonesia, including sharia-based equity crowdfunding.

The Indonesian government continues to take steps in its development. As a regulator, the government has issued regulations related to equity crowdfunding in Financial Services Authority Regulation Number 57/POJK.04/2020, hereinafter referred to as POJK No.57 of 2020. Meanwhile, in sharia-based Fintech activities, the current national sharia board—the Indonesian Ulema Council (DSN)—MUI has issued a Sharia Fintech fatwa. 117/DSN-MUI/II/2018 concerning Information Technology-Based Financing Services Based on Sharia Principles.

## **B. METHOD**

This research uses a type of library research that collects data or scientific works related to the object of research or data collection of a library and aims to provide a clear picture of the potential of sharia-based equity crowdfunding as alternative financing for MSMEs in Indonesia and provide an explanation of how to apply the concept of sharia in the practice of equity crowdfunding. The main data source in this study is the Financial Services Authority Regulation Number 57/POJK.04/2020 concerning Crowdfunding Services Through Information Technology-Based Stock Offerings (Equity Crowdfunding). This regulation of the financial services authority was chosen to be the main data source because it is the main legal basis for the practice of equity crowdfunding in Indonesia and explains in detail how it works. Other main data sources used in this research include several journals and books on equity crowdfunding. In addition, supporting sources are also used in this study. Supporting sources include articles, websites, and online news portals related to equity

crowdfunding activities that provide explanations and descriptions of the prospects and developments of equity crowdfunding.

## **C. RESULT AND DISCUSSION**

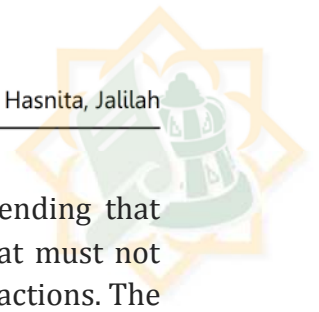
### **1. Sharia Concepts in the Equity Crowdfunding Scheme**

The rapid growth of fintech in equity crowdfunding activities also affects Islamic finance, especially in Indonesia, which adheres to both Islamic and conventional financial systems. Of course, it can have a significant impact on the development of crowdfunding activities in Indonesia. With a majority Muslim population, this can be the basis for Sharia Fintech to continue to grow in Indonesia. Because this activity is open to those who want to invest and apply for financing under sharia principles. Therefore, the development of sharia-based financial technology must receive support from various parties, and the role of the government as a regulator must be clarified so that every transaction has a clear rule of law.

Sharia crowdfunding is a crowdfunding service based on Islamic rules, namely the Qur'an and Sunnah. The businesses, products, and services provided, as well as the funds used, must comply with sharia principles to determine the worship of idols. It is necessary to form a Sharia Supervisory Board (DPS). This means avoiding things that are prohibited in Islamic teachings. For example, it contains elements of gambling (Maisir), fraud (Gharar), and interest (Riba) (Tripalupi 2019).

As we know, the practice of muamalah is certainly not prohibited in Islam. As long as the activity does not have arguments or other provisions that prohibit it, all forms are allowed. Islamic finance and crowdfunding are inherently compatible and mutually reinforcing. Islamic finance, ideally, is a means of financing that is based on ethical Islamic principles and adheres to socially responsible standards, which should ensure a fair distribution of benefits and obligations between all parties in any financial transaction. Several basic characteristics distinguish Islamic crowdfunding from conventional, related to investing only in halal projects; the absence of interest rates; prohibition and speculation on gambling (Riba, Maysir, and Gharar); and the existence of a sharia supervisory board. Keuangan syariah terdiri dari nilai yang harus meminta syariah maqashid (tujuan atau sasaran). Syariah finance and crowdfunding both conceptualize Nasabah as investors and provide opportunities to invest with high returns. Aside from that, it promotes transparency, participation, and trust. Syariah and crowdfunding share a common philosophical foundation, to build communities, reduce risk, democratize power, and mobilize resources for long-term economic development (Mustafida, Fauziah, and Kurnia 2021).

