

# Equity crowdfunding sharia as Islamic social finance in recovering the economy amid covid-19 pandemic crisis in Indonesia

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## Abstract

This research was conducted to elaborate on sharia equity crowdfunding as Islamic social finance that can be offered to deal with the Covid-19 pandemic in Indonesia. This study uses a descriptive qualitative approach with content analysis techniques and library research. The results of the study, it can be said that amid pandemic, sharia-based equity crowdfunding can be an option for businesses or can prevent this outbreak, especially SMEs, to maintain their business by getting assistance in terms of finance or resources because they maintain sharia principles that prioritizing justice and transparency to realize the benefit of people. Because sharia crowdfunding invests in halal products, shares the risk of its investment, and has a character that is free from interest and avoids: 1. Riba, which is an addition given in exchange for usury goods or additional agreed-upon principal debts. 2. Gharar, namely uncertainty in a contract both regarding the quality and quantity of the object of the contract. 3. Maysir, namely every contract that is carried out with unclear goals and inaccurate calculations, speculation, and chancy. 4. Tadlis, which is hiding the record of the object of the contract 5. Dharar, namely actions that cause harm or loss to other parties.

**Keywords:** equity crowdfunding sharia, Islamic social finance, economic recovery, pandemic crisis.

**JEL Classification:** D63

## INTRODUCTION

Pandemic Covid-19, suddenly became famous throughout the world, starting from Wuhan this virus attack began. The impact is no longer just about health, all aspects of life seem to be shaken by this epidemic. Education and learning, religious activities, including the economic aspect. The negative impact that quickly spreads is due to the high level of connectivity from population mobility and global value chains. and the pandemic has spread rapidly to more than 200 countries, including America, Europe, Australia and Asia. The outbreak of COVID-19 is regarded as a global pandemic by the World Health Organization (WHO, 2019) because it shows an increasing infection from human-to-human

(Qiu, Rutherford, Mao & Chu, 2017) and has led to more than 200,000 deaths within three months of the outbreak (WHO, 2020).

In research conducted on the adverse impact on the global economy, JP Morgan predicts the world economy will be minus 1.1% in 2020, the EIU predicts minus 2.2%, Fitch predicts minus 1.9%, and the IMF predicts the world economy will be minus 3% (Baldwin & Weder, 2020). Sri Mulyani Indrawati, as the Minister of Finance of the Republic of Indonesia, also highlighted this issue, which predicted that economic growth in the worst position would reach minus 0.4% (Azwar, 2020).

The impact of this epidemic has had a huge impact on economies around the world, including Indonesia. The decline in people's purchasing power and company performance, threats to the banking and financial sector, as well as the existence of Small and Medium Enterprises (SMEs), are real forms of the impact caused by this epidemic (Pakpahan, 2020). SMEs themselves play an important role in the Indonesian economy because they can slow down economic performance and have an impact on small business actors. More than 50% of SMEs were forced to go out of business because of it (Thaha, 2020). To get funding assistance from banks, small businesses usually have difficulty due to low credibility, and the lack of collateral for assets that can be used if the borrower fails to pay. The solution described by Sandiaga Uno on how to overcome the problem of SME capital and financing, one of which is Financial Technology (Fintech) (Uno, 2020). Nugroho and Rachmaniyah (2019) in their research explain that the crowdfunding concept is intended for those who want to develop their business but are constrained in terms of capital and from the crowdfunding platform India and Malaysia can strengthen economic growth by increasing new entrepreneurs (Nugroho, 2019). Not much different, in Indonesia Fintech models such as crowdfunding help SMEs in obtaining capital to maintain and increase their business (Ardiansyah, 2019). Based on the results of this study, crowdfunding is certainly hoping for SMEs, especially during this Covid-19 pandemic.

However, the risk factor then remains a big consideration for SMEs and fund owners in deciding to use this crowdfunding platform. The statement from the Director of Sharia Capital Markets at OJK emphasized the risks involved in Equity Crowdfunding, "out of 751 Equity Crowdfunding issuers in the UK, only five managed to upgrade, 216 managed to round or sell their shares at a higher price, and the rest ranged from offering continued shares at lower prices. And so on, even to the point of failure" (OJK, 2016).

