

ADOPTION OF FINANCIAL TECHNOLOGY IN CROWDFUNDING AS BUSINESS FINANCING IN INDONESIA

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ABSTRACT

Crowdfunding is a type of financial technology platform that funding a project or venture by raising money from a large number of people. There are three actors in crowdfunding, first is the project owner, second is the crowdfunder and third is the donator. As a new way of raising money for business financing crowdfunding is very interesting subject to discuss. This paper is a research paper, to analyze the utilization of crowdfunding in business financing in Indonesia and to analyze the obstacle of crowdfunding in business financing in Indonesia. The methodology of this research is an empirical legal research. The research finding are Indonesian business association already utilized the crowdfunding platform to finance several business sectors such as realstate, modern store franchise, movie production etc. The obstacle of crowdfunding utilization was the absence of financial technology regulation, including the crowdfunding regulation, many investors did not understand about the crowdfunding platform scheme and its risk.

Keywords: Crowdfunding, Business-Financing, Financial-Technology, Regulation.

INTRODUCTION

Indonesian state financial institutions consist of three institutions, namely banking financial institutions, non-banking financial institutions, and other financial institutions. Banking financial institutions alone are not enough to answer the economic problems that occur because there are still many entrepreneurs in Indonesia who experience capital constraints in developing their businesses (Cumming et al., 2019; Garcia-Teruel, 2019). Entrepreneurs need investment credit as a supporter of the costs of developing a business but getting investment credit from a bank is not easy because the bank asks for sufficient collateral in loan lending (Gleasure, 2015; Brown et al., 2019; Rupeika-Apoga & Danovi, 2015). Banks need to be accompanied by other financing services so that all sectors are accommodated to their needs (Cumming et al., 2019). This relates to the limitations of banking, namely the limited funds channeled, limited outreach and limited opportunities to enter other financing sectors. This problem can be overcome by non-banking financial institutions, namely funding institutions that have a risk level for debtors tend to be smaller than banking financial institutions. Non-banking financial institutions are known as financial institutions that offer new formulation models in channeling funds to those who need them. These financial institutions, including finance companies, venture capital companies, and infrastructure financing (Brent & Lorah, 2019; Bento et al., 2019).

However, even though business financing has made maximum use of the existence of banks and financial institutions, the community as business actors still face difficulties in meeting their capital needs. Until finally emerged a revolutionary modern concept, namely crowdfunding, which developed along with technological advances (Presenza et al., 2019; Vismara, 2019; Petruzzelli et al., 2019). Crowdfunding is a funding technique for projects or business units that involve the wider community (Gooch et al., 2020; Mollick, 2014). The crowdfunding concept was first coined in the United States in 2003 with the launch of a site called Artistshare, on that site, musicians sought to raise funds from their fans to produce a work. This initiated the emergence of other Crowdfunding sites such as kickstarter which was involved in funding creative industries in 2009 and Gofundme which managed funding of various events and businesses in 2010. Crowdfunding itself is already quite well known internationally and is estimated to have managed to raise \$16.2 billion dollar in 2014.

In Indonesia, crowdfunding is still not very popular, but it has huge potential to become an investment fund collection instrument. Its use is relatively easy and is already internet-based so that it can be accessed by everyone. In practice, a person or business unit that needs funding in his project will submit a proposal along with the amount of funds they need to work on the project through the crowdfunding management website (Ibrahim, 2012). The community will study the proposal submitted, and if the project is considered attractive, then they will deposit capital to fund the project. In crowdfunding, there is usually no limit on the minimum amount to make a capital deposit so that everyone can participate, although of course there are differences in return according to the nominal that the donor makes the deposit.

Objectives

This paper is written based on preliminary research that has been done before (Prananingtyas & Irawati, 2018). The main problems of this paper are 1) can the use of crowdfunding as a source of business financing be done in Indonesia? 2) what are the obstacles in using crowdfunding as a source of business financing in Indonesia?

