

Crowdfunding Development Analysis as An Alternative MSME Funding in Indonesia

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Abstract

This study examines the development of crowdfunding as an alternative financing for MSMEs in Indonesia. This study uses a literature study method to investigate the strategic role of MSMEs in the Indonesian economy. MSMEs contribute 61% of the GDP and employ 97% of the national workforce, but they face difficulties in obtaining formal financing. OJK data shows that funding through crowdfunding platforms has increased significantly from 1.5 trillion rupiah in 2018 to 15 trillion rupiah in 2022. The results of the study indicate that three main factors influence the success of using crowdfunding: MSME internal capacity (digital and management capabilities), platform quality (reputation, assistance, and technology), and external factors (macroeconomic conditions and regulations). Despite issues such as data security and default risks, crowdfunding appears to have promising prospects for growth, with an estimated funding value of IDR 45 trillion in 2025. To support the sustainable growth of the crowdfunding industry, this study suggests strengthening the regulatory framework, improving platform technology capabilities, and increasing digital financial knowledge for MSMEs.

Keywords: crowdfunding, MSMEs, alternative financing

INTRODUCTION

As time goes by, technological developments continue to follow the times. With the internet, all kinds of information can be accessed quickly and easily. Technological developments also affect developments in every aspect of life in addition to progress in certain technological fields. Industrial progress is also greatly influenced by advances in technology and the internet. Technology and the internet have a positive impact on improving industry and the economy [1].

A better financial system is driven by technological advances in economics and finance. The stability and development of the financial system is very important in developing countries, where public trust in the system is essential to meet the needs of society. This system plays a vital role in collecting funds from the public and transferring them to borrowers for productive sectors or investments, contributing to economic growth and improving living standards. Capital is an important component in a business [2].

With more than 97% of the national workforce and contributing around 61% of GDP, micro, small and medium enterprises (MSMEs) play a vital role in the Indonesian economy. However, one of the main challenges faced by MSMEs is having limited access to formal financing (funding). Bank Indonesia noted that only around 30% of MSMEs have access to bank financing, while the rest face various obstacles such as lack of collateral, inadequate financial history, and complicated credit application procedures [3].

With the rise of increasingly advanced digital technology and financial innovation, crowdfunding seems to be a promising alternative to fill the financing gap for MSMEs. Crowdfunding is a method of raising funds that uses a digital platform to connect people seeking capital with a large number of supporters. This model offers a variety of benefits, including a simpler process, more flexible requirements, and the ability to reach a wider investor base.

Many people can become investors because crowdfunding does not involve conventional financial institutions. This allows innovators, entrepreneurs, and social actors to get the funds they need. To get funding, a proposal must be sent to the crowdfunding platform explaining the purpose of the project, the amount of funds needed, and how the money will be used [4].

In recent years, the growth of crowdfunding in Indonesia has experienced a significant trend. Funding through crowdfunding platforms has increased from IDR 1.5 trillion in 2018 to more than IDR 15 trillion in 2022, according to the Financial Services Authority (OJK). This increase is supported by many things, such as increased internet access, higher levels of digital literacy, and broader legal support such as POJK No. 57/POJK.04/2020 concerning Securities Offerings Through Information Technology- Based Crowdfunding Services [5].

However, the implementation of crowdfunding as a means of financing for MSMEs still faces various challenges. Such as data security aspects, default risk, limited financial knowledge of MSME actors, and the need to build trust between platforms, capital seekers, and investors are important issues that need to be resolved. In addition, changes in market dynamics and competition with conventional forms of funding also affect the growth of crowdfunding in Indonesia.

In this context, an in-depth analysis of the development of crowdfunding as an alternative financing for MSMEs in Indonesia becomes very relevant. A comprehensive understanding of the potential, challenges and factors influencing the successful implementation of crowdfunding will contribute significantly to the development of a more inclusive and sustainable MSME funding ecosystem.

METHOD

This research uses literature study. Literature study is a summary of previous research on a particular topic. The purpose of literature study is to show readers what they know about the topic and to find a basis for future research ideas or previous research. Literature study can be accessed from various sources, including the internet, libraries, journals, books, and documentation. Reading, recording, and processing written information is part of the literature study method. The type of writing that used is a literature review that focuses on findings related to the subject or writing variable.

RESULTS AND DISCUSSION

One alternative method to obtain public investment is equity crowdfunding, which aims to increase public involvement in Indonesia's economic progress. Crowdfunding has become a phenomenon that involves broad participation from the public as a way to obtain funds for various projects or businesses. Artistshare was the first crowdfunding platform in the United States in 2003. OJK Decree No.37/POJK.04/2018, which was issued two years after the P2P lending law regulating equity crowdfunding. Then, the equity crowdfunding law was changed to securities crowdfunding. All

companies that previously received equity crowdfunding permits must change to securities crowdfunding. Therefore, it is currently the only securities crowdfunding company in Indonesia.

SCF is a crowdfunding method where business owners or businesses contribute together to start and grow a business. Furthermore, according to the funds they provide, investors can obtain ownership in the form of shares or bonds. By using an IT-based online platform, investors and entities in need of funds can easily connect to SCF. Investors will receive dividends or profit sharing from the business periodically. Prospective investors can rest assured because OJK Regulation No.57/POJK.04/2020, which regulates the offering of securities through information technology-based fund management services (Securities Crowdfunding), has legitimized SCF. Crowdfunding has become a major force in the Indonesian economy because it provides new opportunities for creators, innovators, and entrepreneurs to obtain funds in a transparent and inclusive manner. With the help of the investor community, the government, and crowdfunding platforms can maximize its potential as a sustainable financing instrument and its positive impact on economic growth and social development.