If viewed from Islamic teachings, crowdfunding is not contrary to existing sharia law as long as the system and concepts used are following sharia rules or in the perspective of shariah compliance (Novitarani and Setyowati, 2018). In Q.S Al-Maidah verse (2), it is ordered to help each other in doing good and piety, and not to help each other in sin and transgression. Only three equity crowdfunding operators are officially registered with OJK, and none has yet been designated as sharia equity crowdfunding. However, OJK is reviewing plans to issue sukuk through equity crowdfunding as an effort to build sharia equity crowdfunding. Therefore, an analysis of the principles of shariah compliance for the three equity crowdfunding providers in Indonesia needs to be carried out to support the development of sharia equity crowdfunding.

To touch the lower middle class, special opportunities and roles are needed for the ISF in overcoming the Covid 19 pandemic. The overall ISF instrument can be a catalyst in reducing poverty levels in Indonesia. However, the instruments contained within, of course, cannot be done in a short time. Therefore, there is a need for optimization and proper regulation in managing ISF instruments such as sharia equity crowdfunding. Previous research by Novitarani and Setyowaty (2018), Abdullah and Susanto (2019), Yuningsih and Muhammad (2020), has

analyzed crowdfunding based on shariah compliance principles, but not specifically on equity crowdfunding. Several other studies that have studied the principles of shariah compliance in equity crowdfunding were conducted in Italy by Biancone and Secinaro (2016), and in Malaysia by Abdullah and Oseni (2017), and Azlan et. Al (2019).

This study will analyze more deeply the role of sharia equity crowdfunding organizers as a form of sharia social finance in recovering the economy amid the COVID-19 pandemic crisis in Indonesia. Another objective of this research is to provide solutions in the form of how to optimize the role of ISF (equity crowdfunding sharia) to increase resilience and economic growth in Indonesia amid the Covid 19 pandemic. This paper is presented as follows. The next section discusses the review of the literature, which is followed by an explanation of the research design in section 3, analyzing empirical findings in section 4, and, finally, the conclusion is presented in section 5.

## **LITERATURE REVIEW**

### **The Effects of COVID19 Pandemic on the Economy**

Among the effects of a protracted pandemic are retrenchment, closure of company operations due to reduced domestic and foreign demand, high government costs to meet people's needs, confiscation: a legal process where by a lender tries to recover the amount owed on a failed loan by taking ownership and Selling mortgaged property, and the food crisis.

Manufacturing industries reduce production; Employees lost their jobs and faced cash flow constraints. The government is struggling to protect people's jobs and livelihoods to reduce the harm. All these effects turned it into a "pandemic crisis". To combat the pandemic, many governments have announced stimulus packages to channel funds to people, so that they have money to spend even if they are not working (Yusuf, Latib, Ahmad, Hasnan, 2020).

Inevitably, the MSME (UMKM) sector is the sector most affected by the COVID-19 outbreak due to the absence of activities outside the home by most of the community. This condition was exacerbated by the constraints on imports of raw materials and capital goods from China, which became the epicenter of the pandemic. An increase in the price of goods plus a decrease in income is a fatal combination that hits purchasing power. The government must anticipate the decline in consumption which has been the supporter of Indonesia's economic growth.

Start-ups and small enterprises are the backbone of both developed economies and developing countries in regarding of employment generation and economic growth. However, this sector faces many challenges, particularly the lack of required financing either to start up or to expand the existing enterprises. The leading causes include their early stage of business establishment and lack of proper business experience, no collateral security, higher transaction costs, improper business planning, lower sales, revenue, and cash-flows to name a few (Thaker, Thaker, Pitchay, Amin, & Khaliq, 2020).

### **The Role of Islamic Social Finance in pandemic**

As a country with the largest Muslim population in the world, Muslims can provide their best role through various forms or models of philanthropy in Islamic Economics and Finance. Islam as a religion that teaches humans to love each other, love and sympathize, has a configuration of generosity or philanthropy from its teachings (Uyun, 2015). The Islamic social finance sector includes Islamic institutions based on philanthropy, such as zakat (obligatory charity), sadaqah (voluntary charity) and waqf (endowment), cooperation, like qard (loan) and

takaful (insurance). It also includes social investments through Sukuk (bonds), crowdfunding, and non-profit Islamic microfinance organizations that aim to reduce poverty by giving out qard Hassan (Zamir, 2006 6; Ashraf & Hassan, 2013).