LITERATURE REVIEW

Mutual Cooperation as Culture in Indonesia

Humans are social creatures who cannot live alone but need help from others. Basically humans are inseparable from social interaction by each other. So it needs to be done in cooperation and mutual cooperation in solving all activities and problems. Collaboration carried out by a group of people and continuously is the attitude and culture of mutual cooperation. Every nation in a country must have a distinctive culture that distinguishes it from other nations. Mutual cooperation is a unique culture in Indonesia that has been carried out by the community since the days of our ancestors. Even mutual cooperation is also one of the ways in expelling invaders in the context of fighting for Indonesian independence. The struggle of ancestors in achieving independence proves the harmony of life in respecting and maintaining the values of life. This mutual cooperation attitude can be said as a cultural heritage that is expected to continue to be carried on from generation to generation by the successors of the Indonesian nation. Mutual cooperation is a national identity that must be maintained in order to maintain the

integrity of the Indonesian nation. Development can be based on identity and cultural values possessed by Indonesia. The attitude of cooperation which is entrenched does not mean without benefits. The benefits contained in mutual cooperation can be seen from the presence of togetherness in completing an activity or a problem, something difficult and complicated can be solved if done together, as well as related to time efficiency because every job done together will be completed faster.

Mutual cooperation is the basis of Indonesian philosophy. Mutual cooperation as philosophy is used as a guide in living a social and state life. Mutual cooperation is an activity carried out together and is voluntary so that the activities carried out can run smoothly, easily lightly. The principle of kinship and mutual cooperation in economic business activities is used the principle of cooperation, mutual assistance in an atmosphere of economic democracy to achieve shared prosperity fairly and justly in prosperity in the economic field the principle of mutual cooperation and kinship is seen in Article 33 of the 1945 Constitution.

The mutual cooperation tradition in the life of the Indonesian people is a value of local wisdom that needs to be continually cultivated in the lives of present and future generations. The values of mutual cooperation can be used positively in people's lives, especially in efforts to drive community solidarity (Akbulaev et al., 2019; Rau, 2017). Social solidarity really needs to be strengthened so that the Indonesian people are able to face the challenges of changing times, globalization, and various things that threaten people's lives such as natural disasters, social conflicts and politics (Effendi, 2013). This also includes providing wider opportunity to women to get access and involved in crowdfunding projects (Johnson et al., 2018).

The concept of mutual cooperation as a term has been recognized as a very unique thing, which forms positive characteristics for the Indonesian people. Mutual cooperation is a system that can be realized if implemented together - together. In accordance with the fifth precept that reads Social justice for all Indonesian people. A justice cannot be realized if it is not done jointly agreed by the Indonesian people, both from the layers of government as leaders to the people as citizens. This mutual cooperation system has even been institutionalized in Indonesia in general. However, it cannot be denied that the entry of foreign influences by globalization directly or indirectly affected the mutual cooperation system in Indonesia. The entry of foreign influences has changed the mutual cooperation system in Indonesia. Especially for urban communities who have even left the mutual cooperation system that has become a culture of Indonesia before.

Understanding Financial Technology

Fintech is a contraction of "*finance*" and "*technology*", meaning that the company provides financial services through technology integration. According to Fintech Weekly financial technology is a business that aims to provide financial services by utilizing modern software and technology. The National Digital Research Center (NDRC) also explains the term financial technology that is commonly used to refer to an innovation in financial services with a touch of modern technology. Referring to the Oxford Dictionary, the definition of financial technology is actually the use of technology that supports the banking system. However, lately the term financial technology is often associated with start-up companies that present solutions around finance and banking. Financial technology is seen as a new trend in the digital era after e-commerce (Guan et al., 2020). According to the Indonesian Fintech Association, financial technology practitioners in Indonesia are still dominant in the payment business, which is 43%,

loan services by 17%, and the remainder in the form of aggregators, Crowdfunding, and others. The number of Fintechs in Indonesia every year also increased from the beginning of 2006 to only 4 companies and in 2016 it has grown to 165 companies. OJK shows that the total national financing needs are around Rp 1,600 trillion per year. However, the existing financial services are only able to meet around one third of those needs. So, in addition to the banking sector, other financial institutions that have more innovation are believed to be able to increase public access to financial services that can support financial inclusion and contribute to advancing the Indonesian economy.

