



Social Security Equitycrowdfunding as Funding Optimization for Micro and Winning Small Enterprises (MSMEs)

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Abstract. Although it acts as one of the supporters of the national economy, the existence of MSMEs cannot be separated from funding problems. The low ability to access capital from banks makes MSMEs often entangled in the debt system that harms MSMEs. This study aims to develop a capital fertilization approach together with the concept of *family (social security crowdfunding)* for MSMEs. This research uses a development approach (*Research and Development*) which consists of 3 (three) stages, namely the preliminary study stage, the model preparation stage and the expert validation stage. The results of the study explained that currently there has been a development of a financial technology-based funding model with the concept of security crowdfunding. Although the existence and function of security crowdfunding is beneficial for the development of MSMEs. However, the concept of security crowdfunding in its journey has become a practice of capitalism in MSMEs. The concept of *social security equitycrowdfunding* was developed with a plasma core-based partnership model in providing funding by investors to MSMEs. This concept not only places MSMEs as an investment locomotive for investors to generate profits, but also provides an opportunity for MSMEs to exploit their resources with a profit-sharing pattern.

Keyword: Social Security Equitycrowdfunding · Funding · MSMEs

1 Introduction

Economic development in Indonesia cannot be separated from the strategic role of Micro, Small and Medium Enterprises [1]. It is proven that the number of MSMEs in Indonesia reached 62,922,617 business units in 2020 or equivalent to 99.99% of the total number of business units in Indonesia [2]. In addition, MSMEs are also able to absorb the number of workers amounting to 97% of the entire national workforce [3]. This condition shows that the position of MSMEs is very strategic and can be a stimulator for national economic growth [4].

Although it has a strategic role, the contribution of MSMEs to the national Gross Domestic Product (GDP) is somewhat inferior to large-scale businesses. It was recorded that in 2020 MSMEs only contributed 56% of GDP compared to large-scale businesses that were able to contribute 44% of GDP with only 2% of the number of business units in Indonesia. Ibrahim & Verliyantina [5] stated that the main problem for MSMEs is access to capital which is still very limited. This condition is due to the large number of MSMEs that are not *yet bankable* [4]. Therefore, an innovative funding model that is applicable and able to support the performance of MSMEs in Indonesia is needed.

This concept has then developed with the *security crowdfunding* (SCF) model. SCF is a method of collecting funds with a joint venture scheme carried out by investors to business owners. Later investors can buy and get a letter of joint ownership. The existence of SCF already has a legal umbrella from the Financial Services Authority (OJK) which is regulated in the OJK Regulation, namely POJK Number 57 / POJK.04 / 2020 concerning Securities Offering through Information Technology-Based Crowdfunding Services. Irmawati, S et al., [6] stated that SCF is able to act as a medium of funding and investment for MSME actors or *start-ups* in Indonesia.

The development of the SFC funding model is inseparable from the project-based initial funding model (P2P Landing). In its development, the concept of project-based funding is considered to be only profitable for investors who have capital because they do not bear the risk of projects carried out by MSMEs. This condition is considered to be detrimental to MSMEs because the majority of MSMEs do not have qualified risk management to manage projects properly. Therefore, the ownership-based investment model is expected to provide responsibility to investors related to the continuity of the MSME business.

The results of previous research searches show that research on *SCF* has several topics, including the motivation of people to participate in business funding ([7–10]), the use of *crowdfunding platforms* in supporting business funding ([11, 12], Sitanggang, 2018) and the use of *crowdfunding* for funding [13–15]. Based on the results of the analysis from previous studies, manyoritas researchers are still discussing funding using the *security crowdfunding model*. Although the existence and function of *security crowdfunding* is beneficial for the development of MSMEs. However, the concept of *security crowdfunding* in its journey was used as a practice of capitalism in MSMEs. This will certainly not be good for the journey of the MSME business in the long term.

Based on an analysis of the conditions and needs of MSMEs for alternative funding models for ongoing businesses, researchers are interested in developing a business ownership-based MSME funding model with a partnership approach between investors and business owners (Social Security Equitycrowdfunding). Through the results of this research, it is hoped that it will be able to make a positive contribution to the development of MSMEs in Indonesia and to equalize the level of economic welfare in Indonesian society.

