



**POLITECNICO DI MILANO  
MASTER OF SCIENCE IN MANAGEMENT ENGINEERING  
ACADEMIC YEAR 2016/2017**

# **THE PLAYERS IN CROWDFUNDING INDUSTRY IN INDONESIA**

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# ABSTRACT

The purpose of this work is to provide empirical evidence on the players in the crowdfunding industry in Indonesia and the peculiarities of crowdfunding platforms operated. Indonesia is the largest economy in Southeast Asia and one of the emerging market economies in the world. As the fintech industry is becoming more active in the market, Indonesia will play an important role in the crowdfunding industry in Asia. Having demographic bonus in which around half of the population is below 30 years old, numbers of entrepreneurs have increased significantly (Fintech Indonesia, 2016). Dominated by the SMEs, the economy of the country has become stronger in the economic as the consequence of better performance of SMEs contributing 59% of GDP. In addition, the increasing number of Internet users has also motivated more people to maximize the use of crowdfunding. All these facts are relevant to the development of crowdfunding industry.

Although in Indonesia crowdfunding is still in the infancy stage, it has shown a significant contribution to the financial inclusion for the development of financial industry in the country. This is observable by looking at the expansion rate of platforms created from year to year; the publication related to crowdfunding issue in the media and more importantly, the concerns of regulator on the need of establishing clear framework and regulation to govern the crowdfunding activity as an alternative for financing solution especially for the non-bankable person.

To carry out this study, I identified and analyzed all crowdfunding platforms run by companies located or located elsewhere but focus on the Indonesian market. All platforms were investigated to identify the main characteristics, and the business model and to also study their peculiarities and any other remarkable fact that, in consideration, had to be discussed. In addition, I also conducted interview with CEOs of crowdfunding platforms in order to get views, experiences and insight on how they manage the platforms.

The study evidenced an impressive growth of P2P lending based platforms that accounts for approximately 75% of the total platforms available. Donation based platforms is also getting popular in funding social activity and charitable fundraising. However, the equity crowdfunding shows a slower rate of growth compared with neighbor countries such as Malaysia. There is only 1 equity crowdfunding platform in Indonesia, while Malaysia is reported to have 6 operators in 2017. The absence of regulation is the main reason that should be addressed to the regulator. The research also shows an increasing rate of entrepreneurs who invest in both agricultural and real estate. The agricultural players are normally small entrepreneurs who run the business in a smaller scale and do not have access to financing from Banks or formal financial institutions. While, investment in real estate is increasing following the growing trend of mortgage in the country. Not only conventional platforms, the presences of sharia based platforms which applies Islamic finance principles are also marking the growth of investment in both agricultural and real estate.

An unprecedented phenomenon discovered was the sharia crowdfunding that began gaining strength in the industry but where the small investors did not have the opportunity or knowledge to invest. The crowdfunding in this industry opened the possibility to many increasing investors that consider this alternative mean of finance in this industry a remarkable way to widen their investments.

Through this study, I described the crowdfunding industry in Indonesia, to provide some insight on the current state of the phenomenon, the challenges that are being faced, the players in the industry, and the trends and opportunities that may enable further study on this topic.

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# CHAPTER 1

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## INTRODUCTION

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### *The Phenomenon of Crowdfunding*

Crowdfunding has recently gained personal attention among both scholars and practitioners as an alternative financing solution for business or social, artistic projects. The number of crowdfunding platforms is increasing year by year in any counties. The emergence of platforms such as Kiva.org, Lending Club, Kickstarter, GoFundMe, IndieGoGo, etc has proved the wisdom behind crowdfunding as an effective platform in actualizing ideas or projects (Abdullah, 2014). Raymond (2001) discusses the “wisdom of crowds” as through collaborative and collective teamwork, people from all over the world are able to create something in an often more efficient fashion than normal production. Crowdfunding contributes to the economic growth, by generating additional revenue for companies or by providing capital to start-ups and SMEs that are important contributors to the economy in terms of innovation, competitiveness, employment and growth (SpaceTec Capital Partners GmbH, 2013). Moreover, the impact of social networks and forming online communities has increased online collaboration and facilitated greatly in collective way. Crowdfunding brings together market participants who, in an offline context, would not have the opportunity to meet (SpaceTec Capital Partners GmbH, 2013).

The first online crowdfunded project is thought to have occurred in 1997 (Wahjono, Widayat , & Marina, 2015). Rock band Marillion were unable to afford to tour after the release of their seventh album, so American fans used the Internet to raise \$60,000 so they could play in the US. Although the band wasn’t involved in the first round of

fundraising, they have successfully funded the production of their following three albums. (Wahjono, Widayat , & Marina, 2015).

The success story of some projects funded by crowdfunding has become a new record in the entrepreneurship world. Some of most successful projects including, the Star Citizen, a space combat video game created by Chris Roberts. This project has been named as the most funded crowdfunding project in history recording a total fund collected of US\$ 150 millions by May 2017 (Corp, 2017). Another example is Pebble smart watch, which was campaigned on Kickstarter platform and reached its goal (\$500,000) in 17 minutes, \$1 Million in 49 minutes, \$10.3 Millions in 2 days, and finally earning \$20.4 Millions by its deadline on 3 March 2015, making it the most funded Kickstarter project to date (Wikimedia Foundation, 2017). Ryan Grepper, founder of “The COOLEST” received \$13,275,336 from more than 62,000 backers on his campaign through Kickstarter (Grepper, 2013). The production of Kingdom Death games had also reached the interest of the crowd, reaching the amount of \$12,393,139 from more than 19,264 backers, much bigger than the pledged of \$100,000 goal (Poots, 2015). The success of “Flow Hive” a new invention on the way to harvest honey found by Cedar Anderson had also involved the crowdfunding platform Indiegogo. The campaign was really successful and broke the crowdfunding records, made the project as the most successful campaign ever launched on Indiegogo and the most successful crowdfunding campaign ever launched outside the US (Pty, 2017).

Crowdfunding initially started with philanthropic projects (in the form of donations), and then spread to consumer products (in the form of pre funding orders) (OECD, 2014). It channels money to individuals or organizations for product development or social causes. Crowdfunding also complements social lending (peer to peer) platform. Equity crowdfunding has recently emerged as an alternative to more traditional funding tools such as bank loans, angel or venture capital investments for financing entrepreneurs and SMEs. (World Bank, 2013). Moreover, the change of financial climate following the 2008 financial crisis has given the rise to the culture of crowdfunding. The stringent post recession lending policies perused by banks and the resulting difficulties experienced by small business to get credit have compelled people

to seek means of alternative lending as a way of sidestepping bank loans. (Statista, 2017).

Figure 1 describes the exponential growth of crowdfunding volume. In 2020, the volume is estimated to reach US\$ 90 billions, showing an impressive growth started with only US\$ 880 millions in 2010, it gained a significant increase of total amount US\$ 34.4 billions in 2015. The numbers of platforms are estimated to reach more than 2,000 in 2016 (Statista, 2017). The growth in funding volumes mainly driven by lending based crowdfunding, which grew 223% to US\$ 11.08 Billions, but there is also a significant annual growth in equity based crowdfunding and increased adoption of newer hybrid and royalty-based models indicates that the allocation of funding volume across different models will be more highly distributed over the coming years. (Hobey, 2015)