Crowdfunding

Crowdfunding was distinguished into three types such as equity-based, royalty-based and lending-based (Huang & Zhao, 2017). Fundraisers on equity-based CFPs offer equity to funders, while fundraisers on royalty-based crowdfunding offer a royalty for the funds they obtain (Mamonov & Malaga, 2018). Both types of remuneration are dependent on the performance of the project when it is successful at the funding stage (Belleflamme et al., 2014). On the other hand, fundraisers on lending-based crowd funding offers interest payments in return for a loan (Belleflamme et al., 2014).

Crowdfunding is divided into 4 types namely (Ordanini et al., 2009). First, Donation Based, the donors who gave their capital did not get any compensation from the proposed project, intended for non-profit projects such as building orphanages, schools and so on. Secondly, Reward Based, those who submit proposals usually offer gifts or other rewards in the form of goods, services or rights, not to share the profits from the project. This type of crowdfunding is usually intended for projects from creative industries such as games, where donors who fund the project will be given interesting features of the games. Third is Debt Based, this type is the same as ordinary loans. Prospective debtors will submit their proposals and donors or creditors will deposit capital that is considered as a loan with a return in the form of interest. Lastly, fourth is Equity Based, the money deposited will become equity or part of ownership of the company in return for dividends?

METHODS

This paper was based on the socio legal method of research. In this method an empirical legal method was applied combined with a research on regulation and legal concept. This paper is also used combined with social science methods to analyze the legal phenomenon from the sociological view. To gather empirical data, a depth interview towards several sources/authorities had already been done, such as the head of the Financial Services Authority (The Chief Executive functioning as Insurance, Pension Funds, Financing Institutions, and Other Financial Services Institutions Supervisors). According to Jovanovich this paper is a research paper which is an evaluative paper because this paper will see whether the rules or regulations are working for the crowdfunding practices as the source of business financing (Jovanovic, 2012).

RESULT AND DISCUSSION

Using Crowdfunding as a Source of Business Financing in Indonesia

The mutual cooperation system is a manifestation of community solidarity and collectivity as a potential for implementing development programs (Prananingtyas & Irawati, 2019). It is hoped that development can be carried out by not forgetting the mutual cooperation system as one of the noble values of the Indonesian state. The traditional nature of mutual cooperation can be upgraded to an activity based on financial technology through crowdfunding patterns. Indonesian people can be encouraged to work together to finance a business through crowdfunding financing. Using crowdfunding to finance business in Indonesia is very possible and feasible. Ciptaningtyas (2013) stated that the workings of the crowdfunding platform as a fundraising model have several actors in it, namely (1) the project owner or individual makes a proposal and is responsible for the project; (2) crowdfunding institutions, which are containers in the form of online sites as media for project promotion and (3) donors, namely people who are interested in providing support for the project.

The use of crowdfunding to fund businesses is apparently already done in several countries, besides the United States, and Canada. In Canada the use of crowdfunding has helped the development of the industry in the IT field, such as studies conducted by Nordicity(Canadia Media Fund, 2012). Artists and content creators are starting to rely on crowdfunding platforms to finance their business. Similar conditions were also seen in Singapore and other Asian regions. Startups in Singapore have begun to turn to utilizing crowdfunding in order to find large amounts of funds, which they cannot obtain from capital banks.

Crowdfunding is a new innovation in the world of internet-based finance that collects funds from the general public. The amount of funding imposed on communities is often relatively small in nominal terms. However, because the number of people participating is quite large, the funds collected can be very large.