2 Literature Review

a. *Financial Technology based on Equitycrowdfunding*

The term *financial technology* (fintech) has been popular since 150 years ago [16]. The emergence of fintech for the first time is a financial transaction that occurs between countries using telegraph cable media in 1866 can be categorized as the first generation fintech or it can also be called Fintech 1.0. Then, from 1967 to 2008, the financial sector began to be digitized due to the rapid development of communication and transaction technology and this period was known as Fintech 2.0. Since 2008, the Fintech 3.0 era began which was marked by the development of many *start-ups* and many technology companies that began to offer financial products and services directly to businesses and the public, including to banks (Saputra & Supangkat, 2018).

Fintech is a new financing model that has changed the business model from conventional to digitalization (*equitycrowdfunding*), which previously had to be face-to-face transactions can now make online transactions in a relatively very short time without face-to-face [17]. *Equitycrowdfunding* is an implementation of *financial development technology* (Fintech). With such conditions, fintech becomes a new primadoma for investing (*Equitycrowdfunding*) in a business unit [18].

b. *Social Security Equitycrowdfunding for MSMEs*

Belleflamme et al. [19], the phenomenon of *crowdfunding* is a relatively new phenomenon. The concept of *crowdfunding* referred to by Belleflamme et al. [19] comes from a larger concept, namely *crowdsourcing*. In *crowdsourcing*, *crowd* is used to get ideas, opinions, inputs, and solutions, whereas in *crowdfunding*, the specific result expected from crowd is funds ([19, 20]. Belleflamme et al., [19] offer the definition of *crowdfunding* as an open invitation, especially through the Internet, to provide financial resources, either in the form of donations or exchanges with the product to be produced or in other forms of appreciation to support the initiation of a specific goal. Similar to the definition from Dresner [21] defines crowdfunding as cooperative cooperation by people who collect their money which is usually done through the internet to support efforts started by other people or organizations.

The concept of crowdfunding in which charitable organizations raise funds from the community to fund a project or philanthropic issue has existed since thousands of years ago ([9, 21]). Gras et al. [22] said that this phenomenon of philanthropic issues is the forerunner of the emergence of the concept of *social security crowdfunding*. It is hoped that through the concept of *social security crowdfunding*, it will be able to contribute to the economy through strengthening MSMEs in Indonesia. In order to increase the role of Fintech in the MSME financial ecosystem, it is necessary to expand access to financial services for people in Indonesia [23]. The presence of Fintech which combines financial services and technology will greatly assist the community in carrying out investment activities for MSMEs [24].

The presence of fintech will be very helpful for MSMEs in accessing capital that has been known to be unbankable. Therefore, MSMEs have high hopes for the development of Fintech in developing businesses so that they are able to compete and contribute to

the national economy [25]. This is where Fintech plays a role in providing solutions for MSME business actors [26].

3 Method

Based on the research problems described above, this research was carried out using a development approach (*Research and Development*). Borg and Gall [27] contain a systematic guide to the steps taken by the researcher so that the product he designs has a feasibility standard. The following are the Steps in development research (Fig 1).

The approach in this study is divided into 3 (three) stages, namely.

Preliminary Study Stage

At this stage, what is carried out is to conduct a preliminary study of 20 MSMEs in Blitar and Malang Regencies. The results of the preliminary study will result in the formulation of the design of *the Social Security Equitycrowdfunding* model.

Stage Model Drafting

At the next stage is to carry out the compilation of the model from the results of the design produced in the previous stage. The output of this stage is *the Social As Simple As Equitycrowdfunding* model as an initial form of model that is ready to be tested for expert validity.

Expert validation stage

The expert validation stage is carried out with the aim of obtaining assessments and input from experts on the material and models that have been compiled. This stage becomes very important before being tested by users. Before conducting expert validation (application and material) first conduct a validity and reliability test.