Currently, the majority of crowdfunding platforms in Indonesia still operate using conventional methods. However, despite the development of this sharia-based financial technology sector, the National Sharia Council of the Indonesian Ulema Council (DSNMUI) has issued a Fatwa on Islamic Financial Technology. DSNMUI Fatwa No. 117/DSNMUI/II/2018 Concerning Information Technology-Based Financing Services



Based on Sharia Principles. The fatwa is the legal umbrella for fintech lending that manages sharia products. The fatwa also regulates financial technology that must not conflict with sharia principles and agreements that are allowed in loan transactions. The fatwa only regulates a small part of sharia-based fintech transactions but does not fully regulate sharia-based crowdfunding activities.

The concept of sharia in equity crowdfunding must, of course, be separated from the elements of Maghrib (Maisyir, Gharar, and Riba). The practice of equity crowdfunding is conceptually almost the same as the activity of stock trading transactions on the stock exchange in general. This certainly has the potential to cause speculation and Maisyir (gambling). It all depends on the extent to which transactions can be harmonized and do not violate the basic principles of transactions in Islamic sharia (Sarwat 2014).

Prohibition in sharia transactions is for transaction activities that do not have clarity (gharar) whose object is unclear, not owned, or unknown, meaning that equity crowdfunding activities must have clarity both in terms of investors (funds used) and business actors (clarity of activities). efforts made) as well as from the organizers of the funds themselves.

The next prohibited sharia transaction activity is usury. The prohibition of usury in Islam is none other because usury can cause someone suffering, especially for borrowers. It will be heavier (Hasanah 2014). Additional interest has been charged on the loan debt since the beginning of the contract. Riba, according to the terms of jurists, is the addition of one of two similar substitutes without any change from this addition. (Wahbah Az-Zuhaili 2011) explains that both forms, advantages, and additional interests are usury, which is prohibited by sharing.

To further examine the application of the sharia concept in equity crowdfunding, we will review several other aspects related to the suitability of the equity crowdfunding scheme. These aspects include, among others, the agreement used between several parties in the transaction, the project to be funded, the source of the investor's funds to be used, how it will be submitted, and the distribution of profits between the parties concerned.

## **2. Contract Review in the Concept of Equity Crowdfunding**

From the agreement side, the DSNMUI fatwa explains the agreement which, if appropriate, is used by the parties in the implementation of information technology-based financing services. The contracts used by the parties in providing technology-based financing services include al-bai', ijarah, mudarabah, musyarakah, wakalah bi al ujah, and qardh contracts.

When viewed from the stock offering transaction scheme in capital market practice, two main parties make transactions, namely investors and stock issuers (companies), where investors provide business capital to issuers and get returns in the form of ownership of the company. In the context of sharia, this is a form of cooperation in mudharabah. Mudharabah is an investment-based transaction or investment agreement in certain

business activities (Andrianto and Firmansyah 2019). as well as the benefits obtained by both parties under the amount of the agreement. In this agreement, two parties have something in common, namely Shahibul Mal and Mudharib. If it is associated with crowdfunding activities (e.g., equity crowdfunding), then the parties are investors and issuers/parties who offer shares. As well as in the transaction process, both parties must comply with the provisions of the mudharabah agreement.

In sharia transactions, the form of cooperation between two or more people, in addition to the mudharabah agreement, also applies to musharaka. That is an agreement between people who are united in capital and profit. (Hasan, 2018: 73), where each party has the right to take legal action against the managed capital. Musyarakah implies a partnership in business or entrepreneurship where two or more people bring capital, projects, and labor to share the results and get the benefits of the same thing, and the same rights and responsibilities in its management (Biancone and Radwan 2018).

Regarding the practice of equity crowdfunding, it is a collaboration between the issuer and the investor. Investors provide funds to be managed by issuers. In practice, the participating financiers do not only consist of one person but many people who are constitutional in their capital participation in the issuer. The concept of a musyarakah agreement here occurs because sometimes investors also take part in the business activities of the issuer. And the role of investors in business activities can increase productivity and business development because investors can provide suggestions and innovations in their activities. So, regarding the agreement that is harmonized between investors and issuers in crowdfunding services (Equity Crowdfunding) using mudharabah and musyarakah agreements, both are cooperation agreements involving two or more people in business activities, with contributions and profits divided according to the agreement. And in practice, there must also be conformity with the provisions of the two agreements.

Furthermore, studies related to agreements in equity crowdfunding activities are not only between investors and issuers but also between organizers (platforms) and users (investors and issuers). In practice, in stock offering activities, of course, there is such a thing as issuance costs in the form of fees to the organizers.