The term crowdfunding is a derivation of the term crowdsourcing. Crowdsourcing is unlimited engagement and regardless of educational background, citizenship, religion, work, for anyone who wants to contribute or a solution to an issue thrown by individuals, companies, institutions, both paid and free. Crowdsourcing has different forms, one of which is crowdfunding. Crowdfunding consists of 2 (two) root words namely crowd and funding. Crowdfunding can be interpreted as a group funding derived from the concept of mutual cooperation.

The definition of crowdfunding was first explained by Sullivan stated that crowdfunding inspired by crowdsourcing describes the collective cooperation, attention and trust by people who network and pool their money together, usually via the Internet, in order to support efforts initiated by other people or organizations. Crowdfunding occurs for any variety of purposes, from disaster relief to citizen journalism to artists seeking support from fans, to political campaigns. Attention, trust, collective collaboration, and collective money collection are four important aspects in conducting crowdfunding (Li et al., 2018). Crowdfunding can be an alternative funding that can be used by startup companies and MSMEs who want to expand their business share. Usually, startup businesses especially on a small scale will have difficulty in getting capital loans from banks, due to the low credibility of the borrowers and the low

possibility of repayment, as well as the lack of collateral that can be used if the borrower fails to pay (Gabison, 2015; Liu et al., 2020)

New schemes such as crowdfunding will open up funding opportunities for startup businesses and MSMEs. In addition, funding through crowdfunding usually has lower costs than if borrowing from a bank. Likewise for funders, investing through crowdfunding provides a higher return than deposits in banks, albeit with higher risk.

Seeing this, crowdfunding needs to be further developed so that it is not only a potential new funding vehicle but also a profitable investment instrument (Hsieh et al., 2019; Cumming et al., 2019). In developed countries such as the United States and the United Kingdom, crowdfunding has begun to be developed with the type of equity-based and debt-based where investors will get a return from the funds they invested into a project in the form of dividends or interest. In Indonesia crowdfunding platforms are developing and indeed many have been created to support creative works of the nation's children who need capital or support for their businesses. Here are some well-known crowdfunding platforms, among others (Kacerauskas, 2012).

An example is the form of crowdfunding beneficiaries, first is wifest.com, a crowdfunding company created by telecommunications company XL. There are a variety of payments from Wifest.com, such as ATM Transfer, Credit Card to mobile payment. The biggest project is the film *Atambua 39 Degrees Celsius* from Mira Lesmana. This film project has received funding of up to Three Hundred Twelve Million Rupiahs from the targeted Three Hundred Million Rupiahs (Hidayat, 2017).

The second example is kitabisa.com. One of the first crowdfunding websites in Indonesia. Founded in 2013, KitaBisa can allow someone to enter projects in the fields of technology, creativity and SME business. Kitabisa.com will also send a comprehensive report from financial to development of the funded project. The most influential project of kitabisa.com is the Momentum of the Save Master Movement. The project is used to build mosques in schools in Depok. This project gets funding up to one hundred and thirty million rupiah. The third example of crowdfunding is Kickstarter. Kickstarter is a site that increases funding of creative projects based on donations. Kickstarter is one of the old platforms and has experienced good growth and has produced many big campaigns in the last few years. The fourth is Indiegogo which focuses on fundraising based on donations for musicians, fans, personal financial needs and charities. They have had international growth because of their flexibility, their broad and initial approach in the industry (Gamble et al., 2017). This is also in line with the research results from Scheaf et al. (2018) which emphasize the need to combine interaction needs and flexibility in crowdfunding. The final example is gandengtangan.org, which is a crowdfunding platform with a funding system where supporters or donors will receive a gradual return from micro-businesses that receive funding. gandengtangan.org, with the availability of the platform, it has succeeded in funding as many as 1290 SMEs in Indonesia with the number of platform users totaling 11,565 users (Hidayat, 2017). Dorfleitner et al. (2019) underscore the need for equitable access from microfinance institutions to crowdfunding institutions.

