

## Equity Crowdfunding as an Alternative Modelization to SMEs and Investment Trends in Indonesia

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### ARTICLE INFORMATION

#### Publication information

#### Research article

#### HOW TO CITE

Faturrahman, I., Fajri, A., & Purwanto, E. (2024). Equity Crowdfunding as an Alternative Modelization to SMEs and Investment Trends in Indonesia. Economics and Business International Conference Proceeding, 2(1), 205-212.



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Received: July 20, 2024  
Accepted: July 25, 2024  
Published: August 1, 2024

### ABSTRACT

The continuation of the business for UMKM is more important than the challenging filing processes at traditional banks, which might cause bankruptcy or make it difficult for some UMKM to launch a business. There is an alternative UMKM financing mechanism and an alternative investment option for investors called equity crowdfunding that integrates fund management services with information technology in the age of the industry 4.0 transformation towards society 5.0. As an alternate option for UMKM players to secure cash for the ongoing operations of their businesses, equity crowdfunding is now available on three platforms in Indonesia that are registered with and overseen by OJK. By regulating OJK, the Financial Services Authority plays a significant role in the upkeep and viability of the equity crowdfunding system. The government supervises and grants licenses to businesses that want to set up equity-based financial technologies. Regulations like OJK can present UMKM and alternative investment possibilities with opportunities.

**Keywords:** Equity Crowdfunding, UMKM, Investment, Investor, Capital

## **INTRODUCTION**

The era of Industry 4.0 revolution has opened up opportunities and challenged future economic development, especially digitalization of UMKM development in line with the development of e-commerce. Small and medium-sized enterprises (SMEs) have contributed significantly to gross domestic income (GDP), the distribution of social income, labour absorption, poverty reduction and unemployment reduction, all of which will have an impact on the nation's economic sector. Given that UMKM contributes 61,07% to Indonesia's GDP and absorbs 97% of the labour force and can aggregate up to 60,42% of total investment in Indonesia, capacity increases and value added umkm need to be done to facilitate business sustainability, expand access and market share, accelerate financing, improve the quality of human resources, and strengthen relationships and coordination across sectors. Although the optimum cross-sector coordination has not yet been implemented, it is still being enabled by the Government's PEN Programme to include the UMKM Support Programme, including in the areas of KUR financing during pandemic, Micro-Enterprise Productive Assistance (BPUM), Non-KUR Flowers/Margin Subsidies, Fund Placement/State Money Investment, UMKM Credit Guarantees, Investment Financing to Cooperatives through LPDB KUMKM, Final Income Tax (PPH) (UMKM) payable by Government, as well as Cash Assistance for Five-foot Traders, Farmers and Fishermen. (BTPKLWN).

The ongoing pandemic of economic recovery has produced capital market investment trends that can stimulate Indonesian economy better seen from the level of investment of Indonesians. According to KSEI's press article, based on KSEI's data as of November 3, 2022, the number of capital market investors has increased by 33.53%, from 7.489.337 at the end of 2021 to 10,000.628 on November 3, 2022 which refers to single investor identification (SID). The Financial Services Authority stated that there is a gap in the alternative financing of the Company to open a business or to expand a business, according to OJK equity crowdfunding not only as an alternative but as an interest in ensuring that the company can grow while keeping in mind the existing regulations. If in the past capital market owners were happy to invest in information technology companies, now with the rapid development of the digital industries now start paying attention to local UMKMs that are potentially to be developed, because they still reap profits even in the midst of pandemic conditions. (Bisnis Indonesia, 2020).

In order to increase the absorption of investment funds from the community, equity crowdfunding is presented as one of the alternative instruments to encourage Indonesian people to participate in driving economic growth in Indonesia. Crowdfunding itself is a financing technique for projects or enterprise units that involve the wider community. The concept of crowdfunding was first launched in the United States in 2003 with the launch of a site called Artistshare. In the site, the musicians are trying to raise funds from their fans to produce a work. This initiated the emergence of other crowdfunding sites such as kickstarter that ran into creative industry funding in 2009 and Gofundme that managed funding for various events and in 2010. (siKAPluangmu OJK). In its sense, crowdfunding comes from a term better known as crowdsourcing, which describes the work process of outsourcing to a large number of "masses of people" (in this case it is an internet community) and relying on their assets, resources, knowledge or expertise. ( Hemer 2011). In addition, crowdfunding is also an investment fund-raising activity that is generally carried out through social networks such as social media or other internet blogs such as using web technology and online payment systems available to facilitate transactions between creators and donors. (Belleflamme et al., 2014). thus providing an alternative option for entrepreneurs to obtain external funding for the financing of their projects.