In responding to the Covid19 pandemic crisis, Islamic social finance should play roles to support job and income security for those affected by the crisis, contribute to preventing poverty and unemployment, bolster economic and social stability and peace and act as powerful economic and social stabilizers ( Hidayat et al., 2020). In addition, Islamic social finance should play role in recovering the economy by increasing economic activities that involve a boost in consumption, increase in investment as well as government expenditure to help the growth of the economy (Ashraf & Hassan, 2013; Zamir Iqbal, 2006; Warde, 2010).

Public literacy on the existence, potential, and benefits of Islamic Social Finance along with public knowledge of the principles and values contained in Islamic economics and finance has a very large influence on maintaining the economy in Indonesia if it is hit by a crisis, such as the impact of the crisis. Felt as a result of Covid 19. Therefore, the optimization of the ISF is very important to continue whether Indonesia is facing an economic crisis or not (Inggita & Nurul, 2021).

### **Equity Crowdfunding Sharia in Indonesia**

Crowdfunding is one of the investment platform in financial technology. It consists of four elements: payment, financial advisor, aggregator and investor. Initially, crowdfunding was a participatory online activity where individuals, institutions, nonprofit organizations or companies propose to other groups of individuals, through flexible communication, to perform a voluntary task and provides benefit each other, using their respective capacities such as expertise, funds, knowledge and experience (Arolas & de-Guevara, 2012).

In indonesia contract in the transaction that takes place in the Islamic crowdfunding service is overseen by the Sharia Supervisory Board (DPS) of the MUI to ensure that there is no element of maysir (speculation), gharar (uncertainty) and riba (usury) (Zaki & Akhmad,2019). In addition, other provisions including the implementation of its activities are regulated in the Fatwa of the National Sharia Council (DSN)-Indonesian Ulama Council (MUI) No. 117/DSN-MUI/II/2018 concerning Information Technology-Based Financing Services based on Sharia Principles.

Based on the principle of Mudarabah, all capital is unguaranteed, and in the case of default, all the materials in the business will be liquidated and returned to the investor. On the other hand, in Murabahah crowdfunding, capital from the crowd will be collected as the fund to buy all assets necessary to establish the campaigner's business and sell it to campaigners with the cost-plus methodology. This methodology is a safer way to become involved in lending crowdfunding, yet there will be no interest involved, and it complies with all Shariah requirements. With this concept, there will be real profit-and-loss sharing within the business since all of the parties bear the risk (Biancone et al, 2019, p.5; Saiti et al, 2019, p.476). Crowdfunding represents a significant opportunity to deliver the essential expectations from Islamic finance by combining the benefits of social development and investment opportunities, for a wide range of entrepreneurs and investors (WB et al, 2015, p.55).

Equity Crowdfunding (ECF) in Indonesia is one of the types of crowdfunding that has become a big hope in helping SME funding today, namely Equity Crowdfunding (ECF). Based on the Regulation of the Financial Services Authority (POJK) of the Republic of Indonesia No. 37/POJK.04/2018, Equity Crowdfunding (ECF) is the provision of direct share offering

services to investors through an open electronic system network. According to (Hutomo, 2019) the Equity Crowdfunding service mechanism has many similarities with public offerings in the capital market, the only difference being that the implementation is simpler both institutionally and supporting institutions, the orientation of the capital raised, and the recipient of the capital.

In terms of minimizing the various risks that exist, OJK acts as a supervisor as well as a licensee for companies that want to organize fintech equity crowdfunding (Irawati, 2019). Registered equity crowdfunding operators receive full supervision from OJK during their business activities. Provisions related to the implementation of equity crowdfunding are contained in POJK of the Republic of Indonesia No. 37/POJK.04/2018. Granting a business license for an Equity Crowdfunding operator is also not an easy thing. So far, there are only three Equity Crowdfunding platforms that have officially received permission from the OJK (ojk.go.id), namely: Santara, Bizhare, CrowdDana.

