

THE EXAMINATION OF *SHARIAH* COMPLIANCE OF EQUITY CROWDFUNDING COMPANIES IN INDONESIA

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Abstract

Purpose: Equity crowdfunding is one type of crowdfunding that is growing rapidly in Indonesia. Equity crowdfunding can be considered for startups and SMEs because the costs are relatively cheaper than loans. But until now there are no regulations governing *Shariah* compliance in the application of equity crowdfunding in Indonesia. This paper aims to analyze the operation of equity crowdfunding companies in Indonesia, to evaluate the equity crowdfunding in term of *Shariah* compliance model with qualitative and quantitative approaches.

Design/Methodology/Approach: This paper is qualitative research with inductive and deductive analysis, by assessing *Shariah* compliance aspects in Small Medium Enterprises (SMEs). The data used are primer and secondary data and the data collection techniques that carried out by the researcher directly to the platform of equity crowdfunding while secondary data from the existing literature.

Findings: For the core businesses run by SMEs in equity crowdfunding in Indonesia, 154 SMEs registered on the equity crowdfunding platform. According to qualitative analysis, all of companies are in accordance with *Shariah* rules where no activities prohibited by *Shariah*. In terms of quantitative, it can be seen that there are no specific regulations that require listed businesses to follow.

Originality/Value: This research provides results about the equity crowdfunding system in Indonesia, analysis of *Shariah* compliance in terms of qualitative and quantitative aspects of SMEs registered on equity crowdfunding platforms in Indonesia.

Keywords: SMEs, Equity Crowdfunding, *Shariah* Compliance, Islamic Finance

Introduction

When the economic crisis hit the world from 1997 to 1998, it automatically worsened the economic conditions in Indonesia, only the Small and Medium Enterprises (SMEs) were able to remain strong in the midst of the crisis. This phenomenon points out that SMEs are productive businesses to be developed to support macro and microeconomic development in Indonesia and influence other sectors to develop. This experience has made many parties aware to give a larger portion to micro, small, and medium scale businesses. Small and Medium Enterprises (SMEs) are the backbone of the national economy. According to data from Kemenkopukm (2018) that the total of SMEs reached 64,194,057 in Indonesia and was able to absorb 120,598,138 workers. SMEs have a very important role in the national economic system because they have a function to accelerate the equitable distribution of economic growth as a whole by providing employment and business as well as increasing foreign exchange earnings and strengthening the structure of the national industry. Small and Medium Enterprises (SMEs) are faced with various problems. The issues and constraints faced include aspects of business management capabilities, the quality of human resources, and aspects of capital (Supriyanto 2012). One of the huge problems is the issue of capital for SMEs to develop their businesses. The matter of capital for SMEs is a very important problem to be solved. Modern banking cannot meet the capital for SMEs, because it is not bankable to decide loans. Accordingly, many SMEs have difficulty developing their business. Along with the development of financial technology in Indonesia. the financial sector has experienced significant development. As a form of

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application of information technology in the financial sector. Currently, fintech is able to serve electronic money, virtual accounts, crowdfunding, and other online financial transactions. As for the fintech that has been operating, some have been founded by conventional or *Shariah* based-companies, but not a few are startup companies.

In Indonesia, currently one of the fintech that is developing and starting to be recognized by the public is crowdfunding. SMEs can choose alternative funding through loan-based crowdfunding (peer-to-peer lending). Crowdfunding is a funding scheme that raises funds from the internet-based crowd. The amount of funding charged to the community is often relatively small. However, because the number of people participating is quite large, the funds collected can be very large. There are several types of crowdfunding, including debt crowdfunding, donation crowdfunding, and equity crowdfunding. In the last few years, the equity crowdfunding system in Indonesia has received attention because it is able to provide solutions in the midst of difficult capital problems for SMEs who want to expand their business.

Equity crowdfunding can be considered for startups and SMEs because the costs are relatively cheaper than loans. This funding without burdening the obligation to pay interest and principal is known as equity crowdfunding. With equity crowdfunding, fundraising companies only need to offer shares issued by startup companies or SMEs as compensation for their investment. Fundraising companies function almost the same as securities companies in the primary market. That way investors will get part of the ownership of the startup company or SMEs and will receive returns in the form of dividends from startup companies or SMEs according to the number of shares they own. One type of crowdfunding that is in huge demand by the public is equity crowdfunding. This type is very effectively used to help prospective new entrepreneurs in starting a project or business. Where these prospective entrepreneurs find it difficult to find investors to provide initial capital for their businesses. However, equity crowdfunding is very helpful and growing fast in the community.

Equity crowdfunding is an innovation in financing sources that are oriented towards efficiency and effectiveness, which is a breakthrough in the development of technology-based financial capital markets. Equity crowdfunding positions its activities on start-up companies or Small Medium Enterprises. Although in terms of investment scale and turnover, equity crowdfunding as a source of financing for capital needs is not as big as the stock exchange, but the growth of internet-based technologies such as equity crowdfunding has exponential growth potential (Hutomo 2019).

The equity crowdfunding system is currently developing rapidly in Indonesia. There are 3 companies registered in The Financial Services Authority (FSA) more than 100 SMEs and thousands of investors have joined the equity crowdfunding system. In 2018, FSA issued a regulation about crowdfunding services through share offerings based on information technology. Equity crowdfunding is a profit-sharing system from a business profit based on the percentage of shareholding. This system certainly ensures that investing is halal according to Islamic law. There are several parties involved in the equity crowdfunding system, namely, the companies are who need funds to expand their business or issuers, intermediary institutions or equity crowdfunding organizers, and investors are who invest their funds to the platform.

The *Shariah*-based financial system has the aim of providing halal financial products and services to the Muslim. Its main targets are the expansion of job opportunities, economic prosperity, fair income distribution, high economic growth rates, equitable wealth, and investment savings for economic development that is able to provide guarantees and benefit to the community. Besides that it is also expected to be able to make a proper contribution to the achievement of Islamic Socio-Economic goals (Umer Chapra 2000), and according to (Heri Sudarsono 2003) that the abolition of the principle of interest in the Islamic financial system

has a significant macro impact, because it is not only the principle of direct investment that must be interest free, but the principle of indirect investment must also be free of interest. Likewise, the current banking system does not only act as a financial intermediary but also as the main financial institution in the financial system and the centre of monetary policy. The Islamic financial system is expected to be the best alternative in achieving public welfare.