(Wahbah Az-Zuhaili 2011) explains that fees in services are permissible and legal, because these costs are the cost of a benefit (Ijaarah), and ijarah is allowed in syara'. The determination of additional fees with a certain percentage amount that is paid together with the payment of the value of the shares is allowed as long as the number of additional fees must be calculated and calculated proportionally.

Ijarah contract, based on the opinion of Syara', means an agreement activity to take advantage of something received from another person by paying following an agreement that has been determined by certain conditions. In equity crowdfunding, issuers and investors both use the services of an organizer (Platform). Publishers use the services of organizers to campaign for their projects or businesses. In the concept of an ijarah contract, there are two parties to the contract, namely musta'jir (the person

who rents) and mu'jir (the person who rents). In an equity crowdfunding transaction, the organizer (musta'jir) will receive wages from the services used by the issuer/project owner (mu'jir).

Then investors and organizers use a wakalah bil-ujrah agreement, namely a wakalah agreement by providing a fee or reward (Wiroso 2007). Wakalah here is an agreement used to hand over authority to people to do something that can be represented (Syaqawie 2017). In equity crowdfunding, the organizer is the party who is the representative of the transaction between the investor and the issuer. Investors authorize the organizers to distribute their capital following the desired project. Then the representing party (platform/organizer) will receive a fee from the represented party (investor). To more easily see the application of the concept of sharia contracts in equity crowdfunding, it can be seen from the following graphic presentation:

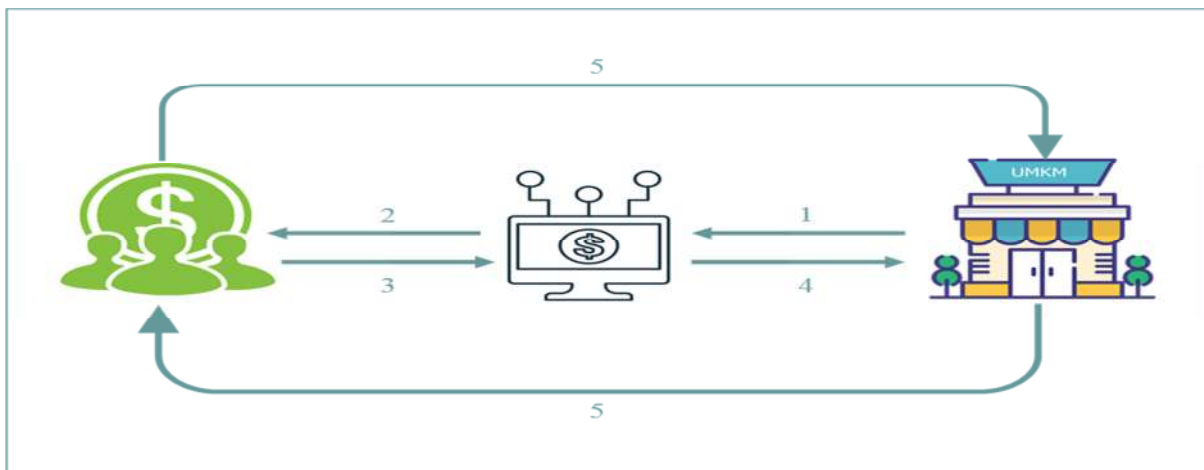


Figure 1. Schematic of the Implementation of the Sharia Agreement Concept in Equity Crowdfunding

From the graph above, it can be seen that the application of the concept of sharia contracts in equity crowdfunding is as follows:

- a) Publishers or MSMEs use the services of an organizer (an equity crowdfunding platform) to campaign for their project or business. In this activity, the publisher uses an ijarah contract where the organizer will get wages from the services used by the publisher.
- b) The organizers are campaigning for the project with potential investors.
- c) Investors review the projects being promoted by the organizers, then investors divest funds to business actors/issuers through the organizer's platform. Investors authorize the organizers to distribute their capital according to the desired project. In this process, using a wakalah bil-ujrah agreement, the representative (platform/organizer) will receive a fee from the represented party (investor).
- d) Funds invested by investors are then handed over to issuers by the organizer.
- e) Issuers and investors cooperate in capital and business participation. In this activity, investors and issuers use a mudharabah agreement, which is a

collaboration between capital owners and capital managers. Investors in Equity Crowdfunding, which is a collection of many people, is a form of cooperation that uses a musyarakah agreement, which is a form of cooperation between two or more people in a business activity. Then, from the results of these operations, investors will get returns in the form of profit sharing in the form of stock dividends.