Over the past five years, the growth of crowdfunding in Indonesia has shown a significant growth trend, marked by a significant increase in both funding value and number of transactions. According to data from the Financial Services Authority [2023], the value of funding through crowdfunding platforms increased from 2.7 trillion rupiah in 2019 to 22.8 trillion rupiah in 2023, with a CAGR (compound annual growth rate) of 70.5%. Thus, although this number of transactions still shows strong industry growth towards the maturity phase, despite a slowdown from 88.9% in 2020 to 49.0% in 2023. The consistent trend shows that the impact of crowdfunding on MSMEs is beneficial. Bank Indonesia's report [2023], shows a significant increase in the number of MSMEs that have successfully obtained funds from 15,000 in 2019 to 95,600 in 2023. The Ministry of Cooperatives and SMEs [2023], noted that trade contributed 35% of the total funded MSMEs, followed by the creative industry at 25%, and agriculture and services at 15% each. The fundraising success rate also increased from 65% in 2019 to 78% in 2023.

Some of the main driving factors driving the growth of this industry are, increase in the average funding value per MSME from IDR 150 million in 2019 to Rp.238 million in 2023 is the result of the COVID-19 pandemic which has driven the digitalization of MSMEs. In addition, the implementation of POJK Number 57/ POJK.04/2020 has improved the legal basis, increased investor confidence, and encouraged the standardization of platform operations. [6] From a macroeconomic perspective, the contribution of crowdfunding to GDP has increased from 0.15% in 2019 to 0.55% in 2023. [7] In addition, the sector contributes to the creation of new jobs, creating 115,000 jobs in 2023, a significant increase from the 25,000 created in 2019. Future projections are still optimistic, with an estimated funding value of IDR 30-35 trillion in 2024. The integration of blockchain technology, the development of artificial intelligence-based credit scores, and increasingly intensive cooperation with conventional financial institutions are new trends to watch. In 2025, estimates that this innovation will increase crowdfunding penetration in MSMEs by 15-20% [8].

Various interrelated factors influence the successful use of crowdfunding as a funding option for small and medium enterprises (SMEs). Comprehensive studies show that the internal components of MSMEs are very important in determining how successful fundraising is. With a correlation level of 0.78, MSME digital capacity is a significant predictor, which is reflected in their ability to use digital technology to

communicate with investors and manage their business. [9] Management capacity to create convincing business proposals, such as making realistic financial projections and measurable business development strategies to increase investor confidence. A good business track record, supported by a structured portfolio and documentation of business performance can increase the likelihood of successful fundraising by up to 65%. Several components that influence the success of crowdfunding from a platform perspective. With a significance value of $p < 0.01$, investor decisions are significantly influenced by the reputation of the platform built through operational transparency, system security, and track record of fund distribution. The mentoring system provided by the platform, both in the form of business mentoring and technical assistance, has been shown to increase the success rate of MSMEs in achieving their funding targets by 55%. Easy-to-use and integrated technology features, such as real-time monitoring dashboards and automatic credit scoring systems, increase the efficiency of the funding process while reducing the risk of default by up to 40%. In addition, there are significant external components, such as macroeconomic conditions and market perceptions. The success rate of fundraising increased to 78% during periods of positive economic growth, but dropped to 45% during periods of recession. Competition with conventional funding sources such as banks and financing institutions also influences investor choices, high benchmark interest rates tend to attract investors from crowdfunding to conventional investment instruments. As an alternative to funding MSMEs, the crowdfunding model continues to survive thanks to accommodating regulations, adequate digital infrastructure, and increased financial literacy in the community [10].

The complex dynamics of crowdfunding success are influenced by the interaction between these components. To optimize the chances of fundraising success, the internal capabilities of MSMEs must be supported by adequate platform capacity and good external conditions. To develop a successful strategy to increase the success rate of crowdfunding in Indonesia, all stakeholders must understand these factors thoroughly.

A comprehensive study shows that Indonesian crowdfunding platforms have promising growth prospects, with funding value projected to reach IDR 45 trillion by 2025. Several factors are driving this trend, such as the acceleration of MSME digital transformation, increasing public knowledge about digital finance, and continuously developing technological innovations, such as the application of artificial intelligence to determine credit and blockchain to increase transaction transparency. To support sustainable industry growth, several strategic steps are needed in the context of policy. It is essential to improve the regulatory framework through regulatory alignment between supervisory institutions. This is especially important in terms of consumer protection and risk management. To allow innovation of new business models while maintaining the principle of vigilance, the regulatory sandbox must be more flexible [11].

From a pragmatic perspective, crowdfunding platforms should enhance their technological capabilities and develop features designed to meet user needs. Top priorities are standardizing credit scoring systems, creating early warning systems to mitigate risks, and strengthening the small and medium enterprise (SME) mentoring system. To increase the likelihood of successful funding for MSMEs, enhancing capabilities in digital financial management and business proposal preparation should be a top priority. Investors, on the other hand, should be educated on portfolio diversification and risk management in the context of crowdfunding to build a sustainable investor base.

CONCLUSION

Legally regulated by POJK No.57/POJK.04/2020 on securities crowdfunding (SCF) has grown into a significant funding option in Indonesia. The sector recorded significant growth from 2019 to 2023, with the funding value increasing from 2.7 trillion to 22.8 trillion and the number of funded MSMEs increasing from 15,000 to 95,600. With its contribution to GDP increasing from 0.15% to 0.55% and the creation of 115,000 new jobs by 2023, the trade sector is responsible for 35% of total funding, followed by the creative industry at 25% and agriculture and services each at 15%. Internal factors, such as MSME digital capacity and mentoring systems, and external factors, such as macroeconomic conditions, support the success of the SCF platform. Regulatory alignment, platform technology enhancement, increased MSME mentoring, and investor training on risk management are all necessary for sustainable development.

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