The Islamic financial system is substantially different from the financial industry which is still using conventional systems. There is a close relationship between the conceptual and practical aspects of financial business activities and the principles of Islam. In the other words, one of the fundamental aspects that differentiate between the Islamic and conventional financial industry is the subject of compliance with *Shariah* principles (Dhiwa 2020).

Compliance means following a clearly regulated specification, standard or law which is usually issued by an authorized institution or organization in a particular field. Meanwhile, *Shariah* banking defines *Shariah* compliance as increasing *Shariah* knowledge for employees so that the opportunity for *Shariah* violations is reduced in addition to creating product and service offerings that are creative and innovative, but still comply with the fatwa of *Shariah* National Council-Indonesian Ulama Council. The *Shariah* Supervisory Board completes the supervisory duties assigned by the commissioner, where *Shariah* compliance is increasingly important to carry out due to requests from customers to be innovative and business-oriented in offering new products and to ensure *Shariah* compliance with Islamic law (Fadillah 2020).

Shariah compliance is an important part of the Islamic financial industry in terms of its management and operations. This is supported by requiring the existence of a *Shariah* Supervisory Board for every Islamic financial institution. The *Shariah* Supervisory Board is in charge of supervising the implementation of a contract whether the implementation is in accordance with the *Shariah* principles. However, until now there are no regulations governing *Shariah* compliance in the application of equity crowdfunding in Indonesia. Based on the background above, this research focuses on the analysis of the implementation of *Shariah* compliance for the operational system of equity crowdfunding in Indonesia and analyze the opportunities and threats of implementing *Shariah* compliance in Indonesia.

This research will provide results about the equity crowdfunding system in Indonesia, analysis of *shariah* compliance in terms of qualitative and quantitative aspects of SMEs registered on equity crowdfunding platforms in Indonesia, and examining strengths, weaknesses, opportunities, and threats (SWOT) analysis of the implementation of *shariah* compliance in equity crowdfunding in Indonesia. This research will contribute for policy makers to be used as a reference for relevant legal entities. In applying the *shariah* compliance model in the equity crowdfunding system in Indonesia and for academics. It is hoped that the results of this research will be able to contribute ideas for Islamic Economics in general and *shariah* compliance in equity crowdfunding in particular, as well as become the next research reference to develop related research.

1. Literature Review

1.1 Crowdfunding

According to Mollick (2014) crowdfunding is the efforts by groups and entrepreneurial, social, cultural entrepreneurial to fund their ventures by utilizing relatively small contributions from a large number of individuals using the platform without standard financial intermediaries. Yun (2012) defines Crowdfunding as generally “the act of advertising a business project and being disclosed through the platform by SMEs that need capital for such venture to raise a large amount of capital in a small amount from a large and unspecified number of people”. Crowdfunding is most often used by start-ups or expanding businesses as a method of accessing alternative funding, not from conventional financial institutions. Crowdfunding is not a new

idea, it can be seen through the concept of microfinance in the 1700s. one of the notable examples is the Irish loan fund. Initiated by Jonathan Swift to provide credit to the poor in a country where more than 20% of all Irish households got the Irish loan fund. The loan concept gained popularity and peaked in the 1800s (Svobodova 2016). The transformation of the concept of microfinance and the concept of crowdsourcing through the internet gave birth to the concept of crowdfunding. Accordingly, the concept of crowdfunding is not a new concept, the factor that makes crowdfunding a new idea is due to technological developments.

Crowdfunding is categorized into four types, there are:

- 1) Reward crowdfunding, in this type, investors who buy shares get non-financial returns. The greater reward received when the greater the funds donated. The advantage for business people is that the costs for rewards are not expensive. Generally, to fund creative projects and use a multilevel system.
- 2) Donation crowdfunding is designed for charity or social projects, and commonly there is no reward for investors.
- 3) Debt crowdfunding means investors will get a return in the form of interest. The advantage of this funding is that business people get a source of capital that is cheaper than bank interest, it is easier to get support because investors get a return. However, this categorized business should have the revenue to bear the fixed cost.
- 4) Equity crowdfunding is where investors will get the return in the form of a small number of shares from business people. This type is suitable for business people who are focused on their business growth.

Typically, donation and reward models don't need to be regulated because they are only a private consumption or donation as a good deed (Soonpeel Edgar Chang 2018). Aside from that, equity crowdfunding inciting investors with financial tools and debt sites streaming gradually larger amounts with some risks must be separately regulated.

1.2 *Shariah* Crowdfunding

According to National *Shariah* Council (2018) information, Technology-Based Financing Services Based on Islamic Principles is the provision of financial services that connect funders/investors with recipients/SMEs to enter into financing contracts through an electronic system using an internet network based on *Shariah* principles. Biancone (2019) In general, crowdfunding is used to finance start-ups, small and medium enterprises, expansion projects, and capital increases. It is also used to finance all works, creative ideas, and works of art such as films and charity projects such as relief campaigns and others. It is based on the principle of social solidarity to serve an idea or a project, and the redistribution and better utilization of financial resources. This is in line with the essence of Islamic finance, which is considered a revolution in the financing methods in the Islamic world if properly invested. The practice of *Shariah* crowdfunding has been implemented in Indonesia for example Inveds.com, and BNI Wakaf Hasanah. The practice has various legal problems, namely Money Crimes Laundering, Cyber Crime, and the gap between Syar'an and Qanunan. The legal problems experienced by *Shariah* crowdfunding practitioners can be found solutions based on the *Shariah* compliance perspective. The solution is to ensure the identity of the prospective customer, the certainty of the identity of the organizer. Money Laundering crime prevention, cybercrime prevention, protection for people, and recipients of funds (Rasyid 2017). The total number of Islamic Crowdfunding Platforms Registered in Indonesia is presented in Table 1.