### **3. An Overview of Business Types and Sources of Investor Funds Used in Equity Crowdfunding**

The review regarding the type of business to be funded in Sharia Equity Crowdfunding must be a business that does not conflict with sharia principles, namely businesses that do not carry out gambling business activities, sell products that are illegal substances, or other forms of business activities that do not follow Islamic law principles, as issuers in Equity Crowdfunding must also meet sharia compliance requirements.

However, the provisions of the legislation regarding the type of business in equity Crowdfunding in terms of sharia and conventional both do not explain in detail what businesses are allowed and prohibited. Because the direct restrictions contained in the regulation will certainly have an impact on the level of development of the business itself, and the scope of businesses that can participate will be very limited. It's just that the provisions of sharia law must be free from illegal businesses and other businesses that are not following Islamic law.

Regarding the source of investor funds that will be submitted to the issuer (the project owner), the source must be clear. Investor funds may not come from illicit funds, such as funds from prohibited business proceeds, theft, usury proceeds, fraud, and other activities prohibited in Islam. Therefore, there must be clarity regarding the source of investor funds from the beginning of the equity crowdfunding transaction process.

### **4. Review of Percentage Share in Equity Crowdfunding**

In the concept of a sharia agreement, the percentage of shares is determined based on the profit and loss that occur during the business process. The profit percentage is determined based on the ratio of capital included. Contemporary Fiqh scholars have named this agreement a Syirkah Musahamah (sharing partnership) contract, and the law is allowed by necessity. This agreement is not contained in fiqh turast (traditional fiqh). However, this agreement is a modification and the result of a legal approach to the conception of syirkah, qiradl, and mudharabah contracts (Wahbah Az-Zuhaili 2011). The principle of justice cannot be separated from the means of distribution of sustainability. The return on investment and the required return must be known at what rate and must be in the form of a common part of the total amount (such as one-third, quarter, and so on, or using a percent). Profits are generated by the distribution of the agreement accordingly.

The practice of equity crowdfunding conceptually follows sharia principles. In practice, the equity crowdfunding mechanism has complied with the provisions in the



form of an agreement and avoided Magrib (maysir, gharar, and usury). And in the applicable regulations, namely POJK No. 57 of 2020, it has also been explained that the organizer, which is a business entity that conducts business activities based on sharia principles, the operator can determine the equity securities offered through Crowdfunding Services as Sharia Securities and must have a sharia supervisory board and have mechanisms and procedures for determining securities that are of a Sharia nature. equity as sharia securities. However, concerning the project being funded, the criteria for projects that are allowed and prohibited are not specified in the equity fund service.

### **5. The Potential of Sharia-Based Equity Crowdfunding as an Alternative to Financing MSMEs in Indonesia**

The development of information technology has affected various sectors, one of which is the financial sector. This development includes facilities and infrastructure, with the faster access to information, of course, the faster and easier it will be for the public to gain access to the financial sector. One of them is through the equity crowdfunding platform. This can certainly be an option for startups and MSMEs that are already operating to get capital because the costs and process are easier than loans. If we look at the number of MSMEs that continues to grow every year, of course, it will be a big opportunity for the growth of Digital Financial Inclusion (IKD) in Indonesia, one of which is the stock mutual fund service or equity crowdfunding.

MSMEs have now penetrated various industries. The types of MSMEs in Indonesia are numerous and proven to be able to support the economy and have a positive impact on the community. Based on data from the Central Statistics Agency (BPS) and the Ministry of Cooperatives and MSMEs, the total business in Indonesia in 2017 was 62,928,077 units, an increase of 2.02%. In 2018, there were 64,199,606 business units, with the proportion of MSMEs to the total business units of 99.99% of the total business units in Indonesia.

Currently, many MSMEs are unable to survive due to a lack of access to capital. Although financial institutions in general have opened the door to the distribution of commercial capital to MSMEs, only a few MSMEs can access credit services in the form of working capital. Many things must be met as a condition to apply for funding in the banking sector. MSMEs are required to meet regulations and requirements that tend to be complex, including the adequacy of collateral and commercial viability.