Potential crowdfunding is also used to finance businesses in Indonesia related to real estate. The financing of real estate uses a crowdfunding platform to set up a company, then the company makes a housing business. Funding like this is classified as equity based and not loan (Prananingtyas & Irawati, 2018). According to Mr. Triyono as Head of the GIKM Financial Services Authority that in Indonesia also knows Equity based on franchising. For example, in the

case of Franchising of minimarkets, which are now commonly found in urban to rural areas. This franchise is then carried out equity crowdfunding. Someone gets permission to set up a minimarket in Semarang, then someone makes a crowdfunding, this is because to establish just one minimarket requires a large fee so crowdfunding is one way to get capital assistance with which type of equity based (Prananingtyas & Irawati, 2018).

Crowdfunding is expected to bring a positive externality effect that is encouraging the desire of the community to be entrepreneurial given that it is so easy to get funding through crowdfunding. The crowdfunding scheme is also expected to be able to stimulate people's creativity to create products that are unique, creative and have a selling power because one of the important points that need to be highlighted when seeking funding through crowdfunding is the 'idea' or 'uniqueness' of the product (Brown et al., 2017). At the same time, crowdfunding, which is usually internet-based, will facilitate public access to investment so as to stimulate the birth of new investors. The crowdfunding regulation as a digital financial innovation in article 3 of the OJK Regulation No.13/POJK.02/2018 concerning Digital Financial Innovation in the Financial Sector by the Financial Services Authority encourages the advancement of digital financial technology that is expected to expand public financial access and support economic development nationally in this case through business financing in Indonesia.

Barriers to the Utilization of Crowdfunding for Business Financing in Indonesia

The use of crowdfunding in Indonesia, although it has already been carried out in several types, has not been able to develop widely; this is due to several obstacles. These obstacles are: first the risk of losing investment is high. For investors, crowdfunding is a very risky investment, of course with the exception of those who make donations into social projects. Investors do not have good enough control, especially if the financial statements that are reported are not good enough, considering that entrepreneurs who are in the initial stages usually do not have reliable financial records. Secondly because of the low possibility for crowdfunding platform users to gain the trust of investors. Crowdfunding users have their own challenges. The biggest challenge is gaining trust from investors, not an easy matter inviting people to give some of their money based only on information online (Da-Cruz, 2018). This challenge in the form of trust will be increasingly felt when facing a project or campaign deadline.

The third obstacle is the risk of late refund. There is no certainty when the investor refunds the project owner, if the investor has already invested the funds for about one year, and it is possible then that he needs funds so he wants to withdraw funds from the crowdfunding platform where he is investing. Crowdfunding will be seen as an illiquid investment.

The fourth obstacle is the risk of choosing the wrong business. This will be possible if potential investors lack knowledge of the financial "*track record*" of the project owner. Followed by a fifth risk, namely: risk of disputes between investors or donors and the project owner or recipient of the donation. This dispute can be in the form of a mismatch between the initial purpose of raising donations by donors and the final result.

The sixth obstacle is not only regarding the discrepancy between the initial purpose of raising donations and the actual embodiment of donations, but there are also deviations regarding the specifications of the embodiment of donation results even though the goals are the same.

The seventh obstacle is the lack of regulation regarding Fintech, especially regarding the use of crowdfunding. Fintech is borderless while regulations in Indonesia always come late.

Regulatory provisions governing digital financial innovation, especially crowdfunding, are authorized by the Financial Services Authority. According to the FSA actually innovation if not arranged will cause losses. Like a double-edged sword has a negative or positive impact. The regulation regarding crowdfunding is very important to be issued immediately, because it relates to the protection of the parties in implementing crowdfunding. There are three main parties that are generally involved in crowdfunding. First, they are called initiators, creators or facilitators, both individuals and groups, who have projects or ideas that need funding. Second, is the party that supports the idea, or is interested in the product that will be produced from the project, which then flows the financial support to the first party? The third, between the two parties, is the organization or can be said to be a platform that performs an intermediary function; which allows the relationship between the two parties on a foundation of trust.