Table 1: Islamic Crowdfunding Platform Registered in Indonesia

No	Name	Website	Year Registered
1	Investree	Investree.id	2017
2	Ammana	Ammana.id	2017
3	Dana <i>Shariah</i>	Danasyariah.id	2018
4	Fintek <i>Shariah</i>	Finteksyariah.co.id	2019
5	Papitu <i>Shariah</i>	Papitusyariah.com	2019
6	Kapital boost	Kapitalboost.co.id	2019
7	Ethis	Ethis.co.id	2019
8	Bsalam	Bsalam.id	2019
9	Qazwa.id	Qazwa.id	2019
10	Duha <i>Shariah</i>	Duhasyariah.com	2019
11	Syarfi	Syarfi.id	2019
12	Alami <i>Shariah</i>	P2p.alamiShariah.co.id	2019
13	Danako	Danakoo.id	2019

Source : (Financial Services Authority 2021b)

1.3 Equity Crowdfunding

The concept of offering shares through crowdfunding or known as equity crowdfunding began to emerge in Indonesia. In simple terms, the equity crowdfunding platform exists to help businesses or projects to get funding with a joint mechanism. Then those who participate (investors) will get share ownership with an adjusted percentage. Those who invest their funds into a business or project will also receive the results later. Indeed, with different results and risks. *Shariah* Supervisory Board has issued regulations regarding equity crowdfunding as stated in Peraturan Otoritas Jasa Keuangan (POJK) Number 37 in 2018 concerning Crowdfunding Services through Information Technology-Based Share Offerings. According to *Shariah* Supervisory Board (2018) Equity crowdfunding is the provision of share offering services conducted by issuers to sell shares directly to investors through an electronic system using the internet network. Hornuf (2018) defines Equity crowdfunding is a category of crowdfunding, in which supporters expect financial compensation for their investment. To motivate the crowd to participate in the company's future profits, fundraisers in some jurisdictions offer equity stakes in private companies, limited liability companies (LLC), such as on portals such as Crowdcube or Seedrs.

There are three stakeholders in equity crowdfunding,

- 1) The companies who need funds, business actors who need funds tend to be companies with small business scales such as SMEs or startups because they are in accordance with the funds to be invested in small amounts. They are called publishers because they will submit ideas and requests for funding by issuing shares through an online portal intermediary called a crowdfunding platform to be offered to investors.

- 2) Intermediary institution or a equity crowdfunding platform, the equity crowdfunding platform acts as an intermediary institution that brings together investors and issuers.
- 3) Investors, investors will see investment opportunities and then commit to funding and then will get a return on the investment.

***Shariah* Compliance**

According to Widialoka and Hidayat (2016) *Shariah* compliance is the adherence of *Shariah* banks to the principles of *Shariah*. Currently, the public's understanding of the uniqueness and characteristics and products of *Shariah* banking is still very low, even *Shariah* banking is the same as conventional banking. Therefore, *Shariah* banking must ensure that *Shariah* banking products are in accordance with *Shariah* principles through *Shariah* compliance. *Shariah* compliance is a implementation of the fulfillment of Islamic principles in an institution that has integrity, credibility, and characteristics in Islamic banks. Where the compliance is the actions, behaviours, and values that support the creation of Islamic bank compliance with all Bank Indonesia regulations.

In the research from Mulazid (2016) he argues that the difference between the implementation of Good Corporate Governance (GCG) in Islamic and conventional banking lies in *Shariah* compliance. Meanwhile, the principles of transparency, honesty, prudence, discipline are universal principles that are also contained in conventional GCG rules.

According to (Arifin 2009) the meaning of *Shariah* compliance in Islamic bank is “the application of Islamic principles, *Shariah*, and its traditions in financial and banking transactions and other related business. In addition, Ansori (2001) also stated that *Shariah* compliances is an indicator of Islamic disclosure to ensure the compliance of Islamic banks with *Shariah* principled. This means that *Shariah* compliance is a form of accountability on the part of the bank in disclosing the bank’s compliance with *Shariah* principle. Meanwhile, with a more narrowed definition, (Adrian 2009) argues that the operational meaning of *Shariah* compliance is compliance with the Fatwa of The National *Shariah* Council because Fatwa is the embodiment of *Shariah* principles and rules that must be adhered to in *Shariah* banking. From the above opinions that have been explained by experts, it can be concluded that *Shariah* compliance is the application of *Shariah* values in financial institutions.

***Shariah* Board Supervisor**

In the research Nurhisam (2016) the task of National *Shariah* Council is to oversee the products of Islamic financial institutions so that they are in accordance with the provisions contained in *Shariah*. Therefore, National *Shariah* Council makes rules in the form of guidelines by reviewing, exploring , and formulation *Shariah* values and principles which are in the form of fatwas to be used as guidelines in transaction activities, products, service analysis in Islamic financial institutions. In Indonesia, the first level of supervision is called the *Shariah* Supervisory Board and the next level of supervision at the national level is called the National *Shariah* Council (Hafidhuddin 2003). The National *Shariah* Council (DSN) and the *Shariah* Supervisory Board are the parties responsible for ensuring compliance with *Shariah* principles in financial institutions. There are some fatwas of Islamic capital market that made by National *Shariah* Council in Indonesia which are presented in Table 2.

Table 2: List of Islamic Capital Market Fatwas That Made By National *Shariah* Council

No	Fatwa
1	Fatwa No. 20/DSN-MUI/IX/2001 concerning Guidelines for Investment Implementation for <i>Shariah</i> Mutual Funds
2	Fatwa No. 32/DSN-MUI/IX/2002 concerning Islamic Bonds
3	Fatwa No. 33/DSN-MUI/IX/2002 concerning Mudharabah <i>Shariah</i> Bonds
4	Fatwa No. 37/DSN-MUI/X/2002 concerning the Interbank Money Market Based on <i>Shariah</i> Principles
5	Fatwa No. 40/DSN-MUI/X/2003 concerning the Capital Market and General Guidelines for the Implementation of <i>Shariah</i> Principles in the Capital Market Sector
6	Fatwa No. 41/DSN-MUI/III/2004 concerning <i>Shariah</i> Ijarah Bonds
7	Fatwa No. 59/DSN-MUI/V/2007 concerning Convertible Mudharabah <i>Shariah</i> Bonds
8	Fatwa No. 65/DSN-MUI/III/2008 concerning <i>Shariah</i> Pre-emptive Rights (HMETD)
9	Fatwa No. 66/DSN-MUI/III/2008 concerning <i>Shariah</i> Warrants
10	Fatwa No. 69/DSN-MUI/VI/2008 concerning State <i>Shariah</i> Securities (SBSN)
11	Fatwa No. 70/DSN-MUI/VI/2008 concerning SBSN Issuance Method
12	Fatwa No. 71/DSN-MUI/VI/2008 concerning Sale and Lease Back
13	Fatwa No. 72/DSN-MUI/VI/2008 concerning SBSN Ijarah Sale and Lease Back
14	Fatwa No. 76/DSN-MUI/VI/2010 concerning SBSN Ijarah Assets To Be Leased
15	Fatwa No. 80/DSN-MUI/III/2011 concerning the Application of <i>Shariah</i> Principles in the Mechanism of Trading Equity Securities in the Regular Market of the Stock Exchange.