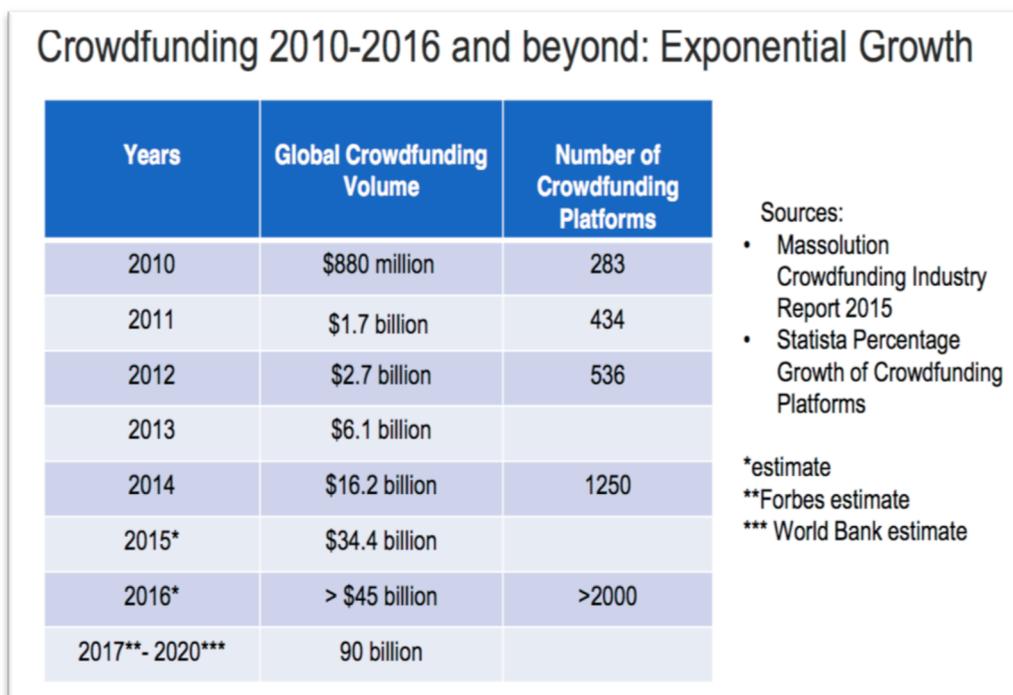
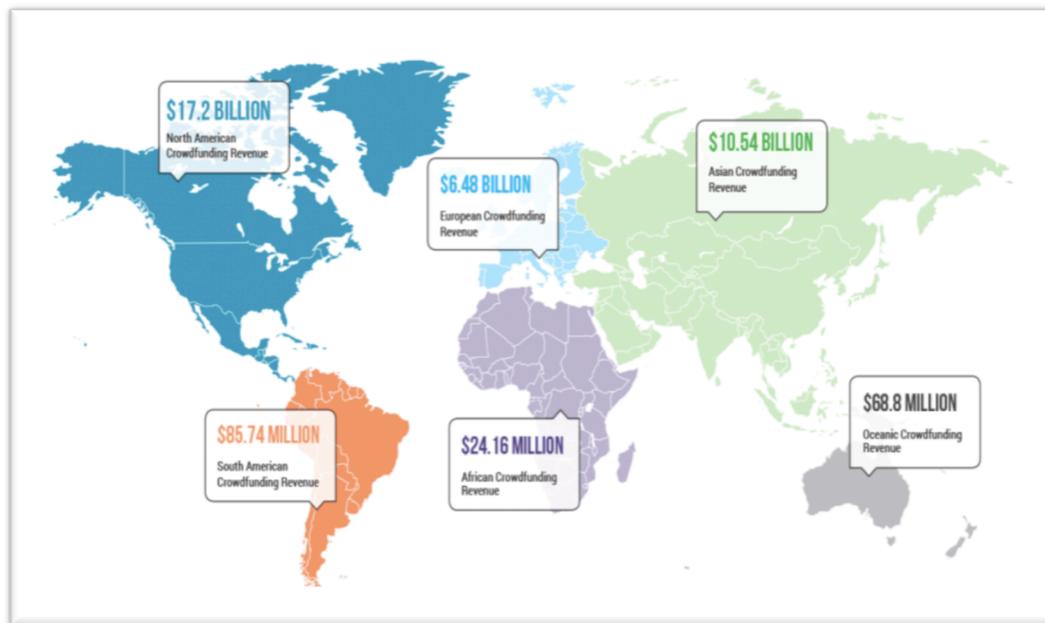


Figure 1. Total crowdfunding volume worldwide 2012 – 2015

As cited from [www.fundly.com](http://www.fundly.com), the regional funding statistics shows North America recorded the largest revenue, followed by the significant growth of Asian crowdfunding

surpassed the revenue of European Crowdfunding. The African region recorded the lowest revenue generated on crowdfunding.



**Figure 2. Regional Crowdfunding Statistics**

The recent study by Dushnitsky et al, 2016 shows the crowdfunding activity in Europe and North America exhibits different patterns in terms of funding volumes as well as annual growth rates. In 2014, North America platforms facilitated \$9.46 billion in crowdfunding; about three times that in Europe (\$3.26 billion). In both continents, the dominant form of crowdfunding is the Lending model, which generated around 70% of the funding volumes. (Dushnitsky, Guerini, Piva, & Lamastra , 2016)

In Asia, crowdfunding has recently become a viable financing solution for most of Small Medium Enterprises (SME). An increasing number of micro business and SMEs are turning to crowdfunding as alternative of financing (World Bank, 2013). This growing force will soon see the developing economies catching up with the advanced countries. The largest volume of crowdfunding in Asia is not unexpectedly in China as published in the Harnessing Potential report compiled by Cambridge University, Tsinghua University and the University of Sydney, total money raised through crowdfunding in 2015 is US\$1.96 billions as shown by figure 3 in which equity crowdfunding is the largest segment with total money raised is US\$ 948.26 millions or approximately 48.38% of market share (Zhang, Deer , & Wardrop , 2016). Ppdai.com, a crowdfunding portal

based in the PRC enables loans to small business that can range from \$500 to \$80,000 with interest rates between 12% to 24% and terms of 3 to 12 months. SeedAsia, a Shanghai based equity crowdfunding platform enables financing for tech start-ups throughout Asia (Shinozaki, 2015).



**Figure 3. China's Crowdfunding Volume 2013 - 2015**

Outside China, Southeast Asia is also one of the most growing regions. Singapore is the market leader in the South East Asia, accounting for almost 84% of online alternative market volume in the region, which raised a total of \$70.28 million between 2013 and 2015. Equity based real estate crowdfunding dominates the Singapore alternative finance landscape with 44% of national market activity equating a total of over \$30 million raised in 2013 till 2015. (Zhang, Deer , & Wardrop , 2016). Malaysia is the first country to establish a defined regulatory environment to facilitate investment crowdfunding. (Alois, 2015). As it follows by other countries, the regulatory change has stimulated the significant growth equity crowdfunding in Southeast Asia.

The potential of crowdfunding market is really huge as explained on Allied Crowd's January 2015 report that the developing nations' share of the huge crowdfunding pie is just US\$ 430 millions, but it is slated to grow by 53 percent and once the underserved or unbanked group picks up on crowdfunding, the growth will be explosive. Studies done

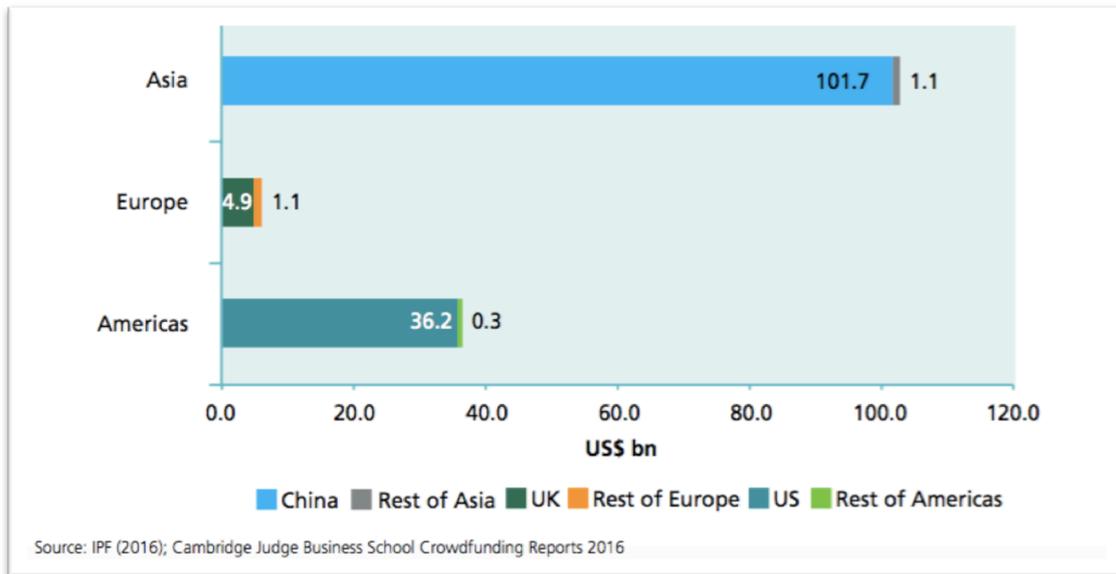
by the Asian Development Bank revealed that only 18.7 percent of all bank loans in Southeast Asia were granted to SMEs, a dwindling trend since the financial crisis in 2009. ADB also reported that whopping nine million small businesses have limited access to financing. In the event that these nine million SMEs jump on the crowdfunding bandwagon, the waves they will make in the crowdfunding industry and their countries' economic growth will be huge. (World Islamic Economic Forum Foundation, 2017)

While crowdfunding is still a new phenomenon in Southeast Asia, there are already active crowdfunding portals in the region. MoolahSense, a Singapore based, debt crowdfunding platform allows people to invest directly in local business (P2B) for a fixed return of interest. CoAssets, a Singapore real estate based platform even going mainstream started trading on the National Stock Exchange of Australia (NSX) under the symbol of "CAX". (Tang, 2015)

It is also important to mention the real estate based platform in the phenomenon of crowdfunding. The global real estate sector has also turned to crowdfunding and is now one of the fastest growing segments of the booming crowdfunding industry. (World Islamic Economic Forum Foundation, 2017). As the interest rates gradually move higher, real estate developers will need to look beyond traditional financing to fund their projects. Bank lending hasn't been that strong and higher rates will threaten some real estate projects. In fact, real estate crowdfunding was the largest growing segment of the crowd in 2015 reaching \$2.5 billion according to Massolution. Crowdfunding 2018 could easily see more than \$3 billions in project funded. (Hogue, 2016)

Globally, the crowdfunding market, including all forms of debt and equity platforms, is estimated to have reached approximately \$145.29 billions by the end of 2015, growing by some 1,160% over the two years from the end of 2013. In terms of regional totals, Asia accounts for the highest volume of capital at £102.8 billions, followed by the Americas at \$36.17 bn and Europe at \$5.99 billions as shown in figure 4. Within each region, one country dominates, with China accounting for over 99% of activity in Asia, the US accounting for a similar 99% of crowdfunding capital volumes in the Americas

and the UK representing approximately 81% of such investment in Europe. (O’Roarty, 2016).