Parties running sharia crowdfunding are divided into four categories (Novitarani and Setyowati, 2018), namely:

1. The owner of the project/business can be an individual, an organization, or a company
2. Fund owners/investors from the community
3. Crowdfunding organizers, namely parties that provide platforms for Bring together business owners and fund owners
4. The sharia board, which acts as the sharia board in Indonesia, namely the DSN-MUI

According to Biancone (2017), Islamic crowdfunding invests in halal projects/products, shares the risk of the investment, and has an interest-free character. To see its conformity with sharia principles, it is associated with types of industries that are not allowed for businesses registered in it, including haram products containing alcohol and other haram substances, pornography, gambling, interest, and so on.

## **METHODOLOGY**

This study uses a descriptive qualitative approach as an effort to understand the various concepts found in the research process, using content analysis techniques and library research. The content analysis technique is a research method used to find out the conclusions of a text. Or in other words, content analysis is a research method that wants to reveal the author's ideas which are manifested or latent. While library research in this study uses the types and sources of secondary data obtained from research results, articles, and reference books that discuss topics related to the research theme (Azwar & Khaerul, 2019).

## **RESULT AND DISCUSSION**

Amid a crisis, not a few business sectors or Micro, Small, and Medium Enterprises (MSMEs) are struggling to survive. This business is often difficult to survive because of limited capital. The existence of MSMEs is very vulnerable to falling into poverty and bankruptcy due to shocks or economic shocks. The existence of micro, small and medium entrepreneurs, especially traders in traditional markets is a manifestation of the economic life of most Indonesian people. This position has placed traditional market traders as the main thing that must receive attention, especially in terms of capital. The process of developing traditional market traders is a manifestation of economic development which has become very important. Efforts to develop and strengthen the potential of traditional market traders as strategic economic groups must be oriented towards empowerment, so that independent and strong local

economic actors are formed through Micro Finance Institutions (LKM), especially Sharia Micro Finance Institutions (LKMS) (Sabirin, 2017). Therefore, the provision of capital to businesses is used as a means to reduce the impact of the crisis.

This economic crisis can be overcome by optimizing instruments derived from Islamic Social Finance instruments to assist the lower middle class and communities affected by Covid 19. One alternative to this is crowdfunding, which is based on crowdfunding or joint ventures. Its role is to be able to repair the economic crisis during this pandemic, many people do not have sufficient capital to launch their business and do not dare to borrow from banks.

In summary, the use of crowdfunding experienced a significant spike in 2016. Based on data compiled from the publication of the Cambridge Center for Alternative Finance (CCAF), in 2015, financing through crowdfunding was around 28.9 billion rupiahs. An increase of about 200% in 2016, with the achievement of around 88.1 billion rupiahs. Dominated by donation-based crowdfunding, which is 43.8 billion rupiahs, and followed by equity-based crowdfunding, worth 42.6 billion rupiahs (Afdi, 2017). The potential that exists in crowdfunding must be directed in financing schemes to encourage the formation of a financing system that is certain and efficient, to improve the national economy.

Terminologically, the term crowdfunding comes from two basic words, namely crowd which means crowd, and funding means funding. It can be understood as a crowdfunding or joint venture-based funding activity. Some literature also tries to describe crowdfunding more fully.

Described by Elizabeth, 2012, that "Crowdfunding is defined as an open call over the Internet for financial resources in the form of a monetary donation, sometimes in exchange for a future product, service, or reward. Crowdfunding uses web technologies and existing online payment systems to facilitate transactions between creators (people who request funds) and funders (people who give money)"

Mokter Hossain, 2017. Limited timeframes. It is the financing of a task, idea, or project by making an open call for funding. Mainly through Web 2.0 technologies, so funders can donate, pre-purchase the product, lend, or invest based on their belief in an appeal, the promise of its founder, and/or the expectation of a return."