Source : (National *Sharia* Council, 2011)

The *Shariah* Supervisory Board has the most strategic role in the effort to fulfill *Shariah* compliance. This institution is the most responsible for *Shariah* compliance implementation. In this regard, the government has issued Law No. 40 of 2007 concerning Limited Liability Companies and Law No. 21 of 2008 concerning Islamic Banking. These two laws are a strong juridical basis for the existence of *Shariah* Supervisory Board to ensure the implementation of *Shariah* compliance in Islamic banking and financial institutions.

Based on Law No. 40 of 2007 Article 109 regarding the implementation of the *Shariah* compliance in Islamic banking and financial institutions, it can be concluded that

- 1) A companies carry out business activities based on the *Shariah* principle in addition to having a Board of Commissioners are required to have a *Shariah* Supervisory Board.
- 2) The *Shariah* Supervisory Board as referred to in paragraph 1 consists of one more *Shariah* expert who are appointed by the GMS on the recommendation of the Indonesian Ulema Council.

- 3) The *Shariah* Supervisory Board as referred to in paragraph 1 is tasked with providing advice and suggestions to the Board of Directors and supervising the Company's activities to comply with *Shariah* principles.

In line with Law No. 21 of 2008 Article 32 states :

- 1) The *Shariah* Supervisory Board must be established in *Shariah* Banks and Conventional Commercial Banks that Have UUS.
- 2) The *Shariah* Supervisory Board as referred to in paragraph 1 is appointed by the General Meeting of Shareholders on the recommendation of the Indonesian Ulema Council.
- 3) The *Shariah* Supervisory Board as referred in paragraph 1 is tasked with providing advice and suggestions to the board of directors as well as supervising the Bank's activities to comply with *Shariah* Principles.
- 4) Further provisions regarding the establishment of the *Shariah* Supervisory Board as referred to in paragraph (1) shall be regulated in a Bank Indonesia Regulation.

1.4 Small and Medium Enterprise

The definition of SMEs according to Constitution of Indonesia Republic No 20 (2008) on Small and Medium Enterprises sets limits on the criteria for SMEs as follows:

- 1) Criteria for Micro Enterprises are as follows:
 - a. Have net assets of not more than Rp.50,000,000.00 (fifty million rupiah) excluding land and buildings for business premises; or
 - b. Have an annual sales result of not more than IDR 300,000,000.00 (three hundred million rupiah).
- 2) Criteria for Small Businesses are as follows:
 - a. Have a net worth of more than Rp. 50,000,000.00 up to a maximum of Rp. 500,000,000.00 excluding building for business premises and land; or
 - b. Have an annual sales income of more than Rp. 300,000,000.00 up to a maximum of Rp. 2,500,000,000.00.

Some previous studies have focused on discussing the potential and challenges in implementing *Shariah* compliance of equity crowdfunding in Indonesia, Italy, and Malaysia. As well as research on the fundamentals, development, and challenges of Islamic Crowdfunding in the world. Based on previous research, there has been no research that analyzes *Shariah* compliance from the qualitative and quantitative aspects of SMEs registered on equity crowdfunding platforms in Indonesia. Accordingly, this study will fill the gap and contribute to the results of the analysis of *Shariah* compliance both from the qualitative and quantitative aspects of SMEs registered in equity crowdfunding and the results of examining a opportunities and challenges analysis of the implementation of *Shariah* compliance in equity crowdfunding in Indonesia.

2. Methodology

2.1 Type of Research

This study aims to analyze equity crowdfunding in form of a *shariah* compliance model in Indonesia. seeing from the type of data, the research approach of this study is the qualitative approach. This study will discuss the operation of equity crowdfunding in Indonesia, tries to evaluate the equity crowdfunding system with a *shariah* compliance approach and finally, the researcher will explain the opportunities and challenges analysis in the implementation of *shariah* compliance in equity crowdfunding in Indonesia. In this research there are several methods such as the following

- 1) Examining *Shariah* compliance aspects of small and medium enterprises, both from the core business that is run and the financial statements presented.
- 2) Examining the opportunities and challenges analysis of the implementation of *Shariah* compliance in equity crowdfunding in Indonesia.

2.2 Data Source

The data needed in this study are primary and secondary data:

- 1) For primary data, researcher collects reports related to business profiles and financial reports of SMEs from the equity crowdfunding platform directly in Indonesia.
- 2) For Secondary Data, this study takes in the form of literature review, National and International journals such as Elsevier, Emerald, and etc, books, scientific database, library research including guidelines, statues, and reports.

2.3 Data Analysis Technique

This study uses inductive and deductive analysis, by assessing *Shariah* compliance aspects in Small Medium Enterprises (SMEs) that registered on the equity crowdfunding platforms in Indonesia. The evaluation and compliance process is based on criteria, divided into categories, namely from quality and quantity criteria, after obtaining the results of the quantitative and qualitative analysis, the researcher continued to analyze opportunities and challenges of *Shariah* compliance implementation in equity crowdfunding in Indonesia.

Assessing *Shariah* compliance with a qualitative and quantitative approach

The qualitative criteria are related to the company's business activities that must be in accordance with *Shariah* and the quantitative criteria are the financial statements and financial levels that need to be checked, and the results must not exceed the specified threshold. Therefore, by controlling for qualitative and quantitative criteria, both from the activity and financial structure of the company, both categories must be met in order to be classified as *Shariah* compliant.

- 1) In accordance with what we have discussed about the main concepts and principles of *Shariah*, a company must conduct its operations in *Shariah* compliant activities and avoid all activities that are *haram*. The activity must clearly cover all production lines. Based on the regulation of the Chairman of Bapepam-LK Number: KEP-208/BL/201235 concerning the criteria and issuance of a list of *shariah* securities contained in regulation II.K.1 states that the business activities and methods of managing the business of a public company are carried out based on *shariah* principles.
- 2) In terms of financial statements, according to the Islamic Index, it is necessary to put attention to several things, such as:

Table 3: Islamic Index

The level of debt ratio	$(\text{Total Debt} / \text{Total Assets}) < 33\%$
Interest ratio	$(\text{Cash} + \text{interest-bearing securities}) / \text{Total assets} < 33\%$
Liquidity ratio	$\text{Cash} + \text{Receivables} / \text{Total assets} < 33.33\%$
Income ratio	$\text{Disallowed income} / \text{income} < 5\%$.