The last obstacle is the regulator in this case OJK which does not have exact data regarding the number of Fintech (Digital Financial Innovation), especially those engaged in crowdfunding. The only weakness of the OJK is that it does not have data on the exact number of Fintech except peer to peer lending, because there are no regulations. This is possible because every time the number of crowdfunding platforms will continue to grow as more and more people in Indonesia are familiar with crowdfunding. Although it is undeniable there is a crowdfunding platform which must be closed due to lack of community interest related to the proposed project.

OJK and Bank Indonesia should be able to learn from the situation that has occurred in Singapore, the United States and Canada in terms of crowdfunding arrangements. Singapore regulates crowdfunding into regulations regarding credit conducted by non-banks. Business operators providing crowdfunding services must have a permit or license from the MAS (Monetary Authority of Singapore). The United States with the JOBS (the Jumpstart Our Business Startup) Act enacted in 2017 provides an opportunity for small and micro businesses affected by the financial crisis to be able to raise funds through means of securities that can be offered online, by crowdfunding (Lukkarinen et al., 2016).

OJK and Bank Indonesia since 2016 have begun efforts to provide space for the development of financial technology. Presidential Regulation Number 82 of 2016 concerning the National Inclusive Financial Strategy in order to create an inclusive financial system for all levels of society and create financial system stability in Indonesia. Inclusive finance is designed so that Indonesians can easily access financial services such as savings, credit, insurance, pension funds and various other payment facilities. This national strategy then changes the classical finance of the conventional banking system to be more diverse with financial technology. The phenomenon of financial technology has succeeded in changing the financial industry which has been oligopolistic and dominated by conventional banking, insurance and stock markets into an industry that is more open to new players. The strategy undertaken in Indonesia by regulators (OJK and BI) is to regulate through the Regulatory Sandbox.

Making interesting project ideas is also not easy, where businesspeople must be able to think of what types of projects can get people interested in high levels of success and 'profits' (Ellman & Hurkens, 2019; Herrero et al., 2020). If that is achieved, then the investor is willing to make a donation or funding for the project. Despite having enough challenges and obstacles, crowdfunding has a pretty high chance of developing in the country. Of course crowdfunding platform users must rely on creativity, pay attention to transparency, and accountability as well as vigorously to promote through other platforms, such as social media (Sahaym et al., 2019;

Jegelevičinjtè & Valančienè, 2015), so a project campaigned through the crowdfunding platform can achieve or even exceed the target.

CONCLUSION

This paper concludes that crowdfunding can be an alternative funding that can be used by startup companies and MSMEs who want to expand their business share. Crowdfunding needs to be further developed so that it is not only a potential new funding vehicle but also a profitable investment instrument. In Indonesia, crowdfunding platforms are developing and indeed many are created to support creative projects by the nation's children who need capital or support for businesses.

The second conclusion is that there are some weaknesses in the use of crowdfunding as a business financing that needs to be examined, especially for investors and project owners who will deal with the crowdfunding platform. Some of them are the risk of losing investment that is quite high, the low possibility for crowdfunding platform users to gain the trust of investors, the risk of choosing the wrong business, the risk of disputes between investors or donors and project owners, the lack of regulation regarding Fintech, especially regarding the use of crowdfunding.

The crowdfunding platform organizers in carrying out their business must support and participate in improving the national economic system and financial inclusion. OJK as a supervisory institution in the implementation of Fintech in Indonesia must monitor and provide arrangements regarding crowdfunding properly, in order to avoid regulatory lags compared to market conditions related to Fintech in terms of organizers, users and supervisors.

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