Opinions about how crowdfunding is mostly using digital technology are also reinforced by the understanding that, crowd funding is a new method of fund-raising through the Internet where individuals ask for help for their projects through a website specific to crowdfinance. Crowdfunding runs in a limited time from a few days to a few weeks even months, and seeks to meet the funding target before the deadline. (Wheat et al., 2013). In addition to the definition universally, as has been stated above that in Indonesia itself OJK is the official institution that oversees the financial services industry in Indonesia, giving its own understanding related to crowdfunding, that is, the service of fund management through the offer of information technology-based shares / equity crowd funding is the organizer of the offer service of shares that the issuer does to carry out the sale of its shares directly to the financier through the network of electronic systems which are open in nature (Financial Services Authority 2018). Basically, equity Crowd Funding is almost the same as the investment of the capital market, there are the Publisher, the Organizer of Fund Services, and the Financier. The difference is, in the equity funding offer of stocks carried out by the publisher to sell shares direct to the financiers through the electronic system online, then given the grant of funds or further referred to as Publisher is an Indonesian legal entity formed by a limited entity with the amount of capital deposited not more than Rp30 Billion. The publisher is also not allowed to be a company with the following criteria: controlled either directly or indirectly by a business group or conglomerate, an open company or a subsidiary of an open enterprise, and has a wealth of more than 10 billion rupiah (excluding land and buildings) In practice, there are three main players, among others: First, the publisher represents an Indonesian legal entity in the form of a limited corporation that offers shares through the organizer. Second, the Organizer of the Fund's Business Services, hereinafter referred to as the Organizer, is the Indonesian legal body that provides, manages, and operates the Fund's Business Services. Third, the Financier is the party that makes the purchase of shares of the Publisher through the Organiser (Otoritas jasa keuangan 2018).

Looking at these huge opportunities, it is unfortunate that the growth of crowdfunding is still slow due to the dependence on banking as the conventional financial industry is still in demand by Indonesians compared to the crowd funding platform. This can be seen when people need capital to start a business or suddenly have an innovative idea to start up a business, they will apply for capital loans in the form of credit or financing to the banking sector (otoritas jasa keuangan 2018).

In order to increase the absorption of investment funds and proceeds from the community, equity crowdfunding is presented as one of the alternative instruments to invite the Indonesian people to participate in driving economic growth in Indonesia.

## **RESEARCH METHOD**

The method of writing scientific articles means qualitative methods and library research. Using and studying the theory as well as the correlation or impact between variables comes from books and journals both offline and on the Online library that comes from Mendeley reference managers, Google Scholars and other Online travelers. In qualitative research, library studies must be used consistently using methodological assumptions. The data used in this study is secondary data (Fajri, 2023). The study uses a systematic review to make a scientific summary of the equity crowd funding research. This subject is reviewed theoretically, with a focus on technical procedures. It is classified as a bibliographic study because it evaluates previously published research on the subject (Creswell, 2017).

## RESULTS

In Indonesia, the development of equity crowdfunding is still small, as evidenced by the two new platforms authorized by the OJK to facilitate the implementation of the fund management services. Unlike the Americans and the British who have developed this system for a long time. In Europe, the value of annual equity-based crowdfunding transactions (excluding the United Kingdom) has increased from 18.4 million euros in 2012 to 211 million euro in 2017. In the UK, the annual volume of equity transaction has grown from 30 million in 2011 to 333 million in 2017. (Statista, 2017). According to the Indonesian Ministry of Cooperation and Small and Medium-sized Enterprises, as of 2019, there are about 65.4 million umkm of growth every year. This very rapid growth is unfortunately not supported by the provision of facilities that are focused on survival innovation endeavours. It is not uncommon for many UMKMs to go into bankruptcy because of the inability to obtain capital loans from banks due to quite complicated and complex requirements. Therefore, the Government of Indonesia through Regulations of the OJK No. 37 /POJK.04/2018 and Regulation No. 16 /POJAK.04/2021 on the offer of securities through equity crowdfunding services has provided legal certainty and protection for the organizers and users of the services of the urum fund through technology-based share offerings in Indonesia. The existence of such regulations is expected to be an opportunity to grow for start-ups or pioneering companies to gain funding in the capital market. As of December 2020, Indonesia has three (three) equity crowdfunding platforms or organizers that have been licensed by OJK, including PT Santara Daya Inspiratama (Santara), PT Investasi Digital Nusantara (Bizhare), PT Crowddana Technologies Indonesia. (Crowddana). Based on this, the author will comment on the conditions of equity crowdfunding in Indonesia based on the three platforms in order to make it easier for the reader to understand and to know the implementation of Equity crowdsourcing in Indonesia.