The criteria for financial ratios (quantitative), if considered are more based on screening financial ratios on the company's financial performance which are allowed according to *shariah* principal. These criteria concern the source of funds from debt and the maximum amount of non-halal income. *Shariah* companies that get financing funds or sources of funds from debt on the *shariah* index in Indonesia are the total number that uses interest not exceeding 0,82% of the total equity. this ratio is equivalent to 45% of the total allowable debt.

Descriptive Analyze of the opportunities and challenges of *Shariah* compliance implementation in equity crowdfunding in Indonesia.

After knowing the results of the quantitative and qualitative analysis, a mapping was conducted on the *Shariah* compliance model in Equity crowdfunding in Indonesia through descriptive analysis using the opportunities and challenges analysis of the implementation of *Shariah* compliance in equity crowdfunding in Indonesia.

To answer questions related to the operational system of equity crowdfunding in Indonesia, we will use a literature study approach from several journals and laws regulated in Indonesia. Subsequently, in analyzing *Shariah* compliance in the equity crowdfunding system in Indonesia, we will use qualitative and quantitative analysis approaches. After understanding the equity crowdfunding operational with the qualitative and quantitative analysis approaches, the researcher will map the opportunities and challenges analysis on the implementation of *Shariah* compliance in the equity crowdfunding system in Indonesia.

3. Result and Discussion

3.1 Equity Crowdfunding Operation in Indonesia.

The concept of crowdfunding is to raise funds on a small scale but take from a large number of people. Therefore, it is significant funds are collected. Crowdfunding is managed by a platform called an internet-based platform that is simple to access. After the development of the crowdfunding system in Indonesia such as donation crowdfunding which functions to raise funds for social activities such as helping poverty, helping those in need, helping build housing, and many others. Currently, the startup crowdfunding business is growing rapidly until new innovations related to equity crowdfunding appear. This has promoted the Financial Services Authority (OJK) to issue draft regulations regarding the collection of public funds through information technology-based stock offering (equity crowdfunding). equity crowdfunding is the provision of share offering services carried out by issuers to sell shares directly to investors through an electronic system using the internet network. The existence of these innovations can be an alternative source of funds for small businesses for capital.

The equity crowdfunding system in Indonesia is regulated in law No. 37/ POJK.04 / 2018 regarding crowdfunding services through Information technology- based stock offerings. to date, there are 3 companies officially registered with the Financial Services Authority, including Santara, Bizhare, and CrowdDana (Financial Services Authority 2021).

Equity crowdfunding has similarities with a capital market investor such as issuer, investor, and equity crowdfunding platform. In the system of equity crowdfunding, share offerings are carried out by the issuer to offer shares directly to investors through an online electronic system. Subsequently, the disbursement of funds of hereinafter referred to as the issuer is an Indonesian legal entity in the form of a Limited Liability Company with a total paid-up capital of not more than Rp 30.000.000.000. the difference between equity crowdfunding and public offerings in the capital market as regulated in the law are (Financial Services Authority 2018):

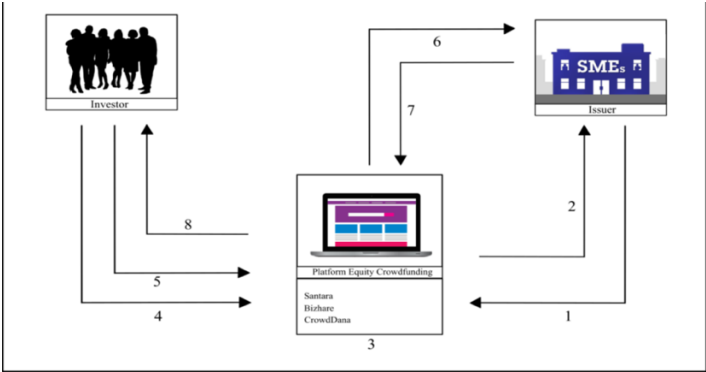
- 1) The share offering is made through a provider that has obtained a license from the Financial Services Authority;
- 2) The share offering is made within a maximum period of 12 months; and
- 3) The total funds raised through the offering of shares are at most Rp. 10,000,000,000.00
- 4) The Financial Services Authority may determine the total value of fundraising other than the value as referred to in paragraph (1) letter C.
- 5) The determination of the total values of the collection of funds as referred to in paragraph (2) is carried out by means of a Circular Letter of the Financial Services Authority.

The issuer is not a public company as referred to in regulation Number 8 of 1995 concerning the Capital Market if:

- 1) The number of shareholders does not exceed more than 300 parties; and
- 2) The total paid-up capital does not exceed than Rp. 30,000,000,000.

In running the equity crowdfunding system, three companies (Santara, Bizhare, and CrowdDana) registered in the Financial Services Authority will refer to the mechanism which presented in Figure 1:

Figure 1: The Scheme of equity crowdfunding operational in Indonesia



- 1) Small Medium Enterprises (SMEs) Submit the completeness of the documents to the organizer. In raising funds through Crowdfunding Services, SMEs or Issuers are prohibited from being:
 - a. A business entity that is controlled either directly or indirectly by a business group or conglomerate;
 - b. A public company or a publicly listed subsidiary; and
 - c. A business entity with a net worth of more than Rp. 10,000,000,000.00 (ten billion rupiahs), excluding land and buildings for business premises. The financial services Authority may set limits as an Issuer other than the limits as stipulated in paragraph.
- 2) The Operator reviews the documents submitted by the publisher
- 3) The operator will display the issuer's share offering on the organizer's platform. Some of the information displayed on the equity crowdfunding platform is as in Table 4:

Table 4: The Information Displayed on the Equity Crowdfunding Platform

No	Information Description
1	Business Profile
2	Share Information
3	Cost Project
4	Dividend Period
5	Financial History
6	Project Investment Profile
7	Rules of Financial Services Authority