**Figure 4. Total Real Estate Crowdfunding Market Volume**

Other phenomenon is the growing trend of Islamic crowdfunding in Southeast Asia (World Islamic Economic Forum Foundation, 2017). The platforms focus on Islamic values such as profit and loss sharing, building online Islamic communities and promoting ethical and social responsibility. Key principles of Islamic finance are asset-based investment and risk sharing (profit and loss sharing). This phenomenon is mostly driven by the growing trend of the equity investment, which shares the ownership between investors and business owners, and this principle is in line with Islamic Finance. Ethis Pte, set up in Singapore in March 2016 has raised US\$ 1.8 million to finance buyers of affordable new homes in Indonesia and is seeking another SGD\$ 50 million by 2017 (Bloomberg, 2015). Kapital Boost, which was started in July 2016, is looking to procure up to S\$30 million to help fund small businesses in Singapore, Indonesia and Malaysia, ranging from meat suppliers to garment producers. There is a huge opportunity for Islamic crowdfunding as Muslims comprise approximately a quarter of the global population and yet the Islamic based financial assets comprise only less than 1% of total global financial asset (Bloomberg, 2015). According to PwC study, it is expected that Islamic finance assets will more than double from US\$ 1.3 trillion to US\$ 2.6 trillion by 2017 (Pricewater House Coopers, 2017).

# CHAPTER 2

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## LITERATURE REVIEW

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### *2.1. Definition of crowdfunding*

Crowdfunding, the practice of collecting small amounts of capital from the crowd of Internet users (Lambert and Schwienbacher, 2010), is gaining more and more resonance worldwide (The Economist, 2013). Although it is difficult to measure the real magnitude of the phenomenon, it is fair to say that it involves a huge amount of projects and money, considering that, in 2014, technology projects raised a total of \$139,8 million on Kickstarter, which correspond to the 13.7% of the total amount collected on the platform (Colombo et al., 2015).

Crowdfunding is said to have originated from the broader concept of crowdsourcing (Belleflamme, Lambert , & Schwienbacher, 2010). Crowdsourcing enables people and organizations to obtain ideas and solutions for private and corporate activities from a crowd. In the same fashion, crowdfunding allows people and organizations to raise capital from a crowd (Belleflamme, Lambert , & Schwienbacher, 2010). The concept of pooling money by large group of people is not something new. However, the fact that such funding happens via the Internet, places crowdfunding in a new spectrum. The Internet enables a global reach to attract funding. As such, the established intermediaries are often cut out through crowdfunding, which increases the efficiency (Belleflamme, Lambert , & Schwienbacher, 2010).

Like crowdsourcing is crowdfunding build up out of the words “crowd” and “funding”. Crowd as explained by the Oxford dictionary refers to 1. a large number of people that are gathered together in a public space., 2. a particular group of people . “Funding” on

the other hand is referred to as; money for a particular purpose; the act of providing money for such a particular purpose. The combination of these words therefore presumes the most basic explanation of crowdfunding to be the “providence of money for a particular purpose by a large group of people” (Oxford University Press, 2017).

Crowdfunding is a novel phenomenon, thus a widely accepted definition does not yet exist. At present many definitions coexist, which are often specific to the context of the study (Tomczak and Brem, 2013). Nonetheless, we believe that tracing the boundaries of a phenomenon is one of the crucial steps towards its analysis (von Krogh et al., 2012). For instance, in financial studies, crowdfunding is a method of raising funds for projects by simultaneously addressing a large pool of potential investors (Tirdatov, 2014), while innovation scholars define this funding method as a new way to finance innovative projects and connect innovative ideas to the crowd of Internet users (Riedl, 2013). Of course, attempts exist to bridge these different views. Among them, the most diffused is definition by Lambert and Schwienbacher (2010, p.6), who describe crowdfunding as *an open call, essentially through the Internet, for the provision of financial resources either in form of donation or in exchange for some form of reward and/or voting rights in order to support initiatives for specific purposes.*

In essence, crowdfunding can be viewed as a combination of microfinance (Robinson, 2001) and crowdsourcing (Howe, 2006; Harrison, 2013). Akin to microfinance, crowdfunding entails the provisions of relatively small amounts of money (Harrison, 2013) and helps entrepreneurs to acquire financial resources for their projects (Beaulieu and Sarker, 2013). Like in microfinance, many of those who raise money with crowdfunding are those who would traditionally encounter difficulties in obtaining financial resources from banks and other traditional financial operators. At the same time, crowdfunding has elements that are typical of crowdsourcing. Similar to crowdsourcing, crowdfunding involves an open call through the Internet and necessitates of the voluntary participation of a distributed network of individuals (Lambert and Schwienbacher, 2010). Similarities with crowdsourcing are however not limited to Internet use and to open participation. One important element of resemblance is that crowdfunding facilitates the interaction with a crowd of potential

future users and customers (Ordanini, 2009) and offers the opportunity of collecting feedback and suggestions from the crowd of the Internet users (Colombo et al., 2015b). These inputs favour the emergence of a collaborative design (Gerber and Hui, 2013) and, ultimately, the development of better products (Riedl, 2013). What makes crowdfunding unique is the fact that Internet users provide both the capital necessary to enact entrepreneurial projects (Burkett, 2011) and the knowledge to improve the quality of these projects (Gerber and Hui, 2013). Hence, in outlining a definition of crowdfunding, it is important to remember that crowdfunding does not only relate to collecting money, but it also relates to collecting feedback and suggestions.

## 2.2. Crowdfunding Models

Since 2012 several scholars have proposed taxonomies of the models of crowdfunding. A popular classification (e.g., Ahlers et al., 2015; Mitra, 2012; Griffin, 2012; Lehner, 2012) revolves around what crowdfunders receive in exchange of their contributions. Following this classification, crowdfunding models are generally broken down into four types: *donation-based*, *reward-based*, *equity-based* and *lending-based*. All these crowdfunding models are relevant in the various stages of a company's need for capital (Danish Ministry of Business and Growth , 2015).

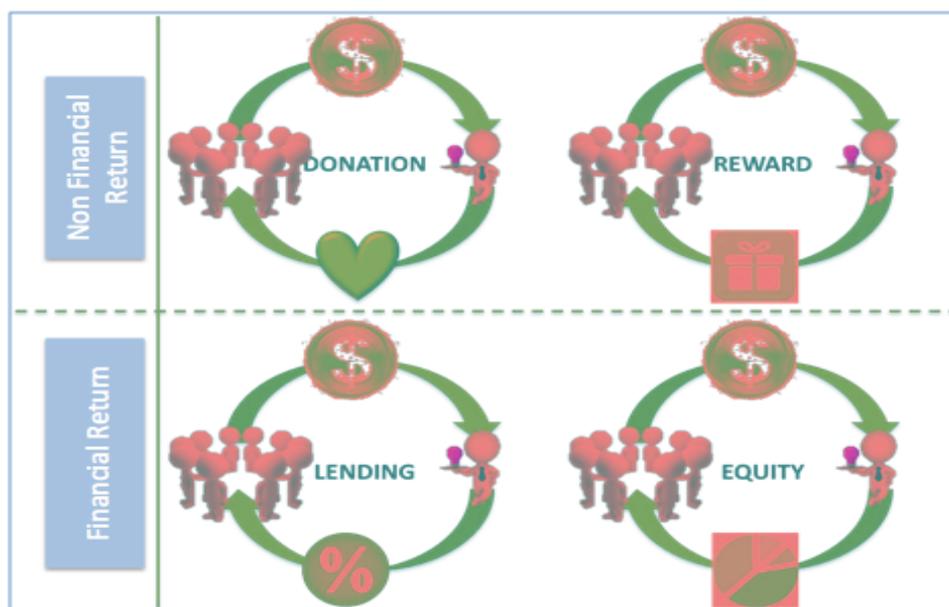


Figure 5. Models of Crowdfunding

A company in need of the initial capital for putting a product into production can choose to raise capital on a reward-based crowdfunding platform, such as Kickstarter, or Indiegogo (Danish Ministry of Business and Growth , 2015). Here, the company can sell its product or service to the first customers and thus raise the capital for putting the product into production. This type of crowdfunding is also called "pre-buy". Reward-based crowdfunding is possibly the most well-known form of crowdfunding, in particular owing to the large international platforms, such as Kickstarter and Indiegogo. Companies behind well-known products, such as the Pebble smartwatch, the Pono music player, the Solar Roadway solar cell project etc. have raised large amounts on reward-based platforms (Danish Ministry of Business and Growth , 2015).

Lending-based crowdfunding implies that the company obtains its loan from many different sources via a lending-based platform. Alternatively, the company can choose equity-based crowdfunding, where the company offers ownership shares in return for a capital investment from a number of small investors. (Danish Ministry of Business and Growth , 2015)

One attribute that applies to all crowdfunding models is that crowdfunding provides more than merely access to capital, it also contributes to underlining the market potential for the company (Danish Ministry of Business and Growth , 2015). Companies that employ crowdfunding to raise capital also have the opportunity to make use of a type of collective investment intelligence or 'wisdom of the crowd'. When a company chooses to place their business idea or product on a crowdfunding platform, they expose themselves to thousands (in some cases millions) of potential investors, who have the opportunity of seeing the project and investing in it. If the company achieves full financing, it will also be a test of the company's business model or product at a very early stage. Thus crowdfunding is also a tool with which companies relatively quickly can test the market potential for their business.