Although equity crowdfunding is still relatively new, it has a great opportunity to become an alternative financing method in Indonesia. Since 2018, the Indonesian government has continued to support this activity by regulating regulations and regulations regarding digital financial services, one of which is through POJK No.37/2018, which was later replaced by POJK No.57 of 2020 regarding Crowdfunding Services Through Offers of Information Technology Based Stocks. This, of course, opens up greater opportunities for both businesses and investors as well as digital financial service provider platforms. The author considers several aspects that support the

growth of equity crowdfunding in Indonesia, including access to capital for business actors (in this case, startups and MSMEs), regulations, and the legal level. and the equity crowdfunding platform.

## 6. Access to Capital for Sharia-Based Equity Crowdfunding

The first aspect is access to capital. Of course, this is the main consideration in financing equity crowdfunding (ECF) in Indonesia. The Ministry of Trade (2013) explained that currently the majority of MSMEs and other business actors rely on capital from their own pockets or other sources, including informal institutions such as moneylenders, because MSMEs need credit but do not get it due to relatively high-interest rates, do not have collateral, do not know the application procedure, and the difficulty of the procedure that must be passed, and not a few business people have their applications rejected.

However, credit from banks is still the main priority in lending. And the government has been very open in providing access to credit for MSMEs. Through several regulations, financing for MSMEs is getting easier. Bank Indonesia has required commercial banks to provide credit or financing to MSMEs as described in Bank Indonesia Regulation No. 17/12/PBI/2015. Beginning in 2016, the government requires commercial banks to allocate at least 10% of total loans to MSMEs under this regulation. Although there are still many business actors who have difficulty accessing capital through banking institutions.

In the Advanced Economic Survey (2016), it shows that a small percentage of MSMEs do not get credit because of three main obstacles from the aspect of financing institutions, namely: the difficulty of assessing MSMEs that meet the requirements set in lending, the low interest of MSMEs in fostering the efforts of financing institutions, and some Most MSME financial management still does not separate personal finances from the business.

In a Bank Indonesia report (2018), according to business classification, the majority of MSME loans were channeled to medium-sized business loans by 43.5%, and the rest to small business loans by 30.6% and micro business loans by 25.9%. Meanwhile, by type of use, 74.6% of MSME loans were mainly disbursed to finance working capital loans, while for investment loans it was recorded at 25.4% (Graph 4.1).





Graph 3: MSME Loan Share

Graph 4: Percentage of MSMEs by Credit Income from Financial Institutions, 2018  
By Type of Use, 2018

Judging from the data above, the level of financing for Micro, Small, and Medium Enterprises (MSMEs) in Indonesia is still very high for some very large companies. Judging from the type of use, working capital loans are the biggest demand, and there are still many MSMEs that have not fully obtained access from institutions. This is, of course, influenced by several factors related to access to capital for business actors (Graph 4.2).

Many business actors who do not have access to transportation and large-scale MSME businesses will certainly increase credit demand in the future so that equity crowdfunding can be used as an alternative new financing option for MSMEs. Schwinbacher (2019) explains that equity crowdfunding is a source of business financing that can create various economic opportunities, can survive in the long term, and can create added value. However, it is believed that equity crowdfunding can provide other economic and social benefits. One is to democratize access to finance to give entrepreneurs and small investors access to new forms of assets. Indonesia itself has a large enough opportunity because it sees many young and potential investors and is supported by digital businesses and the development of traditional MSMEs. Of course, everything will be fine if the Indonesian government's policies support this potential. Equity Crowdfunding (ECF) is a service that connects businesses with investors through stock offerings using the internet. Thus, in the ECF concept, access to capital allows business actors to absorb business capital without returning the capital in the form of loan interest but returning it in the form of dividends to investors. (Hervé and Schwienbacher 2018) argue that ECF can reduce the funding gap for innovative startups by offering new sources of capital to innovation-driven companies.

Paschen (2017) suggested that when MSMEs use a crowdfunding platform, apart from getting financing, they also want external support to grow their business. their products and improve their understanding of customer preferences. Crowdfunding can also generate funds more efficiently than traditional investors, such as banks and professional equity investors (venture funds), thereby potentially contributing to innovative activities. There are other, simpler ways in which crowdfunding can

influence innovation at startups. Crowdfunding can act as a conduit for the crowd to provide feedback to entrepreneurs. For example, people can share ideas about product development during and after a campaign and provide valuable information about future needs for new products. It is explained that, in this way, crowdfunding allows more people to participate in the innovation process itself.