- 4) Investor Register on the organizer's platform

- 5) Investors purchase the issuer's shares through the organizer and perform through an equity crowdfunding account. Criteria for Investors and restrictions on the purchase of Securities as referred to in in Regulation No. 37/ POJK.04 / 2018 paragraph (1) letter C include (Financial Services Authority 2018) :
 - a. Every investor with an income of up Rp. 500,000,000 per year; and investors with an income more than Rp. 500,000,000.00 per year may purchase Securities through Crowdfunding Services at a maximum of 10% (ten percent) of the income per year.
 - b. In the event that the investor is a legal entity and the parties who have experience investing in the capital market as evidenced by the ownership of a Securities account for at least 2 years prior to the offering of securities, the criteria for investors and restrictions on the purchase of Securities by Investors as referred to in paragraph (3) do not apply.
- 6) The operator Submits investor funds to the issuer
- 7) The issuer submits the issuer's shares to the organizer
- 8) The organizer surrenders the issuer's shares to the investor. As for equity crowdfunding companies that have been registered with the Financial Services Authority as presented Table 5;

Table 5: List of equity crowdfunding companies in Indonesia

No	Company	License Certificate	Date Registration	SMEs Registered
1	Santara	Kep. 59 / D.04 / 2019	06 September 2019	90 SMEs
2	Bizhare	Kep. 71 / D.04 / 2019	06 Novemeber 2019	51 SMEs
3	Crowddana	KEP93/D.04/2019	31 Desember 2019	10 SMEs

Source (Financial Services Authority 2021)

In carrying out the operations of an equity crowdfunding company, it is disallowed to operate several things as regulated in article 17 of POJK No. 37/POJK.04/2018 regarding equity crowdfunding, namely:

- 1) To conduct business activities other than the provider's business activities as regulated in this Financial Services Authority Regulation, except:
 - a. Business activities as a securities underwriter, securities broker, and investment manager in the event that the operator is a securities company, and
 - b. Information technology-based service providers that have been registered and have a license from the Financial Services Authority;
- 2) Has an affiliated relationship with a publisher using crowdfunding services?
- 3) Provide financial assistance to Investors to invest in issuer shares using crowdfunding services.
- 4) Provide investment advice and recommendations to investors and prospective investors to invest in Issuers.
- 5) Provide gifts or compensation to parties who provide information about potential investors;
- 6) Has a affiliated relationship with an publisher using crowdfunding services;
- 7) Provide financial assistance to investors to invest in issuer shares using crowdfunding services;
- 8) Provide investment advice and recommendations to investors and prospective investors to investors in issuers;

- 9) Provide gifts of compensation to parties who provide information about potential investors;

3.2 Qualitative Analysis

In this part, the researcher tries to analyze the core business of SMEs listed on the equity crowdfunding platform in Indonesia in accordance with *shariah* compliance, as for some things that are forbidden in Islamic include alcohol, products related to pork, pornography, tobacco, gambling, interest-bearing financial services (conventional banks and insurance companies), weapons and defence, genetic engineering of human and animal biology (cloning), media and advertising companies with the exception of news channels, newspaper, and sports. Controlling these assets within the company is considered an important step and phase in assessing whether the business is *shariah*-compliant or not. Referring to the fatwa of the National *Shariah* Board-Indonesia Council of Ulama and Capital Market and Financial Institution Supervisory Agency regarding *Shariah* screening, which regulates types of activities that are contrary to *Shariah* and are not allowed to operate according to *Shariah* rules. The regulations are as follows:

- 1) The Criteria of Sharia Screening according to the National *Shariah* Board-Indonesia Council of Ulama. The fatwa of the National *Shariah* Board-Indonesia Council of Ulama number: 40/DSNMUI/X/2003 Article 3 paragraph 2 regarding issuers issuing *Shariah* Securities (National *Shariah* Council 2003):
 - a. Gambling (*maysir*) and games classified as gambling;
 - b. Conventional financial institutions;
 - c. Producers, traders, and distributors of *haram* goods and services; and
 - d. Investing in companies which at the time of the transaction of the level (ratio) of the company's debt to the usurious financial institution is exceed dominant than its capital.
- 2) The decision of the Chairman of Capital Market and Financial Institution Supervisory Agency Number: KEP -181/BL/2009 concerning the Issuance of *Shariah* Securities:
 - a. Gambling and games classified as gambling;
 - b. Providing financial Services that apply the of usury (*Riba*);
 - c. Buying and selling risks that contain uncertainty (*gharar*) and or gambling (*maysir*) including conventional insurance;
 - d. Producing, distributing, trading, and providing goods or services that are unlawful because of their substance and goods or services can damage morals and are harmful;
 - e. Conduct transactions that contain elements of bribery (*Risywah*).

From 154 SMEs registered on three platforms (Bizhare, Santara, and Crowddana), which consists of the core business can be summarized as in Table 6:

Table 1 : Summary Of Business Sector In Equity Crowdfunding in Indonesia

No	Sector	SMEs Registered	Investment
1	Livestock	22	Rp 208.879.249.600
2	Farm	6	Rp 115.019.984.800
3	Food and Bavarage	73	Rp 204.251.577.600
4	Processing industry	2	Rp 70.654.242.800
5	Property	8	Rp 43.125.988.000
6	Retail	27	Rp 184.003.749.600
7	Service	14	Rp 172.938.599.600
8	SPBU Shell	2	Rp 157.819.227.600

Source: Data processed by the researcher

From all SMEs registered on the equity crowdfunding platform to date, all of them are in accordance with *Shariah* rules, in this case, there are no business activities that include pork, Pornography, gambling (*maysir*), interest-bearing financial services, weapons, genetic engineering of human and animal biology.

However, in the application of funds for SMEs, there are no specific rules regarding *Shariah* screening. All types of core businesses are allowed to register for funding applications to develop businesses listed in equity crowdfunding. It is very necessary for regulations related to *Shariah* compliance so that they can determine specific criteria for businesses that want to register in accordance with *Shariah* rules.

3.3 Quantitative Analysis

In this section, the researcher tries to analyze the financial report of SMEs provided on the equity crowdfunding platform in Indonesia in accordance with *Shariah* compliance, Based on the regulation of the Head of Bapepam-LK Number: KEP-208/BL/201235 concerning the criteria and issuance of a list of *Shariah* securities contained in regulation II.K1, which does not exceed the following financial ratios (Capital Market Board of Indonesia 2012):

- 1) Total interest-based debt does not exceed 82% compared to total equity (interest-based debt does not exceed 45%:55% compared to total equity).
- 2) Total non-halal income and interest income do not exceed 10% compared to total revenue.