Crowdfunding platforms are often global, which means that there is a large potential for the internationalization of a company that employs crowdfunding (Danish Ministry of

Business and Growth , 2015). The company is exposed to at large group of potential investors from all around the globe, just as the company also potentially can sell their product all over the world (Danish Ministry of Business and Growth , 2015). This means that the companies will have an entirely different strategy for entering new markets than normally, where companies traditionally establish themselves on the home market, for example Indonesia, and then start exporting to neighboring markets as their initial export markets (Danish Ministry of Business and Growth , 2015). With crowdfunding on international platforms, the companies are potentially global from the very beginning.

In any type of crowdfunding every person must be having intention of using the platform. To highlight the motivation of people in doing crowdfunding, Gerbet et al, (2012) has studied the evidence on motivation and deterrent for participation in crowdfunding as shown on the table below:

|                  | <b>Motivations</b>   | <b>Deterrents</b>  |
|------------------|--|--|
| <b>Creator</b>   | Raise Funds<br>Expand Awareness of Work<br>Form Connections<br>Gain Approval<br>Maintain Control<br>Learn New Fundraising Skills | Inability to Attract Supporters<br>Fear of Public Failure and Exposure<br>Time and Resource Commitment |
| <b>Supporter</b> | Collect Rewards<br>Help Others<br>Be Part of A Community<br>Support A Cause  | Distrust of Creators' Use of Funds   |

**Figure 6. Motivation & Deterrents of Participation**

### *2.3. Islamic Crowdfunding*

An interesting phenomenon that has been explored only recently is Islamic crowdfunding that can be positioned in the more general realm of Islamic finance. Islamic finance is perceived as value oriented, where it should meet maqosid (purposes or goals) of sharia (Achsien & Purnamasari, 2016). Maqoshid is to accomplish maslahah (benefit). These are the preservation of (1) religion, (2) life, (3) lineage, (4) intellect, and (5) property (Achsien & Purnamasari, 2016). Islamic finance is constructed through

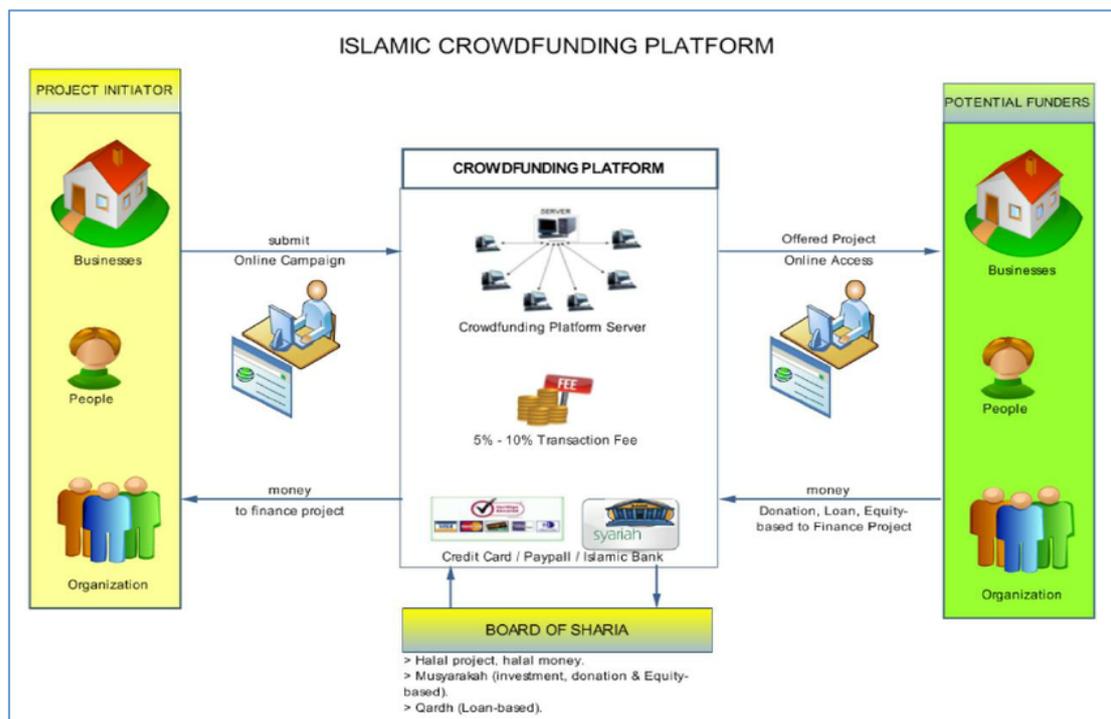
concept such as equity, justice, human dignity, freedom of enterprise, and moderation, with the ultimate objectives of utilizing economic and financial resources to satisfy the material and social needs of all members of the community (Achsien & Purnamasari, 2016).

Islamic finance and crowdfunding both conceptualize costumers as investors and can potentially provide investment opportunities with higher returns. In addition, they both place a strong emphasis on transparency, mutual involvement, and trust. Sharia and crowd-funding have similar goal and philosophical foundation, which are aimed to build communities, encourage risk sharing, democratize wealth, and channel capital to real economic activity (Taha & Macias, 2014).

Consequently, we can define Islamic crowdfunding as the platform designed to comply with sharia principles. Islamic crowd-funding is further described as the use of small amounts of money, obtained from a large number of individuals or organizations, to fund a project, a business or personal loan, and other needs through an online web-based platform in accordance with sharia principles (Achsien & Purnamasari, 2016). There seems to be some basic features distinguishing Islamic crowd-funding from conventional one, which relate to: (1) investing only in halal projects, (2) the absence of interest rate, prohibition of gambling and speculation (riba, maysir, and gharar), (3) existence of sharia supervisory boards (Achsien & Purnamasari, 2016).

Crowdfunding and Islamic finance are inherently compatible and mutually reinforcing. Considering that Indonesia is the most populous Muslim in the world; this will significantly support Indonesia's aspiration to become the center of Islamic finance in the world if the right policies and framework are implemented. In Indonesia, sharia compliance can be in form of existence of a sharia supervisory board or a sharia opinion as formal certification process. (Achsien & Purnamasari, 2016). Islamic financial institutions will have sharia board, while sukuk issuance will only require sharia opinion. (Achsien & Purnamasari, 2016).

Achsien (2016) proposed conceptual of Islamic crowdfunding is as described in the figure below:



**Figure 7. Islamic Crowdfunding Process**

In Islamic crowdfunding there are four parties, namely:

- Project Initiator (PI - which can include: individuals, organizations, and business)
- Potential Funders (PF)
- Crowdfunding Operator (CFO)
- Board of Sharia (BS)

All activities are conducted online or Internet based. All information on the project or product promoted by PI are provided in electronic format in the form of photographs, movies or other forms of presentation, and then those files will be uploaded to the platform. Then, crowdfunding operators identify each file by labeling the account name and then uploaded all information to the platforms and make all data available to Potential Funders. Furthermore, PF will choose a project or a product that suits his interests. For all selected projects, the PF would send a sum of money in accordance with the options available as donations, loans or equity-based. The transaction fee

agreed by both parties will be charged to every funded project. Board of Sharia will be responsible to ensure the sharia based platform follow the Islamic law.

In general Islamic financial products fall into two broad categories; equity type contracts (profit loss sharing) and price markup (similar to debt) contracts. Both types of these categories are tied to real economic activities (Almarjoqi, 2014).

Equity type contracts are either:

- Mudarabah or trust financing
- Musharakah, which is related to partnerships

Price markup (debt) contracts involve a bank financing the purchase of assets or services in exchange for a negotiated profit margin. The most widely used instruments are:

- murabahah: cost-plus-profit margin
- ijarah: lease financing
- istisna` : commissioned manufacture
- salam: advance purchase road

#### *2.4. Research Objective & Limitation*

This research focuses on the analysis of crowdfunding platforms and the factors that driven their creation in the vibrant Indonesian crowdfunding. This research aims to understand how the national boundary, Internet based phenomenon, cultural, level of economic and legal could drive the creation of crowdfunding platforms. Indonesia is an interesting context to study the evolution of the crowdfunding industry because of its heterogeneity. As an emerging country, the needs and preferences of capital seekers (henceforth, “participants”) and the capital providers (henceforth, “crowdfunders”) differ across national market.

# CHAPTER 3

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## THE CONTEXT OF INDONESIA

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### *1.1. Crowdfunding in Indonesia*

The principle of crowdfunding is similar to Indonesian collective values called “Gotong-Royong” which means working together as community towards a common goal. This value is a legacy from the ancestors, a source of pride and an epitome of long standing traditions. The spirit of collective and mutual sharing and togetherness have been passed from generations to generations. This cultural value implies a mutual cooperation which is they key to crowdfunding.