Equity crowdfunding offers high effectiveness and efficiency, both from the perspective of investors and businesspeople. Therefore, if the concept of equity crowdfunding is applied following the Sharia concept, it will certainly have a greater impact on the distribution of capital to business actors. And of course, seeing the potential for development, sharia-based equity crowdfunding has a great opportunity, considering that around 80% of the total population of Indonesia, or 200 million, are Muslims and that 50-60% of adults in Indonesia have not been reached by bank services (Tripalupi 2019).

Access to capital through the sharia-based equity crowdfunding offered is certainly more difficult when viewed from the mechanism used. Through youth and musharaka schemes, of course, the cooperation carried out is free from maysir, gharar, and usury. And in the cooperation agreement and sharia investment, the profit-sharing concept offered can provide maximum profit potential, considering the basic concept of equity crowdfunding is an offering of shares where business actors do not need to pay interest on the financing obtained but the distribution of operating results (dividends).

Then MSMEs must also dare to open themselves to expansion and establish relationships with other business actors to increase production and increase production profits. The MSME Alliance brings external resources in business management that will help the government and MSMEs build a business (Sayyida and Alwiyah 2020). The application of sharia-based equity crowdfunding can be an alternative sharia financial instrument that can help the development of MSMEs so that they can give birth to Muslim entrepreneurs that have an impact on improving the economy.

Sharia equity crowdfunding is also one way to help charity. Investors can help MSMEs that do not yet have sufficient capital and sufficient assets for collateral. Fundraising can also help facilitate the relationship between business people and investors so that investors' money becomes much more useful. In addition, the contracts used are also more in line with the conditions and characteristics of MSMEs that have developed and do not yet have large amounts of capital, so they can take advantage of financing services through sharia-based equity crowdfunding.

## **7. Legal Regulations in Sharia-Based Equity Crowdfunding**

Advances in information technology are not only relevant for financial institutions but also financial regulators. With the advent of financial technology, OJK uses data collection and analysis tools to monitor the industry and predict potential risks instead of directing improvements after problems arise. At the same time, the Investment Risk Alert Team (SWI) is working with several departments to investigate and take action against illegal financial technology loans. OJK has implemented a series



of financial stability policies to support financial institutions and MSME business actors (research 2021).

The Financial Services Authority (OJK), as the regulator of the financial sector in Indonesia, has regulated crowdfunding services through POJK No. 04 of 2020 regarding equity mutual fund services. (Equity Crowdfunding). In this Presidential Regulation, several matters related to equity crowdfunding services are regulated, one of which is the legal certainty and protection of investors and the platform operator. (Widodo 2020) explained that with legal certainty and protection for all parties, it is expected to provide growth space for startups to access financing and increase financial sector inclusion in Indonesia, as well as ensure that investors and issuers have rights and obligations protected by law.

Referring to POJK No. 04 of 2020 concerning Securities Offering Through Information Technology-Based Fund Services, Article 5 confirms that the organizers who will conduct crowdfunding activities must have a business license from the OJK. And article 12, explains the obligations of the service platform to crowdfunding. The operator must have the expertise and/or background in information technology and have the expertise to conduct reviews on issuers.

Furthermore, in connection with the agreement on crowdsourcing services in article 62, it is explained that the agreement on the implementation of crowdsourcing services between the Operator and the Issuer must be stated in a deed (which can be in the form of a notary), and the deed here can also be in the form of an electronic document and must contain at least the identities of the parties involved. Provisions regarding the rights and obligations of the parties, the period of the agreement, the number of funds to be collected and the securities to be offered, the number of commissions and fees, fines, dispute resolution mechanisms, and settlements if the organizer is unable to continue its operational activities

Then in article 66 on risk mitigation, where the operator is obliged to mitigate risk. In article 72 concerning education and protection for users of crowdfunding services, organizers must apply the basic principles of user protection in the form of transparency, fair treatment, reliability, confidentiality, and data security, as well as user dispute resolution in a simple, fast, and affordable way.