Based on these various perspectives, it can be understood that crowdfunding is a digital-based fundraising activity, which is oriented towards providing financing for the creation and development of innovations. From an economic perspective, crowdfunding activities can be the main driver of macroeconomic growth. This can be seen from the method used when everyone gives funds for a useful purpose. It can also be concluded as a method of raising capital through the collective effort of friends, family, customers, and individual investors (Pierrakis & Collins, 2014). This approach taps into the collective efforts of a large pool of individuals primarily online via social media and crowdfunding platforms and leverages their networks for greater reach and exposure.

There are three types of crowdfunding, donation-based crowdfunding, rewards-based crowdfunding, and equity-based crowdfunding. In donation-based crowdfunding, there is no financial return to the investors or contributors as donation-based crowdfunding. On the other hand, rewards-based crowdfunding involves individuals contributing to the project in exchange for a monetary reward. Meanwhile, equity-based crowdfunding allows contributors to become part-owners of the company by trading capital for equity shares (Bone & Baeck, 2016).

Crowdfunding based on shares (equity-based). The legal basis refers to POJK No. 37/POJK.04/2018. In this model, the creator or publisher must have the status of a Limited Liability Company. The mechanism built is also quite strict, because there are provisions regarding investors who are determined with certain limitations. However, the advantage offered to investors is ownership of the company being built, adjusted for the amount of capital given to the creator or publisher. It should also be understood that this shared base does not belong to the category of going public companies.

Regarding the legality of the equity crowdfunding platform, the most widely used approach to ensure Islamic values at the private sector level is the existence of a Sharia Supervisory Board (Biancone, 2017). Of the three Equity Crowdfunding providers in Indonesia, there is no platform whose business activities are supervised by the Sharia Supervisory Board. This is because no one has been officially designated as Sharia Equity Crowdfunding in Indonesia. However, from an analysis of the business activities carried out by the equity crowdfunding organizer, Santara, Bizhare, and CrowdDana, each prioritizes the safety of both investors and business owners who issue shares, following the rules stipulated in POJK No. 37/POJK.04/2018 and does not conflict with Islamic law, indirectly even without formalization, everything must be following Islamic law because it is supervised by the Sharia Supervisory Board. These three platform organizers carry out a rigorous evaluation and selection process for businesses that submit requests for share issuance. Various requirements must be met by business owners to ensure that the proposed business has good potential and will not harm investors who buy their shares later. At the time of filing for the issuance of shares, business owners must be transparent in providing information about the profile of the business they manage, including the prospects for the business. All of that is synergistic with what Islam teaches, namely maintaining trust with transparency. After successfully issuing shares on the platform, each issuer on each platform must routinely make financial reports, which are also reported to the OJK.

Although not yet officially registered as sharia equity crowdfunding, in general, the methods and procedures in carrying out business activities on each platform that prioritize security and justice for all parties involved have reflected the principles of sharia compliance. In detail, an analysis of sharia compliance is carried out by reviewing the forbidden and halal aspects of Islamic law.

According to Biancone (2017), Islamic crowdfunding invests in halal projects/products, shares the risk of the investment, and has an interest-free character. To see its conformity with sharia principles, it is associated with types of industries that are not allowed for businesses registered in it, including haram products containing alcohol and other haram substances, pornography, gambling, interest, and so on. Based on the DSN-MUI Fatwa No. 117/DSN-MUI/II/2018, in its implementation it must be following sharia principles, namely avoiding:

1. Riba, which is an addition given in the exchange of usury goods or an agreed addition to the principal debt
2. Gharar, namely uncertainty in a contract both regarding the quality and quantity of the contract object and its delivery
3. Maysir, which is every contract that is carried out with unclear goals and inaccurate calculations, speculation, and luck
4. Tadlis, which is hiding the record of the object of the contract, and

5. Dharar, namely actions that cause harm or loss to other parties.

Equity crowdfunding in Indonesia is also carried out by reviewing the halalness of five aspects (Salam, 2020) as follows:

1. In general, contracts made in transactions through the equity crowdfunding platform are divided into contracts between investors and business owners as fund managers, contracts between investors and platform providers, and contracts between business owners and platform providers. A contract between several parties involved in a transaction. Based on the DSN-MUI Fatwa No. 117/DSN-MUI/II/2018, the contract used by the parties in the provision of Information Technology-based financing services can be in the form of contracts that are in line with the characteristics of financing services, including:
  - a. Al-bai' (buying and selling), which is a contract between the seller and the buyer which results in the transfer of ownership of the object being exchanged
  - b. Ijarah, which is a contract for the transfer of usufructuary rights (benefits) on an item or service with the payment of wages
  - c. Mudharabah, which is a business cooperation agreement between the owner of capital and the manager of capital, and the business profits are divided according to the agreed ratio, while the loss is borne by the owner of the capital.
  - d. Musyarakah, which is a cooperation agreement between two or more parties in which each party contributes funds, profits are divided according to the agreed ratio, and losses are shared proportionally.
  - e. Wakalah bi al ujah, which is a contract of delegation of power from the giver of the power of attorney (muwakkil) to the recipient of the power of attorney (representative) to carry out certain legal actions that may be represented accompanied by compensation in the form of wages (ujrah).
  - f. Qardh, which is a loan agreement in which the borrower is obliged to return the money he received in a mutually agreed manner and time.
2. The implementation of equity crowdfunding can be said to meet the principles of sharia compliance if the project or business being funded does not conflict with Islamic law. In POJK No. 37/POJK.04/2018 it is explained that the equity crowdfunding organizer must review the issuer at least regarding the legality and various documents or information that must be submitted by the issuer.
3. The principles of sharia compliance are fulfilled, one of which is that if the funds used to assist businesses are of clear origin, they must not come from activities that are contrary to Islamic law. In addition, investors are also required to agree and agree to provide access to internal and external audits from the organizers or OJK audits if necessary. Obtaining funds from fraudulent or unlawful actions or activities by investors can certainly be limited by this rule.
4. Profits obtained from businesses that receive funding assistance must be distributed by fulfilling the principles of justice in the concept of sharia compliance following the agreement of all parties without any party being harmed, both business owners, investors, and the organizers of equity crowdfunding itself. The distribution of profits in the form of dividends is very clearly regulated by the three equity crowdfunding organizers through their respective websites and social media.



The Islamic Economic and Financial System as a system that is full of values as well as a guide from the Creator is believed to be able to realize productive economic activities within the framework of justice. For this reason, the public needs to be given a correct understanding of Islamic economics and finance in the context of improving the Islamic economy and finance. In the end, if the above programs, both for the community and the business sector or MSMEs, can be promoted, it is hoped that they will increase aggregate demand and aggregate supply to the right, followed by the development of an online market that focuses on MSMEs that meet demand. And supply, so that the economic surplus is re-established and helps accelerate the economic recovery.

Because as a country with the largest Muslim population in the world, Muslims can provide their best role through various forms or models of philanthropy in Islamic Economics and Finance, especially during the Covid-19 pandemic. This role is expected to be able to overcome the economic shocks that occur and the entire community, especially Muslims, can participate and contribute in recovering these shocks. Through leading business capital assistance for the business sector or Micro, Small, and Medium Enterprises (MSMEs) which are represented in equity crowdfunding. In addition to helping in terms of funding but also creating new creativity and innovation for business people in running their business to attract investors' attention.

## **CONCLUSION**

Islamic Social Finance can be used to supplement government spending to revive the economy during the COVID19 pandemic. Islamic Social Financial Instruments need to be mobilized more quickly to recovering the economy during the COVID19 pandemic and anticipate post-COVID19 pandemics. Social investment through crowdfunding must be mobilized which can increase economic activity and is expected to revive the economy.

Based on the results of the study, it can be said that amid the Covid-19 pandemic which affect the economy, especially in Indonesia, sharia-based equity crowdfunding can be an option for various businesses or businesses that occur in the SME sector, to be able to maintain business by getting assistance in terms of Guaranteed financial or funding because it adheres to sharia principles that prioritize justice, transparency, the principle of realizing the benefit of the people, not just group profits but others. Companies that have held equity crowdfunding, namely Santara, Bizhare, and CrowdDana, have shown a large degree of conformity with sharia compliance principles. Then, sharia-based equity crowdfunding can be an additional source apart to provided by the government that can be used to reach out and help the needy.

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