People awareness on the presence of crowdfunding platforms started to increase since 2012 when Wujudkan.com, a platform focusing on the creative industries successfully funded the production of *Atambua 39 Celcius*, a movie directed by a renowned Indonesian writer and director Mira Lesmana (Farabi, 2013). This film was based on poverty and the hard way of life that was brought to the big screen. Another big achievement was recorded by Kitabisa.com, which collected a total amount of US\$ 230,500 to help building a mosque in Chiba, Japan (Menur, 2016). Crowdfunding also has a big role in promoting gaming industry in Indonesia. A game developer named as Tinker Games collected total amount of US\$ 59,574 from kickstarter.com (Nur, 2014). Recently, the campaign team of one governor candidate in Jakarta was also using crowdfunding to get money from the public to fund the campaign and the total money collected reaching 60 billion rupiah or US\$ 4,615,385 (Rudi, 2017).

The growth of crowdfunding in Indonesia is just about the time as the awareness of people increasing. According to the research conducted by Cambridge University,

Tsinghua University and the University of Sydney as published in Harness Potential Report, 2016, a total of \$6.7 millions was raised between 2013 and 2015 in Indonesia, accounting approximately 8% of total alternative finance market volume in South East Asia. What makes Indonesia quite distinct from the rest of South East Asia is that donation-based crowdfunding accounts for the largest proportion with US\$ 4.59 millions was raised over the last three years, standing at approximately 68% of total national volume. Peer to peer business lending accounted for around 24% or approximately \$1.6 millions, and reward-based crowdfunding raised approximately US\$ 0.5 millions or 8% of total market share (Zhang, Deer , & Wardrop , 2016).

The absence of regulation on specific crowdfunding activity is the main challenge for the industry (Fintech Indonesia, 2016). Therefore, the Financial Service Authority (OJK) has responded to this issue and currently working intensively to formulate the regulation. Until today, the crowdfunding activity is still under the patronage of fintech industry. Indonesia's fintech today are growing to fintech 3.0, where many independent tech companies (start up) joining the financial market. Because many new players are emerging, Indonesia's Fintech Association then established in September 2015. With the past pace development of Indonesia's tech ecosystem, fintech sector also feel the impact and 2015 - 2016 was the best year for fintech industry's growth in Indonesia so far. (Fintech Indonesia, 2016)

According to Indonesia's Fintech Association, the growth of fintech players detected for the past two years reach 78%, the highest number so far. By November 2016, Indonesia Fintech Association (IFA) has listed around 135-140 fintech players in which 43% of the fintech players are playing in the payment sector, while crowdfunding account only 8% of the total as shown in figure 5. In 2016, many fintech startups emerged in Indonesia grew up to 78% year on year. The total funding for startups in 2016 for fintech startups has reached around 486.3 billion Rupiahs. (Fintech Indonesia, 2016).



**Figure 8. Fintech Player Profile by Sector**

### 1.2. Indonesia: Economic Outlook & Financial Industry

As the fourth most populous nation with approximately 259 million people in 2016 and the largest economy in Southeast Asia, Indonesia has charted an impressive economic growth since overcoming the Asian financial crisis in the late 1990s. The country's gross national income per capital has steadily risen from \$560 in the year 200 to \$3,620 in 2016. The GDP in 2016 has reached US\$ 936 billion emphasizing the growth of 5% in 2016. (Global Business Guide Indonesia , 2016). The World Bank forecasts that Indonesia's economy will grow by 5.3% in 2017. This is higher than the average economic growth of emerging countries of 4.4% and the global economy of 2.8%. Furthermore, there is an increasing confidence of investors and business players following the success of the Tax Amnesty Program is key to ensuring improvements in the performance of the Indonesian economy (Global Business Guide Indonesia , 2016). The successfulness of tax amnesty program has been followed by improvement in Indonesia's credit rating as S&P raised the sovereign rating from BB+ to BBB- make it in line with Moody's and Fitch. (Salna, 2017). Moreover, having bonus demographic in which around half of population is below 30 years old, numbers of entrepreneurs have increased significantly and are expected to grow in the upcoming years (Fintech Indonesia, 2016).

According to Indonesia fintech report 2016, only 36% adults in Indonesia have an account at the formal financial institution, while the penetration of bank branches per 100,000 populations is only 1/6 of the penetration in European countries in which 49 million SMEs unit are not yet bankable. There are Rp.988 trillion (US\$ 76 billions) gap financing the development, meanwhile P2P pending is still under Rp.150 billion (US\$ 11.5 millions). It reflects a huge market potential that can be targeted by fintech (P2P lending), without having to erode bank's market share. 50% people send remittances through banks. 44% people borrow money from friends and family members. 27% people save money in their bank account. 9% people use credit cards for payments. (Fintech Indonesia, 2016).

On the other side, the number of Internet users in Indonesia has exceeded over 100 million as shown by figure 6, namely 51.8% are male and 48.2% are female and 65% internet users are from Java Island and 24 million internet users are in the 25-29-age range. Interestingly, total subscription of mobile reached 326.3 or 126% of population. This phenomenon could encourage the increasing number of fintech players in Indonesia especially when they can reach the underserved segments. (Fintech Indonesia, 2016)

| Island/Region              | Number of Internet Users (in million) | % of Total Internet Users |
|----------------------------|---------------------------------------|---------------------------|
| Java                       | 86.3                                  | 65.0%                     |
| Sumatra                    | 20.7                                  | 15.7%                     |
| Sulawesi                   | 8.4                                   | 6.3%                      |
| Kalimantan                 | 7.6                                   | 5.8%                      |
| Bali & Nusa Tenggara Barat | 6.1                                   | 4.7%                      |
| Maluku & Papua             | 3.3                                   | 2.5%                      |
| <b>Indonesia</b>           | <b>132.7</b>                          | <b>100%</b>               |

Source: APJII

**Figure 9. Number of Internet user in Indonesia 2015 - 2021**

Based on the survey by Deloitte Consulting and Asosiasi Fintech Indonesia in 2016, fintech players in Indonesia found the main challenge on this industry are a clear regulation, the need to have more collaboration, lack of talents and struggling with financial literacy. Most fintech players feel that the regulation in Indonesia still in grey area. Therefore, the Financial Stability Authority (OJK) has responded to this issue and will soon launch the regulation related to fintech payment and lending sectors. (Fintech Indonesia, 2016).

### *1.3. Indonesia: Crowdfunding Regulatory Framework*

Today, crowdfunding is still under the patronage of the fintech industry, while the regulator is still working to formulate regulatory framework for crowdfunding. (Fintech Indonesia, 2016). Like many other subsectors in fintech, there are no specific terms that regulate crowdfunding in Indonesia. However, in December 2016, the Financial Services Authority (OJK) has issued a policy for P2P lending based on technology or fintech based financial services. (Molina, 2017).

### *1.4. Comparison of Regulatory Framework on P2P Lending Crowdfunding*

To get a deeper understanding on how P2P lending works, here I compare Indonesian regulation with the regulation in advanced countries. Principally, the regulation was designed to protect both consumers and investors in doing the business.

P2P lending is the practice of lending money to individuals or businesses through online services that match lenders directly with borrowers (Hutabarat, The Jakarta post, 2016). The lending takes place online on P2P lending companies' websites using various lending platforms and credit analysis tools (Hutabarat, 2016). The borrower and the lenders do not meet physically and are often strangers. In the financial industry, regulations are essential to ensure the delivery of consumer protection and a healthy financial system. Numerous countries' policymakers are showing increasing eagerness to regulate the P2P lending sector. However, as striking the perfect regulatory balance is not easy, there are different approaches to regulate the business (Hutabarat, 2016).

In the US, the largest P2P lending market, platforms must follow a difficult regulatory process. Each lender is required to be regulated by the Securities and Exchange Commission (SEC) and register the loans they originate. (Hutabarat, The Jakarta post, 2016). These businesses receive the same treatment as public companies and as a consequence they have to comply with high disclosure requirements. P2P lending involves actions of lending and issuing securities, which means that related lending and securities industries' regulations are applied. (Hutabarat, The Jakarta post, 2016). State Licensing Requirements require eligible institutions to originate borrowing loans. Therefore, the typical lending mode for P2P lending platforms in the US is through traditional financial institutions like banks. According to Lending Club and Prosper's annual report (SEC, 2016), loans are originated by issuing banks first and then are transferred to P2P platforms. The issuing banks of P2P lending are regulated by The Federal Deposit Insurance Corporation (FDIC) (Yin H. , 2016).