All SMEs registered in the equity crowdfunding platform must provide financial reports to the equity crowdfunding company as stipulated in the law as follows;

- 1) The issuer is required to provide financial reports every month. Including a monthly profit and loss statement.
- 2) Issuers are required to provide financial reports every six months. At least covering the following reports:
 - a) Income Statement
 - b) Balance Sheet
- 3) The distribution of dividends must be made by the Issuer to the Investor with a total percentage share of the net profit of the issuer for dividends according to the share of the Investor.
- 4) Issuers are required to pay feed and annual fees to the operator.
- 5) Issuers are required to determine the period of time for dividends for Investors as stipulated in the deed of articles of association of the issuer.

The financial statements presented by SMEs registered on the Indonesian equity crowdfunding platform that referred the financial reports of SMEs. From the financial statement, it can be seen that there are no specific regulations that require listed businesses to follow several rules, such as the level of debt ratio must less than 33%, the level of interest ratio less than 33%, the level of liquidity ratio less than 33,33%, and the level of disallowed income ratio less than 5%. There are several SMEs registered on the equity crowdfunding platform that do not meet the *Shariah* compliance criteria in terms of the quantitative aspect where the debt ratio exceeds 33%. This can be seen from the proposal reports of several SMEs which only present a Financial Summary Balance Sheet (Assets and Liabilities), and all SMEs present a Profit and Loss Summary, Total Project Cost, and an illustration of the calculation of the profit-sharing scheme.

In order to keep the equity crowdfunding activities running in accordance with the regulations made by the financial services authority, the equity crowdfunding operators must report several reporting to the Financial Services Authorities as regulated in regulation as follows (Financial Services Authority 2018);

- 1) Platforms who have obtained permits are required to submit reports to the Financial Services Authority, namely:
 - a. Semi-annual report;
 - b. Annual report; and
 - c. Incidental reports
- 2) The semi-annual report as referred to in article 18 A must contains:
 - a. An overview of important financial data;
 - b. Operational activity report covering the number of issuers, the number of Investors in each issuer, the number of shares offered by each issuer, and the number of funds raised by each issuer.
 - c. User complaint report is accompanied by follow-up for compliant settlement if there is a complaint; and
 - d. Issuer's violation report, if the issuer commits a violation.
- 3) If necessary, the Financial Services Authority may request additional information or data from the platform.
- 4) The semi-annual report as referred to in paragraph (1) is submitted in the form of physical documents and electronic documents.
- 5) The semi-annual report as referred to in paragraph (3) is submitted to the Chief Executive of the Capital Market Supervision no later than 10 working days in the following month with a semi-annual report submission letter in the form and content in accordance with the format of the semi-annual report submission letter listed in the attachment which is an integral part of this Financial Services Authority Regulation.

3.4 Opportunities and challenges analysis in implementing *Shariah* compliance model of equity crowdfunding in Indonesia.

In this part, after discussing the mechanism of equity crowdfunding operation in Indonesia with the qualitative and quantitative approach, the researcher tries to examine the Opportunities and challenges Analysis in implementing the *Shariah* compliance model of equity crowdfunding in Indonesia.

Opportunities in implementing *Shariah* compliance model in equity crowdfunding in Indonesia.

SMEs need a funds to develop their business.

Based on data from the (Ministry of Cooperatives and SMEs 2021), the number of SMEs reached 64.200.000.000 with a contribution of 61.07 percent of Gross Domestic Product or Rp. 8,573.89 trillion. SMEs are able to absorb 97 percent of the total workforce, and can collect up to 60,42 percent of the total investment in Indonesia. Recorded since the issuance of the first license for equity crowdfunding in Indonesia on 06 September 2019 to date, the total funds collected around Rp.1,042,619,397,800 to finance the business development of 151 SMEs registered on 3 equity crowdfunding platforms in Indonesia.

Equity crowdfunding regulations are contained in the law

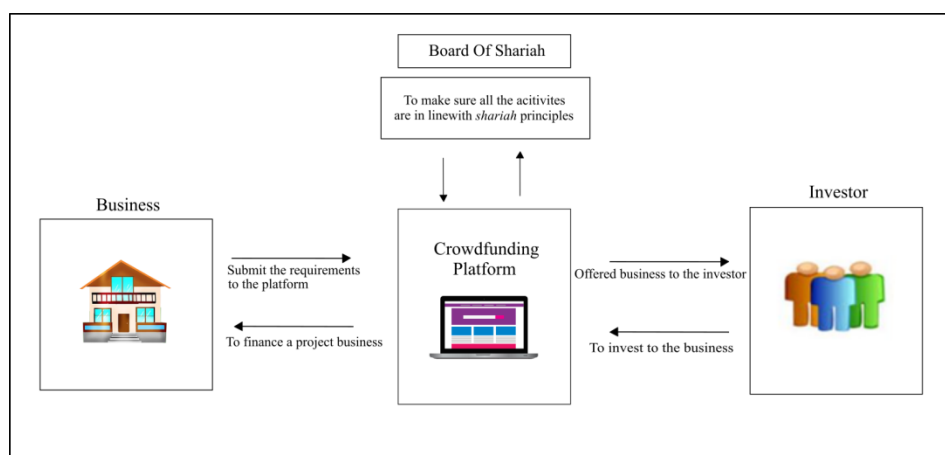
The development of the equity crowdfunding system in Indonesia, with the need for capital for the development of SMEs in Indonesia, potential investors to invest in start-up/SMEs businesses, and accompanied by the existence of an equity crowdfunding platform that is starting to be recognized by the Indonesia people. This has prompted several policymakers to issue laws to support the development of the equity crowdfunding system in Indonesia. Some of legal regulations that have been contained in the legality of the law are as in Table 7:

Table 2 : List of Equity Crowdfunding Regulations

No	Regulation	Year
1	Regulation of the Financial Services Authority of the Republic of Indonesia Number 37 /POJK.04/2018 Regarding Crowdfunding through Information Technology-Based Stock Offerings (Equity Crowdfunding)	2018
2	Regulation of the Financial Services Authority of the Republic of Indonesia Number 57 /POJK.04/2020 Regarding Crowdfunding through Information Technology-Based Stock Offerings (Equity Crowdfunding)	2020

With the above laws, it will be a step to make regulations that contain *Shariah* equity crowdfunding in Indonesia.