## DISCUSSION

Based on data released by the financial services authority through ojk.go.id there are three equity crowdfunding platforms in Indonesia that have been licensed and supervised by OJK:

**Table 1.** Indonesian Equity Crowdfunding Platform

<b>Platform</b>	<b>Website</b>	<b>Company</b>	<b>Authorization Signature</b>
Santara	<a href="http://www.santara.co.id">www.santara.co.id</a>	PT Santara Daya Inspiratama	KEP-59/D.04/2019
Bizhare	<a href="http://www.bizhare.id">www.bizhare.id</a>	PT Investasi Digital Nusantara	KEP-71/D.04 2019
Crowddana	<a href="http://www.crowddana.id">www.crowddana.id</a>	PT Crowddana Teknologi Indonusa	KEP-93/D.04/2019

Sources: OJK, 2023

The first equity crowdfunding platform in Indonesia was PT Santara Daya Inspiratama (santara) which obtained a license to operate from OJK with a licensing sign Number KEP-59/D.04/2019. As a licensing authority, the OJK has the authority to oversee its implementation, but it does not act as an investment guarantor. Santara is a limited partnership (PT) that acts as an organizer or facilitator of the implementation of fund management services. Santara has the task of providing a platform for the offer of shares of the issuing company for the funders or investors. Pursuant to article 1 para 4 POJK 37/2018, providing the definition of Fund Service Organizer, the Organizer is the

Indonesian legal entity that provides, manages, and operates Fund Service. In this case, Santara provides, administer and operate this service in the platform and information channels of [www.santara.co.id](http://www.santara.co.id). Within the platform there are menu options for potential investors and prospective publishers to get information about UMKM or registered startups. To date, the foundation has gathered 61 registered, 7000+ registered companies, and 338,000+ funding members.

After the foundation is present in Indonesia is PT Investasi Digital Nusantara (Bizhare) which has obtained a license to operate from OJK with the licensing signature Number KEP-71/D.04 2019. As the licensor OJC authorized to oversee its implementation, however, OJQ does not act as a guarantor of investment. Bizhare is a limited partnership (PT) that acts as an organizer or facilitator of the implementation of fund management services. Similarly to Santara, Bizhare has the task of providing a platform for the stock bidding of the issuer company for the funders or investors. In this case, bizhare provides, manages, and operates fund management services through the official mobile app platform of bizhare as well as its official website at [www.bizhare.id](http://www.bizhare.id). In the mobile apps of bizhare there is a menu option for members of the bizhare application for potential investors around UMKM or registered startups. To date bizhare has accumulated 130+ publishers, 100+, 214,000+ investors with a total turnover of 384+ billion. The last organizer that has been registered and supervised by the OJK at present is PT Crowddana Technology Indonesia (Crowddina) which has obtained a license to operate from the OJK with the license mark number KEP-93/D.04/2019. As the licensing authority of the authority oversees its implementation, however, OJC does not act as a guarantor of investment. Bizhare is a limited partnership (PT) that acts as an organizer or facilitator of the implementation of fund management services. Just like Santara and Bizhare, Crowddana has the task of providing a stock bidding platform of the issuer company to the funders or investors. In this case, Crowddana provides, manages, and operates fund management services through the official mobile platform of Crowddana's apps as well as its official website at [www.crowdda.id](http://www.crowdda.id)

Within the crowddana platform also offers an interesting business that is property in this case is the cost development project kosan or guest house this sector that makes crowddan different from the two previous platforms. If you look at UMKM growth and spread data in Indonesia until 2022, the number of UMKMs in Indonesia according to data of the Ministry of Cooperation and small and medium-sized enterprises by May 2022 UMKM development reached 64,470,000 UMKM units, then it seems that not all UMKM use equity crowdfunding as an alternative financing of their enterprise. In addition to having a business license from OJK, the organizer must also be registered as an electronic system organizer in the Ministry that organizes government affairs in the field of communications and informatics. This is because equity crowdfunding is based on online platforms or any form of business activity using Internet networks and information technology so requires the organizer to know, understand, and master the field of technology.