In the UK, P2P lending platforms need approval from the Financial Conduct Authority (FCA) to operate (Pope, 2015). Not like the US, which counts on existing laws, the UK reassesses this novel industry and proposes new legal instrument to regulate P2P lending market (Pope, 2015). FCA (2014) classifies P2P lending into the category of loan-based crowdfunding and standardizes P2P lending market mainly from 6 perspectives: Financial resources requirement, client money, cancellation rights, disclosure rules, dispute resolution, and reporting requirements (Pope, 2015). Main rules include specific capital requirements; segregation of client money and platform money; customers' right to cancel contracts; high-level information disclosure; investors' complaint to platforms and Financial Ombudsman Service; reports on financial position, client money, and loans arranged. (Pope, 2015)

In Germany, P2P lending companies are obliged to acquire a banking license or partner with banks, which hinders the development of the industry (Hutabarat, 2016). Meanwhile, China requires P2P lending platforms to form a third-party depository system for customer funds with a "qualified banking institution" (Hutabarat, 2016). In Singapore and South Korea, P2P lending platforms operate mostly outside of the

regulators' scope. P2P lending businesses in Indonesia are not classified as banks or financing companies under prevailing laws and regulations. Therefore, the German regulatory option, which obliges P2P lending companies to acquire a banking license, is not applicable in Indonesia. (Hutabarat, 2016)

In December 2016, a new policy governing the P2P lending has been issued. (Pham, 2017). The Indonesian Financial Services Authority (OJK) laid out the following rules:

- **Registration** – P2P lending (pinjam meminjam) startups must register and obtain their business license before operating.
- **Foreign ownership** – Foreign businesses have to find a local partner because foreign ownership is limited to 85 percent of a company, and they can only act as lenders.
- **Minimum capital requirements** – A company must have access to a little over \$260,000 in order to carry out its business. It must have at least approximately \$74,000 in capital by the time it registers, and it must also have at least approximately \$188,000 to obtain its operating license.
- **Interest rate provision** – There is no limit on the interest rate, but loans cannot exceed \$150,000.
- **Consumer protection** – Fintech firms must only “advise” lenders and borrowers of its selected interest rates, which take “into account fairness and developments in the economy”. They must also use escrow and virtual accounts in order to prevent operators from directly accessing the capital flowing between the lenders and borrowers.

P2P lending's typical business models are different in Indonesia, the US, and the UK, leading to different regulatory treatments on it. The loans are originated by investors directly in Indonesia and the UK, while by qualified financial institutions in the US. Therefore, the products for investors are loan agreements in Indonesia and the UK, but securities in the US. For this reason, the US has SEC to regulate this industry, while Indonesia and UK has enacted new laws to accommodate this novel industry.

# CHAPTER 4

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## METHODOLOGY OF DATA COLLECTION

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Having introduced subject of the study, motivation and phenomenon that is currently happening in Indonesia, the following step is to gather data on crowdfunding platforms in Indonesia. Yin (2003) holds that data for case studies can be derived from many different sources. There are two different categories for data collection, primary and secondary. Primary data are collected for the first time through an interview, while secondary data are information already collected from previous researchers (Yin, 2003). For this research, I collected secondary data by constructing database on crowdfunding platforms in Indonesia and primary data were obtained by interviewing CEO of the crowdfunding platforms, selecting two specific platforms as case study to get a deeper level of information since they are not available publicly.

### *4.1. Collection of Secondary Data on Platforms*

In a time where vast amounts of data are being collected and archived by researchers all over the world, the practicality of utilizing existing data for research is becoming more prevalent (Smith, 2008). Secondary data analysis is analysis of data that was collected by someone else for another primary purpose. Secondary data were obtained through a desk research conducted using Internet, gathering information from the platforms websites. I constructed database to collect all information about crowdfunding

platforms operating in Indonesia. Some parameters were designed for the purpose of data analysis.

| No | Parameters        | Description   |
|----|-------------------|---|
| 1  | platform_name     | platform name   |
| 2  | url_at_creation   | url of the platform when it was created   |
| 3  | url_today         | url of the platform today   |
| 4  | company_name      | Name of the firm managing the platform  |
| 5  | no_profit         | 1 for no-profit firms; 0 for other firms.<br>One of the most important parameters according to the approach was profit or non-profit, to understand the main objective of each platforms.   |
| 6  | de alio           | 1 for diversifying companies from other industries or traditional financial intermediaries that enter also the crowdfunding sector of the financial service industry; 0 for companies that enter the financial service industry by adopting an IT-based business model. |
| 7  | de alio_type      | Description of the sector where the de alio entrant was operating before creating the platform  |
| 8  | de alio_industry  | Further details on the sector where the de alio entrant was operating   |
| 9  | closed_platform   | 1 for closed platforms; 0 for the remaining platforms   |
| 10 | acquired_platform | 1 for acquired platforms; 0 for the remaining platforms   |
| 11 | Inactive_platform | 1 for platforms whose website is still functioning but no activity seems to happen there; 0 for the remaining platforms   |
| 12 | exit_year         | year of platform closure/acquisition or last year of activity on the platform for inactive platforms. Empty cell for active platforms   |
| 13 | country           | Country where the firm running the platform is located. It may originally launch in Indonesia or originated in other countries but had presence with  |

| No | Parameters             | Description  |
|----|------------------------|--|
|    |                        | projects in Indonesia.   |
| 14 | equity                 | 1 for the equity model (i.e. the compensation for capital providers consists in shares of the venture, dividends and/or voting rights), 0 otherwise  |
| 15 | Reward                 | 1 for the reward model (i.e. the compensation for capital providers consists in rewards, ranging from immaterial acknowledgements - e.g., a thank-you email or the mentioning of crowdfunders' support on proponent's web page -, to small gifts or the delivery of an early version of the product/service that the capital seeker aims at producing using crowdfunders' capital, 0 otherwise |
| 16 | Donation               | 1 for the donation model (i.e. capital providers are donors: they do not receive anything back from capital seekers), 0 otherwise  |
| 17 | lending                | 1 for the lending model (i.e. the compensation for capital providers is the interest and the payoff after the lending period), 0 otherwise   |
| 18 | mixed model            | 1 if equity+reward+donation+lending>1, 0 otherwise   |
| 19 | model_changes          | 1 if there has been changes in the crowdfunding model since platform creation  |
| 20 | language_2015          | Languages used in the platform in May 2015 for active platforms and at the last available date for closed platforms.<br>official language of platforms. It may also have more than one language. This is also important to understand if the platform is only aimed for local or including international.  |
| 21 | language_changes       | For the platforms that use more than 1 language, this text variable reports whether new languages were added in the platform to original ones and when the addition occurred   |
| 22 | platform_creation_year | Year of creation of the platform ( Year when the   |

| No | Parameters | Description   |
|----|------------|---|
|    |            | platform started being online)  |
| 23 | comment    | any comments that may be useful such as business model, performance, etc. |

The main challenge in constructing platforms' database was the limited information about crowdfunding platforms in Indonesia. I initially used the help of search engine "google" looking for the crowdfunding in Indonesia or crowdfunding platforms in Indonesia. However, the information was very limited as it only showed news or publication of popular platforms. Sending an email to a friend who is a staff of Indonesia Bureau Statistic did not give any better result. Therefore, in addition to the use of search engine, the process of collecting platforms was also done through asking friends, and friends of friends who are working in crowdfunding industry or studying about crowdfunding in Indonesia.

All data gathered for each crowdfunding platform with their respective information were organized in an excel file. (Further information about the contact with the companies in appendix 1).

Once a dataset that appears viable in addressing initial requirements discussed above is located, the next step in the process is evaluation of the dataset to ensure the appropriateness for the research topic (Dale et al., 1988).

#### *4.1. The Interview*

The purpose of conducting interview in gathering data is to explore the views, experiences, beliefs and motivations of individual participants on specific matters (Gill et al, 2008). For this study, the interview is aimed to get all information regarding CEOs' insight about crowdfunding, the phenomenon, the objective and the business model of the platforms they are running, performance, and also their views about challenge and opportunity of crowdfunding in the future. Some of information might be available publicly, and so interview is required to obtain first data or direct information. The

interview is conducted using semi structured questions that help to define the areas to be explored, but also allows the interviewer or interviewee to diverge in order to pursue an idea or response in more detail (Gill et al, 2008).

In relation to the study, the interviews were conducted with the CEOs of two platforms (kitabisa.com and indves.com). Requests have been sent to 10 platforms and to Indonesia Fintech Association through email provided in each platform's website, filling the form on the platform's website and/or by contacting phone number if any. I managed to contact directly the CEO of kitabisa.com, amarthas.com, and indves.com. 10 platforms were chosen representing each crowdfunding model operated in Indonesia (kitabisa, akseleran, ayodana, and modalku) and 6 platforms which focuses on specific activity such as iGrow for agriculture, Amarthas for microfinance, EthisCrowd for real estate islamic crowdfunding, Indves for sharia based platform, Investree for having both conventional and sharia lending, and KapitalBoost as foreign hybrid platform which has project presence in Indonesia. However, only CEO of kitabisa.com and indves.com were willing to be interviewed.

Interviews were conducted differently. I managed to interview CEO of Indves.com two times. First interview was in a co-working space in Jakarta on August 2<sup>nd</sup>, 2017 and the following is in his office on August 30<sup>th</sup>, 2017 lasting for almost 1 hour, while since CEO of kitabisa.com was not available for face-to-face, whatsapp messenger and voice note were used on September 5<sup>th</sup>, 2017. The interview lasted only in 10 minutes. The questions being asked were different according to the data sufficiency obtained from each platforms website and the specific focus addressed. Indves.com were chosen to explore about Islamic crowdfunding, as it is a newly established sharia based platform, applying the full principle of Islamic finance. On the other hand, kitabisa.com was interviewed to get the insight on social activity funding or charitable fundraising in Indonesia and the motivation on the new feature of kitabisa.com that was launched recently. (The details of questions are explained in the appendix 3).

# CHAPTER 5

## DATA ANALYSIS & INTERPRETATION

This chapter will explain the result of research, data gathering and analysis on crowdfunding platforms in Indonesia. I conducted analysis-using data on all launched platforms in Indonesia between 2011 and 2017. There are 35 platforms that were launched since 2011, while 34 are still active and 1 ceased its operation. In the following section I discuss the characteristics of the platform that I identified.