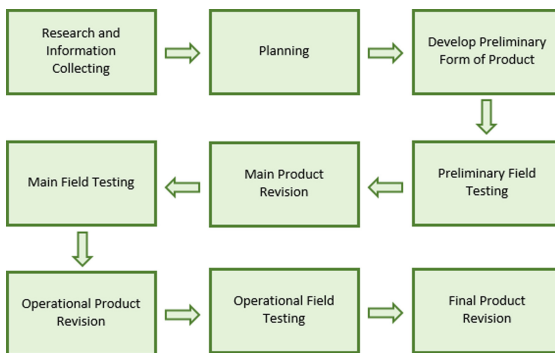


Fig. 1. Development Approach (customized)

4 Results and Discussion

a. Development of an *Equitycrowdfunding-based* funding model

In addition to the sources of funding that come from the money market and capital market, at this time there is a lot of discussion about the funding model that comes directly from the community. The first concept that emerged was a project-based funding model better known as *Peer Too Peer landing* (P2P Landing). This funding model allows business units to get additional capital from the community through profit-sharing agreements. In its journey, this model has received criticism, especially on the investment risks that are too large for lenders (investors) related to the accountability of the performance of business units that receive investment funds. In addition, for the P2P Landing model work unit, it also provides a debt burden that must be borne based on the agreement that has been agreed.

Based on the criticism of Landing's P2P model, an ownership-based funding model emerged that was equity crowdfunding. The funding model that we know as Crowdfunding itself is a model of investment (funding) to finance projects or business units. A site called Artistshare is an implementation of the crowdfunding concept that was first coined in the United States in 2003. The site was born because musicians are trying to find funding capital from their fans in order to produce their work. This action provided ideas for the emergence of other crowdfunding sites such as Kickstarter which was involved in funding the creative industry in 2009 and Gofundme which managed funding for various events and businesses in 2010. It is different from the Crowdfunding model which emphasizes jointly financing business projects., the concept of equity funding is more like stocks, investors will invest their funds in MSMEs with compensation for business ownership and distribution of profits in the form of dividends.

In Indonesia, the equityfunding model has been legitimized through the Financial Services Authority Regulation (POJK) number 0.37/POJK.04/2018 concerning Crowdfunding Services Through Information Technology-Based Stock Offerings (Equity Crowdfunding). Nonetheless, the practice of crowdfunding in Indonesia is still not very popular. Armed with the enormous potential to become an investment fundraising instrument, the government needs to introduce more alternative funding based on business ownership (crowdfunding). This is in addition to its contribution to the growth of MSMEs, Crowdfunding also has a relatively easy level of use and is already internet-based so that it can be accessed by everyone.

b. *Security Equitycrowdfunding* Model for MSMEs

In the midst of the Covid-19 pandemic as it is now, funding sources for capital strengthening are indeed one of the main obstacles for MSMEs in continuing their business. The turnover that can be obtained optimally under normal conditions, now even many are unable to return their capital and even quite difficult to maintain their business continuity. Equity crowdfunding is one of the funding solutions for MSMEs with crowdfunding methods from various individual or institutional investors through digital platforms. In it there are various parties, MSMEs as parties who need funds, companies as intermediation institutions, and investors as parties who have excess funds and invest their funds through the digital platform.

Compared to *equity crowdfunding*, *security crowdfunding* has a more diverse offering of securities in funding businesses and MSMEs. The bidding and transaction system of these two instruments is carried out entirely online through the platform provided by the *crowdfunding* organizer. In *securities crowdfunding* (SFC) funding can be done to businesses with a wider scope, not only to corporations. SCF is a method of raising funds with a joint venture scheme carried out by business owners or businesses to start or develop their business. Later investors can buy and get ownership through Shares. Shares from the business are obtained according to the percentage to the value of the amount of contribution.

c. How Social Security Equitycrowdfunding works

Basically, *social security equity crowdfunding* is almost the same as capital market investment, there are Issuers, Crowdfunding Service Providers, and Financiers. The difference is, in *social equity crowdfunding*, the share offering is carried out by the issuer to sell shares directly to financiers through an electronic system *online*, then the funds are given. With *social security equity crowdfunding*, investors and parties who need funds can be easily brought together through a platform (information technology-based application system) online.