Shariah crowdfunding is a crowdfunding platform designed to meet *Shariah* principles, which is a collective effort (individuals or organizations) to collect/raise funds to fund projects, provide personal or business financing, or other needs through the platform in accordance with *Shariah* principles. There are 13 *Shariah* crowdfunding registered with the financial services authority in Indonesia, this can be a reference for implementing *Shariah* equity crowdfunding in Indonesia.



From the Figure 2, it can be seen that the function of the *Shariah* Supervisory Board is to oversee and ensure that crowdfunding activities run according to Islamic principles.

3.5 The threats in implementing the *Shariah* compliance model in equity crowdfunding in Indonesia

Risk of Default

One of the biggest risks in investing in equity crowdfunding is the failure of the venture being invested. If the business fails, then the value of the investor's investment can be lost. Especially, if the business does not have valuable assets to be liquidated and distributed to shareholders.

In fact, equity crowdfunding appears to be able to offer financial solutions to issuers seeking additional funds to develop their business. However, in reality may only benefit one party. Retail investors will most likely lose their investment due to the adverse choices of business that the equity crowdfunding platform offers, equity investment in SMEs is at risk of failure due to the entrepreneur's dependence on debt and lack of efficiency (Haniff 2019).

Risk of *Shariah* Legal

The Islamic financial system is based on Maqashid Al-Syariah (*Shariah* objectives), which is a set of principles aimed at bringing prosperity to individuals and society. However, the emergence of equity crowdfunding can be a solution because it provides a platform for retail investors to gain the same investment opportunities as major industry players, based on the principles of wealth distribution and risk sharing and offers SMEs access to capital to develop their businesses (Haniff 2019). In addition, equity crowdfunding both before and post the campaign in accordance with Islamic principles follows the same principles of Islamic finance such as the prohibition of interest, transparency in transactions, honesty, and social responsibility.

1) Before the campaign

The equity crowdfunding platform must give more attention to core businesses run by startups/Small Medium Enterprises that are related to *Shariah* compliance, including financial reporting reported by Small Medium Enterprises. Screening every business in accordance with Islamic principles is the basis for carrying out equity crowdfunding activities in Indonesia.

2) Post campaign

After the campaign, the Equity crowdfunding platform must monitor business activities carried out by startups/Small Medium Enterprises accordingly that they are always in line with *Shariah* compliance both from business activities and financial reporting which will be seen by the *Shariah* supervisory board.

Conclusion

The crowdfunding system is growing rapidly in Indonesia, subsequently followed by one type of crowdfunding, namely equity crowdfunding which is increasingly widespread in Indonesia. All the laws correlated with the equity crowdfunding operational and system in Indonesia is regulated in Regulation Number. 37/ POJK.04 / 2018 and Number.57 /POJK.04/2020 concerning crowdfunding services through Information Technology- Based Stock Offerings (Equity Crowdfunding). There are 3 companies officially registered with the Financial Services Authority as in Table 8;

Table 8: Officially registered platforms with the Financial Services Authority

No	Platform	Company	License Certificate	SMEs Registered
1	Santara	PT. Santara Daya Inspiratama	Kep. 59 / D.04 / 2019	92 SMEs
2	Bizhare	PT. Investasi Digital Nusantara	Kep. 71 / D.04 / 2019	52 SMEs
3	Crowddana	PT Crowddana Teknologi Indonesia	KEP93/D.04/2019	10 SMEs

For the core businesses run by SMEs in equity crowdfunding in Indonesia, 154 SMEs registered on the equity crowdfunding platform, where the businesses are livestock, farm, food and beverage, property, processing industry, property, retail, services and shell gas stations

businesses. All of them are in accordance with *Shariah* rules, in this case, there are no business activities that include pork, pornography, tobacco, gambling, interest-bearing financial services, weapons, genetic engineering of human and animal biology. However, it is very necessary for regulations related to *Shariah* compliance so that they can determine specific criteria for businesses that want to register in accordance with *Shariah* rules.

In terms of quantitative, it can be seen that there are no specific regulations that require listed businesses to follow several rules, such as the level of debt ratio must less than 33%, the level of interest ratio less than 33%, the level of liquidity ratio less than 33,33%, and the level of disallowed income ratio less than 5%. There are several SMEs registered on the equity crowdfunding platform that do not meet the *Shariah* compliance criteria in terms of the quantitative aspect. This can be seen from the proposal reports of several SMEs which only present a Financial Summary Balance Sheet (Assets and Liabilities), and all SMEs present a Profit and Loss Summary, Total Project Cost, and an illustration of the calculation of the profit-sharing scheme.

After analyzing the equity crowdfunding system in Indonesia and analyzing *Shariah* compliance in terms of qualitative and quantitative. Several of the opportunities to develop an equity crowdfunding system in the form of *Shariah* compliance model are SMEs need a funds to develop their businesses because SMEs are the backbone of the Indonesian economy because they have a lot of contributions both from employment and contributing to the country's GDP and Equity crowdfunding regulations are contained in the law made the initial steps to propose regulations related to *Shariah* equity crowdfunding in Indonesia, and *Shariah* crowdfunding has been implemented in Indonesia. For the challenges of equity crowdfunding in the *Shariah* compliance model are the risk of default because one of the biggest risks in investing in equity crowdfunding is the failure of the venture being invested and *Shariah* legal risk both before and after equity crowdfunding activities. The implementation of *Shariah* compliance in the equity crowdfunding system can be done by making regulations on *Shariah* compliance, and supported by the role of the *Shariah* supervisory board in the equity crowdfunding structure to ensure that all activities run according to Islamic principles.

So that the discussion of this paper is not widespread, this paper is limited to explain the operational mechanism in equity crowdfunding companies in Indonesia and to analyze the strengths, weaknesses, opportunities, and threats of implementing *Shariah* compliance in the equity crowdfunding system in Indonesia.

Based on the conclusions of this study, the researcher recommends to the relevant institutions to make laws for *Shariah* compliance in equity crowdfunding by placing the role of the *Shariah* supervisory board in the equity crowdfunding structure and for future researchers who are interested in conducting research with related themes or topics, it is still there are parts of the discussion in the paper that can be further and more in-depth in order to produce even better results.

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