### 5.1. Distribution of Platforms by Models

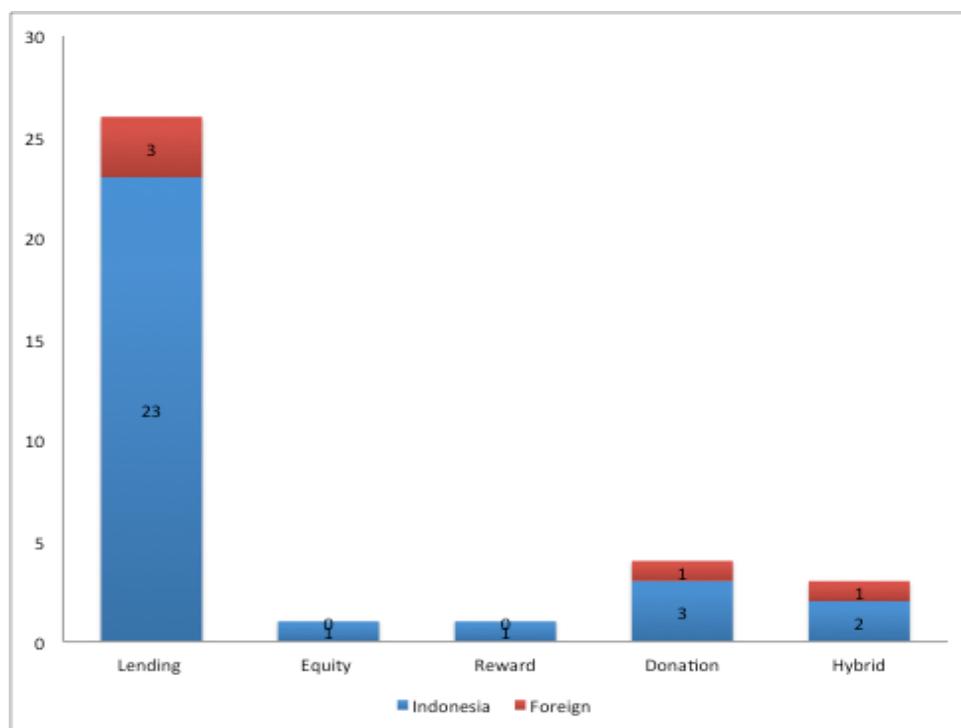


Figure 10. Distribution of Platforms by Models

The crowdfunding activity in Indonesia is marked with lending crowdfunding as the dominance model accounts for 74% of total active platforms. Donation based platforms follows as the second most frequent with 14%, then hybrid platforms come with 8%, followed by reward and equity based 2% which both have only 1 active platform. The high percentage of lending platforms has evidenced that crowdfunding is an alternative solution for financing. The latest establishment on P2P lending regulation will likely to boost number of platforms in the upcoming years.

More analysis has been performed to get a deeper understanding of this new phenomenon. I investigated several P2P platforms to understand the main objective of P2P lending and how it is different from banks loans. The result showed that in general, P2P lending applies less strict policy than Banks for some reasons; (1). P2P does not require collateral like banks, (2). unlike Banks, P2P adopts fixed interest rate (3). The time to process the loan proposal is shorter and the last but not the least, there is no pre payment fee in P2P, thus no penalty charge for early repayment. Considering the requirement, loan amount, and complexity of the process, P2P lending provides a larger range of target, serving also small entrepreneurs including group of people who were not served by the bank. Moreover, most of the loans are tied to real sector like agriculture, fishery and trading. Interestingly, there are some platforms which are specifically focused on agriculture like iGrow platform that helps underemployed farmers, under utilized land and investors to produce high quality organic food and sustainable incomes with cloud bases agricultural management software. While Iwak platform focus on connecting investors with families who take care of the pool for fish farming. It helps families to cultivate the freshwater fish with the latest technology. An increasing trend in P2P lending is also in line with crowdfunding trend in Europe and America. Dushnitsky, 2016, reported on their study that lending model generated around 70% of the funding volumes in both continents (Dushnitsky, Guerini, Piva, & Lamastra , 2016).

Among all lending based platforms, almost all of them are start-ups and only one is the incumbent player, Amaritha that previously was microfinance institution. Amaritha provided financial aid targeting group of women who have limited access to capital in

rural area. Starting from March 2016, it created P2P platform supported by credit scoring. The data shown that there were no player from Bank entering crowdfunding segment. This might be caused by the absence of regulation in the previous years. Financial Services Authority has just launched the regulation for P2P lending in December 2016. However, as the number of P2P lending platforms are increasing, the issuance of regulation is expected to encourage more players like Bank and other financial institution to enter this segment.

Another interesting fact to consider is that among P2P lending platforms, there are currently 7 sharia-based platforms adopting Islamic finance principles. 3 out of 7 sharia based platforms are operated by foreign players; 2 are from Singapore and the other 1 is from United States of America. One player from Singapore, Ethis Crowd, focuses on the real estate segment in Indonesia, which had started in July 2016 building almost 5,000 affordable houses. The project started paying out to the investor with the total amount of US\$1.5 million only after few months. Furthermore, some companies already running crowdfunding expanding their activity by entering the sharia-based activity, like kitabisa.com that launched a new feature on the platform “zakat” which is a mandatory form of giving according to Islamic law, determined by the taxation of wealth and income. Investree, another P2P platform has added a new feature of sharia based financing in addition to conventional financing. The growing number of players in sharia-based activity has motivated me to do further research by interviewing CEO of kitabisa.com and indves.com. The result of discussion will be explained in the following sections.

Donation based platforms are very interesting phenomenon in Indonesia. The successfulness of kitabisa.com, which recorded more than 9.2 million Euro fund collected since its establishment in 2014. The explosive growth has attracted 500 startups and 500 accelerator, the top accelerator programs worldwide to invest in kitabisa.com. One of the most successful projects is financing a mosque in Japan, which recorded an impressive total fund collected of IDR 3.2 Billion or more than \$246,000. In total there are 4 donation-based platforms in Indonesia plus 1 was originated in Netherland but had project presence in Indonesia. 3 out of the 4 Indonesian donation

based platforms focus on one or specific project. Wecare.id focuses on health issues, id.kopernik.info on technology products for people in the remotes area, and wujudkan.com focuses on the creative ideas. However, wujudkan.com had ceased its operation starting on March 1<sup>st</sup>, 2017 and became the only platform that shut down in the history of crowdfunding in Indonesia. Further research showed that the low number of successful campaign could not cover the operational cost of the platform. While kitabisa.com as the largest fundraising and donation-based platform cover all activities including but not limited to medical, education, community development project, creative ideas, religious activities, orphanage foundation, working capital for the poor, etc. There are also 2 hybrid platforms that run the donation based activity namely, Foundation Peduli Anak aims to help underprivileged children by providing shelter, education, medical support, advocacy and family care. The other one is KapitalBoost, Singapore based hybrid platform facilitating donation in ethical and sharia based according to Islamic law.

While donation and P2P lending platforms show an impressive achievement, the equity crowdfunding is still far behind the neighbor countries like Malaysia. There is only 1 equity crowdfunding platform in Indonesia that was launched in 2017, while Malaysia has 6 operators that already started earlier in 2016. Akseleran is the only equity platform originated in Indonesia. The absence of regulation and low level of financial literacy especially related to equity financing were believed to be the reasons of this issue. Besides, SMEs have other option in financing the needs of fund from cooperatives, microfinance institutions, and government subsidy (Mardanugraha et al, 2015). Another important source of fund for SMEs comes form private sector via CSR initiatives.

## *5.2. Distribution based on Platforms Origin*

The following graph shows the evolution of the creation of Indonesia platforms over time. The first Indonesian platform was created in 2011; a hybrid platform mixing donation and reward based which later triggered more donation platforms until in 2013, when the first lending platform was created.

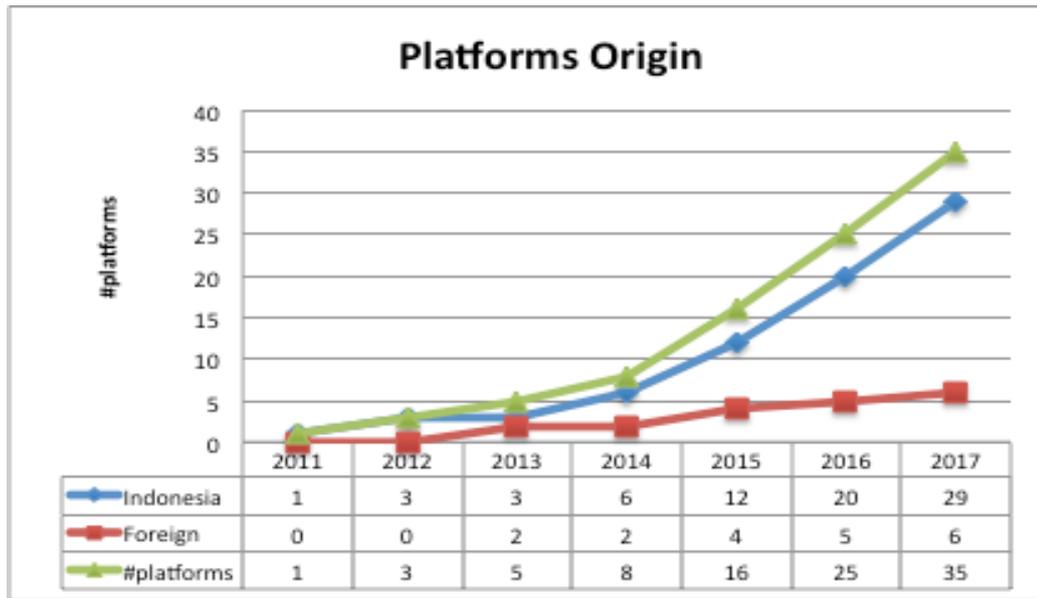


Figure 11. Cumulative graph of argentine and foreign platforms by year of birth

Regarding the origin of platforms, 29 originated in Indonesia and 6 are operated by foreign platforms namely, 3 are from Singapore, 2 from Netherland and 1 from United States of America. Almost all active Indonesia platforms in Indonesia are start-ups and only 1 is an incumbent, which expanded the business in crowdfunding. It is also interesting to see the distribution of platforms based on the geographic location.