In addition, regarding sharia-based equity crowdfunding regulations, there are no specific rules governing fund services (equity crowdfunding). However, in the Fatwa of the National Sharia Council of the Indonesian Ulema Council (DSNMUI) No: 117/DSN-MUI/II2018 concerning Information Technology-Based Financing Services Based on Sharia Principles, the provisions regarding general guidelines for information technology-based financing are explained. The provider of financing services must not conflict with sharia principles, namely avoiding usury, gharar, maysir, tadlis, dharar, zhulm, and haram.

And the agreement used must meet the principles of balance, fairness, and justice under sharia and applicable laws and regulations. And the agreement used can be in the form of an agreement under the characteristics of the financing service,

including al-bai', ijarah, mudharabah, musyarakah, wakalah bi al ujah, and qardh. The operator may charge a fee (ujrah/rusun) based on the ijarah principle for the provision of information technology-based financing services and infrastructure. If the financial information or services offered through electronic media or disclosed in electronic documents are different from reality, the aggrieved party has the right not to proceed transaction.

To ensure that the implementation of equity crowdfunding is under the principles and agreements, in this case, the DPS has a very important role and needs to be a guarantor institution for these stakeholders. This has been regulated in POJK Number 37 of 2018, Article 35, where the duties of the DPS are, in addition to filtering Islamic business activities or products/services, they can also provide learning transactions that are justified and refined in Islam.

From the explanation of the regulations above, we can conclude that so far, the government and the Financial Services Authority (OJK) have strengthened the field of legal protection for those who carry out sharia-based equity crowdfunding activities to create Digital Financial Inclusion (IKD), which can improve and equalize public access to digital financial products and services. And the National Sharia Council of the Indonesian Ulema Council (DSNMUI) has issued a fatwa regarding sharia-based electronic financing services so that every activity carried out is under sharia principles and Islamic law principles.

### **8. Aspects related to the Sharia-Based Equity Crowdfunding Platform**

Achieving this level of success, of course, cannot be separated from how an equity crowdfunding platform operates to campaign for projects or businesses that will be funded by investors. A key issue in assessing the potential impact and success of crowdfunding is understanding why some projects raise money and others don't. Success is basically about achieving budget targets. It is also important for the design of the service itself and for identifying the support that crowdfunding users may need (Javier Ramos and Stewart 2014).

Platform-related assessments are also closely linked to trust and transparency. Trust is part of the core structure of crowdfunding, as crowdfunding requires channeling unsecured funds through non-banking intermediaries to fund an initiative. Due to the risk of fraud, emerging brokerage platforms and campaigns are more widely trusted because they appear to be more attractive to the public. (Belleflamme et al. 2012) show that founders with previous successful campaigns are more likely to attract positive interest and receive support for their new campaigns.

The Sharia Equity Crowdfunding platform is certainly in line with the rules of trust and transparency because it has become a recommendation in Sharia principles for every muamalah transaction. In addition, the potential of the sharia-based equity crowdfunding platform in Indonesia can be seen from the population of Indonesia, which is predominantly Muslim.



In addition, the halal lifestyle has become a global trend with the fastest-growing Muslim population as a consumer segment in the global market. Adaptability to technology is also quite strong. In the 2019 Global Islamic Economy infographic, there are around 1.2 billion Muslims who use mobile phones connected to the internet and social media. Halal business opportunities in the product and service industries, as well as their supporters, including infrastructure and IT, through strengthening the halal industry ecosystem, have great potential to be used as fields for economic growth so that they can provide welfare for people in Indonesia (MediaIndonesia.com).

The success of the Equity Crowdfunding (ECF) platform in campaigning for projects or businesses is also supported by the influence of internet services because ECF is a public fund activity facilitated by an online network. Belle-Femme et al. (2015) suggest that social networks and other technologies allow crowdfunding platforms to gather information about users' behaviors and preferences, which they can then use to recommend potential projects.

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In addition, the equity crowdfunding platform in Indonesia is currently continuously improving the services provided to the public, starting from strengthening portfolio management, strengthening risk management, and network distribution, to strengthening technology. One of them is the Santara Equity Crowdfunding platform. Snatara CEO Avesena Reza explained that Santara will make various improvements in terms of technology, such as the user experience, ease of access, integration with Dukcapil, and collaboration with other technology players. The use of blockchain is also planned to be implemented as a back-office recording mechanism for all digital assets.