The organizer in this case is the one who provides, manages and operates fund management services for users under POJK 37/2018 the organizer is obliged to have resources that are expert and skilled in the field of information technology as well as ability in the area of review of the publisher. It is an organizer's endeavor to guarantee the credibility of the quality and quality of the fund's services. In article 16 of POJK 37/2018 regulates the obligations to be performed by the organizer and the prohibitions to be observed for the organizers. The organizer is obliged to carry out a review of the publisher, at least on the legality of the issuer, including the legal body, body of the association, legal aspects of capital addition, limitations of the issuer, and permissions and documents and/or information that is required to be submitted by the issuers to the

organizer as set out in POJK 37/2018 2. Uploading documents and / or information 3. Upload information in the website of the organiser in case there are material changes that may affect the investment decision of the investors related to documents and (or) information 4. Ensure the execution of the offer of shares through the management service and up to the fulfilment of the rights and obligations of users 5. Reporting violations committed by publishers 6. Implementing educational programmes for users 7. Keeping documents and/or information submitted to the publisher 8. Ensuring the limit of fund-raising through the fund-management service of each publisher 9. Providing online communication facilities between the founder and publisher. Loading in the organizer's website of risks, at least cover risks: enterprise, investment, liquidity, non-dividend distribution, share ownership and failure of the electronic system 11. Have a system to ensure that only the financier who has provided confirmation of the fulfilment of the financing requirements can invest through the fund management services 12. Use the Indonesian domain name 13. Providing dispute complaint services through the internal dispute resolution function 14. Loading on the organizer's website of fees and other expenses incurred or charged to users. Have a reimbursement mechanism in the case of stock bidding through an annulment fund service by law; and 16. Using a building or office room either owned by yourself or under a rental agreement of the building or room.

Form of commitment of the publisher with the organizer Equity Crowdfunding In article 44 of POJK 37/2018, the agreement between the organizer and the issuer is made in the form of an act by a notary or electronic document. The act must contain at least, the number of the contract; the date of the agreement; the identity of the parties; provisions concerning the rights and obligations of parties; the amount of funds to be raised and shares to be offered; the minimum amount of money to be earned; the size of commissions and expenses; the provisions relating to fines; the dispute settlement mechanism; and the resolution mechanism in the event that the organizer is unable to continue its operational activities. In the case of an agreement made by means of an electronic document, the form of the agreement indicates that it may be filled with an electronic signature or other form accessible by the user through the electronic system of the organizer.

Form of the financing commitment with the Equity Crowdfunding organizer Under Section 45 of POJK 37/2018, the organizer and the funder are made in the form of a standard agreement. A standard agreement according to the explanation of article 59 paragraph 1 POJK 37/2018, is a written agreement that is established unilaterally by the organizer and contains a standard clause on the content, form, or method of manufacture, and is used to offer services to users in mass. An agreement becomes binding when the funder declares its agreement electronically on the termination of an agreement on fund management. The agreement may modify the provisions concerning the authorization of the organizer to represent the funder as the issuing shareholder, including in the general meeting of the shareholders of the issuer and the signing of the acts and other documents.

## **CONCLUSION**

Initial capital constraints or capital additions for business expansion have always been a problem for the continuity of the business for UMKM more than that the complicated procedures of filing in conventional banks, leaving not a few UMKM suffer bankruptcy or difficulties in starting a business. In the era of industry 4.0 revolution towards society 5.0 there is an alternative system for UMKM financing as well as an alternative investment option for investors called equity crowdfunding that combines fund management services with information technology. In general, the presence of equity crowdfunding as a

financial technology in Indonesia can help the growth and development of business activities for UMKM actors through technology-based stock offerings. In Indonesia itself there are already three platforms that have been registered and supervised by OJK as equity crowdfunding among others, PT Santara Daya Inspiratama, PT Investasi Digital Nusantara, PT Crowddana Technology Indonesia which among such financial technology platforms can be an alternative choice of UMKM actors to obtain capital for the survival of the run business. The Financial Services Authority has an important role in the maintenance and sustainability of the equity crowdfunding system through the regulation of OJK No. 37/POJK.04/2018. The authorities act as supervisors and licensors of companies wishing to organize financial technology of the type of equity. With the existence of regulations such OJK can be an opportunity for UMKM and alternative investment options.

OJK has endeavored to provide protection to its investors with a variety of information required by investors related to the publisher stock as well as the liquidity of the shares to be purchased must be guaranteed by the investor. Other than that, through articles 44 and 45 of POJK 37/2018 has been explained about the bond between publisher and organizer as well as funders and organizers. In his role as the overseer of OJK also performed regulatory sandbox for Companies wishing to obtain permission to organize equity crowdfunding.

#### **ACKNOWLEDGMENT**

We extend our sincere gratitude to all those who have contributed to this research. Special thanks to the Department of Management at University Of Muhammadiyah Semarang for providing the necessary resources and support throughout this study. We are grateful to our colleagues and peer reviewers for their valuable feedback and insightful suggestions which have significantly enhanced the quality of this work. Our heartfelt appreciation goes to the entrepreneurs and MSME owners who participated in our study, offering their time and sharing their experiences. Their contributions were invaluable and pivotal to the success of this research. Lastly, we thank our families for their unwavering support and encouragement during the entire research process.

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