The concept of *social security equity crowdfunding* was developed with a plasma core-based partnership model in providing funding by investors to MSMEs. This concept not only places MSMEs as an investment locomotive for investors to generate profits, but also provides an opportunity for MSMEs to exploit their resources with a profit-sharing pattern. More technically, *social security equity crowdfunding* can be described Fig 2.

Based on the picture above, there are several stages in the *social security equity crowdfunding* model. The first stage is for MSMEs to register a business accompanied by a business profile according to the criteria that has been set by the organizer. For MSMEs that have good potential but have not been able to meet administrative requirements, the organizers will provide training and assistance until they become professional and accountable business entities. The next stage is to prepare standards and cooperation agreements with MSMEs. This stage is one of the social concepts in order to encourage MSMEs to upgrade.

The third step of the model is the process of registering an investor’s account with the organizer. The social concept in this step is to provide brief education for investors

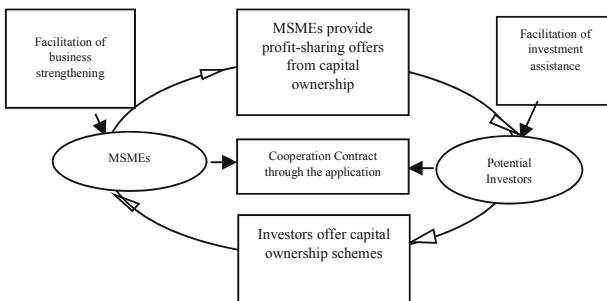


Fig. 2. The concept of *social security equity crowdfunding*

related to facilitating investment selection in accordance with the character of potential investors. Through this activity, it is hoped that investors will have the same vision to develop MSMEs. The last step in this stage is the pattern of capital participation and the distribution of profits and losses between investors and MSMEs.

In this way, MSMEs can take advantage of social security equity crowdfunding as a solution to MSMEs that are unbankable and have limited financial access to existing financial institutions so that MSMEs can survive and develop properly. During the pandemic, many government policies that make MSMEs unbankable and untouched by other financial institutions can take advantage of digital platforms to meet capital needs, namely by equity crowdfunding.

Through SCF, the dream of MSME-scale companies in obtaining additional capital to increase business capacity through the issuance of shares or other securities to the public will become a reality. Through community participation, MSME actors will get a source of funds for business expansion and increase business scale with a very light obligation, namely providing or sharing profits from operating profits.

d. Test Model

The test model includes a test of the validity and reliability of the questionnaire and the validity test of the expert team.

1) Test the Validity and Reliability of the Questionnaire

Instrument validity was tested by comparing the Pearson Product Moment correlation index with a significance level of 5% with a critical value. The results of the expert validity test showed a probability value (sig) of less than 0.05 so it was concluded that all question items were valid. In order to carry out the reliability test, this study uses Cronbach's Alpha. The results of the reliability test showed that the value of the Cronbach's Alpha coefficient was greater than 0.6 so that it could be said that the question instrument used had a high level of reliability.

2) Validation of the expert team (expert assessment)

The assessment of the social security equity crowdfunding model is carried out by experts through instruments based on theory which are then used as assessment indicators. The results of the expert validity test show an acceptance value above 60%, these results provide information that the social security equity crowdfunding model is a feasible model according to experts. Valid criteria in this test means that the social security equity crowdfunding model reflects what is expected by the experts.

5 Conclusion

The existence of MSMEs for the economy is very strategic because of the large number of MSMEs and the high absorption of labor. However, along the way, MSMEs face financial problems as an obstacle to the contribution of MSMEs to the national GDP. Based on the results of the research above, it is known that the Equitycrowdfunding-based funding model is a practical and easy-to-apply solution in helping the funding of MSMEs that are not bankable. The equitycrowdfunding concept developed because of the need

for MSMEs for equitable financing patterns so as to produce a funding model that is relatively more supportive of MSMEs, namely the *social security equitycrowdfunding* model.

The concept of social security equitycrowdfunding was developed with a plasma core-based partnership model in providing funding by investors to MSMEs. This concept not only places MSMEs as an investment locomotive for investors to generate profits, but also provides an opportunity for MSMEs to exploit their resources with a profit-sharing pattern.

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