The potential for Sharia Equity Crowdfunding in Indonesia in various aspects can be ascertained to experience increasingly rapid growth in the future, given the high level of demand for working capital financing from business actors. SMEs that dominate business activities account for 99% of the total business entities in Indonesia. In addition, Indonesia, which is predominantly Muslim and followed by the proliferation of halal lifestyles, will have a growing potential for sharia-based equity crowdfunding. And supported by a large number of internet users plus the increasing services provided by fundraising service provider platforms, in addition to government policies through OJK regulations and DSNMUI fatwas related to electronic financing, of course, this is a great opportunity for sharia-based equity crowdfunding as alternative financing in Indonesia.

As a concept that is still relatively new in Indonesia, of course, it cannot be separated from the risk aspect. In the equity crowdfunding activity, the author will examine the risks of investors and business actors who offer shares in equity crowdfunding.

The biggest risk that can be a threat in a crowdfunding campaign is fraud. Gabison (2015:17) explains that traditional reputation and enforcement methods may not work with such campaigns. First, sellers have traditionally wanted to protect their reputation and goodwill because they often want repeat customers. However, incentives not to receive bad reviews or bad reputations may not work in a fundraising context because of the anonymity of the Internet and because they don't raise funds repeatedly.

Furthermore, regarding law enforcement, (Gabison 2015) explains that law enforcement can fail because each investor does not have sufficient incentive to prosecute fraud or breach of contract because crowdfunding relies on small investments from many investors. Therefore, this small amount does not provide sufficient incentive for any individual investor to investigate and report fraud. As a result, crowdfunding investors can become targets of fraudulent activities, including scams and pyramid schemes. Despite intentional fraud, projects may fail inadvertently because entrepreneurs are incompetent or miscalibrate their projects.

#### **9. Risks related to Crowdfunding for Business Actors (Issuers)**

The theft of unique business ideas and business prospects owned by MSMEs On the one hand, they have to present their products and prospects to the public, but on the other hand, MSMEs are also worried that their unique and different business ideas that have not been patented will be stolen by other irresponsible parties. Third, the risk of misuse of funds is high. There is asymmetric information between investors and MSMEs, so the funds that have been collected will risk not being used according to the agreement, even if their use is not detected. Several things must be implemented to avoid a bigger risk, namely in the form of transparency in the management of funds, which greatly affects the interests of investors. So far, asymmetric information often occurs, namely, information that investors have less than MSMEs. This encourages irregularities in the management of funds collected from many investors. Moreover, this model investment fund does not know each other among investors, even though the locations are scattered in various regions, which encourages irregularities in the use of funds. Therefore, good corporate governance is very much needed for MSMEs, namely transparency, information disclosure, responsiveness, and accountability.

#### **D. CONCLUSION**

The practice of equity crowdfunding is conceptually under sharia principles. Because in practice, the equity crowdfunding mechanism has fulfilled the provisions in the form of an agreement and avoided Maghrib (maysir, gharar, and usury). And in the applicable regulations, POJK No. 57 of 2020 has also explained that the organizer, which is a business entity that conducts business activities based on sharia principles, the operator can determine the equity securities offered through Crowdfunding Services as Sharia Securities and must have a sharia supervisory board and have mechanisms and procedures for determining securities that are of a Sharia nature. Securities are sharia.



However, regarding the projects being funded, it is not specifically explained the criteria for projects that are allowed and prohibited in the service of equity funds and the provisions of DSNMUI fatwa no. 117 of 2018 also does not explain this specifically. Considering that this fatwa only regulates information technology-based financing, it does not specifically examine the practice of equity crowdfunding.

The potential for Sharia Equity Crowdfunding in Indonesia in various aspects can certainly experience increasingly rapid growth in the future, given the large level of demand for working capital financing from business actors and MSME business actors who dominate business activities in Indonesia. In addition, Indonesia, which is predominantly Muslim and followed by the proliferation of halal lifestyles, will have a growing potential for sharia-based equity crowdfunding. And it is supported by a large number of internet users, plus increased services provided by crowdfunding platform service providers and the presence of government policies through OJK regulations and DSNMUI fatwas related to electronic financing, which subsequently became binding law. From this potential, it is certainly a great opportunity for sharia-based equity crowdfunding to continue to grow and become new alternative financing for startups and MSMEs in Indonesia.

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