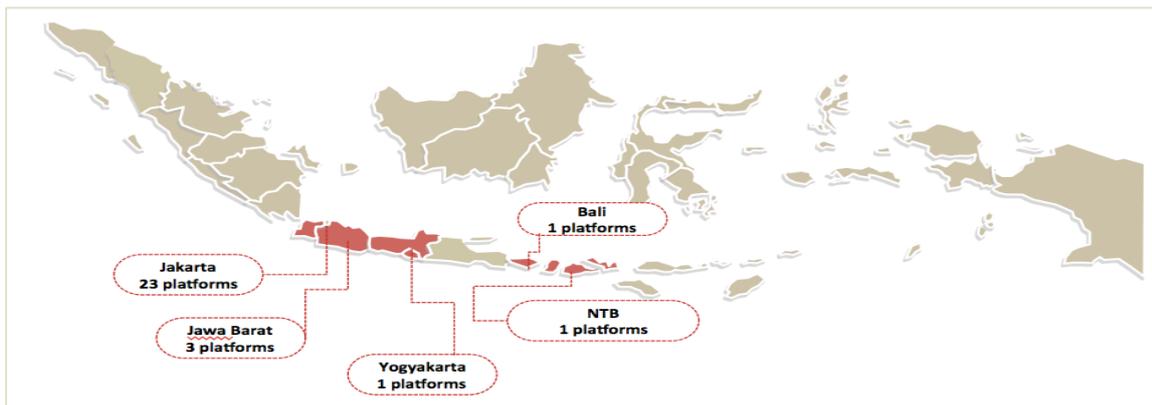


Figure 12. Distribution of crowdfundings based on Location

The vast majority of the platforms are located in the most populated region of the country. Other than java island there is only 1 platform in Bali and Nusa Tenggara Barat. This fact is in line with the research performed by Dushnitsky et al, (2016), a more densely populated area host a higher number of crowdfunding platforms.

The languages used on each platform vary depending on the platforms origin. 20 out of 35 platforms only use Bahasa Indonesia and all of them are originated in Indonesia. This fact could mean that crowdfunding in Indonesia is mostly used by locals. While 8 platforms have the option to choose between Bahasa Indonesia or English, 1 platform offers 3 languages English, Bahasa Indonesia and Japan, and 6 platforms do not offer Bahasa Indonesia, only provide English or English & Dutch. Platforms, which are not offering Bahasa Indonesia, are all foreign platforms. The platform that offers 3 languages is a donation based, Kopernik founded by Japanese but domiciled in Indonesia.

It was mentioned earlier that among P2P Lending platforms, there is an increasing number of sharia-based platforms. It is important to highlight the difference between conventional P2P lending and sharia based platforms. To do so, I conducted a comprehensive study on sharia-based platform including interviewing the CEO of indves.com a newly established sharia based platforms to understand the business model and what makes it challenging for Indonesian people. In addition, interview with CEO of kitabisa.com was also performed to get insight on the possibility of the platforms to enter sharia-based activity. Kitabisa.com was chosen because it was the most successful donation based platforms, which also helped people to finance religious based activities like building the mosque or church or donation based on Islamic law.

### 5.3. *Kitabisa.com*

KitaBisa ('we can', in Bahasa) is the leading crowdfunding site for social projects in Indonesia. Launched in 2013, it has garnered attention and attracted users, government official and local celebrities have also helped to promote the website. Users of the website can help social causes by through donation, volunteering, or sending in their ideas to the project team. Project creators set a budget for their projects, and they get to keep the pledged amounts when it crosses their budget requirements. If the required budget is not met, the pledged money is returned to the users.

As per September 11, 2017, kitabisa.com has facilitated 6, 530 projects successfully funded with total money raised is Rp. 143,694,545,179,- or more than Euro 9 millions and 397,292 backers. One of the most successful projects funded is building a mosque in Japan. More than Euro 200,000 was collected through kitabisa.com. According to Alfatih, the idea of kitabisa.com is the result of combining the technology and Indonesian value of “gotong royong” which means working together. He believed that Indonesia has a lot of people willing to do something valuable for others. And building the social trust is one of the key success factors in collecting money from the crowd. According to data taken from kitabisa.com, the total funds collected has shown an impressive increase from year to year.

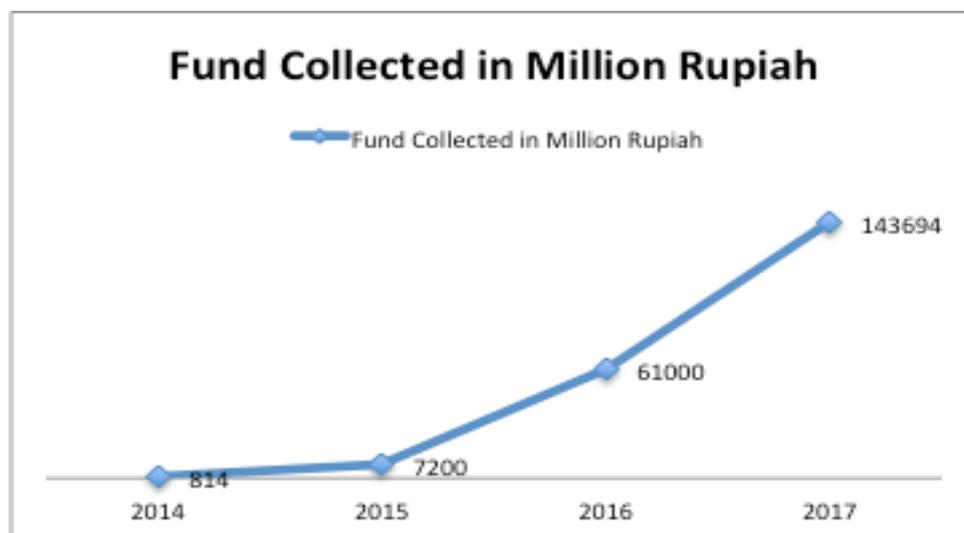


Figure 13. Total fund collected by kitabisa.com

Alfatih, the CEO also mentioned that most donors are comes from social network of the project owner such as family member and friends and in average the time length to collect total fund needed is 2 weeks to 1 month after it is published. The pattern of fund flow is more money collected in the beginning and near end of project campaign.

Kitabisa.com mobile app is the next stage for the platform; it will be a donor-centric app. It will provide 3 key features to make donation experience fun and engaging: 1) The market place for donation that will provide hundreds of different campaigns that donors can choose, 2) E-wallet so donor can top up certain amount and donate to many campaigns easily, and 3) Impact story report, so donors will always be updated about

the campaigns that they donate. The app will also create special campaigns in Zakat category, so Muslims can get reminder and pay their zakat through Kitabisa.com. The mobile app will focus on creating the best giving experience, so people will engage and be recurrent donors.

The new feature “zakat” of the platform was launched to accommodate the obligation of Muslims to allocate some of their income or wealthy for social charity. The concept is similar to traditional one; it is just the use of an online platform that makes it easier for people. Indonesia has the largest Muslim population with more than 200 millions Muslims, hence this new feature is expected to be successful in facilitating the need of people. Kitabisa.com charges 5% administration fee of the total fund collected for every project except for “zakat” and earthquake are exempted from any fee. Most funded projects are financial aid for medical treatment, followed by religious activities.

Kitabisa.com already connected with more than 500 nonprofit organizations to donors, and the mobile app is targeted to connect 1,000 non-profit organizations by the end of 2017. The mobile app is expected to bring 5 billion USD recurring donation and 2,000 recurring donors per month in the end of 2017. As also explained by Alfatih, kitabisa.com has the possibility to expand the activity entering the P2P lending. However, at the moment they are still focusing on the donation based platform.

#### *5.4. Indves.com*

Indves.com is a newly established sharia based crowdfunding in Indonesia. Bringing the concept of Islamic finance, Indves.com is a pure P2P lending sharia based. Dikri and Khairusy founded Indves.com in 2016. The momentum for Indves.com to grow is when the team won competition in Dubai bringing the concept of P2P lending based on Islamic Law. The main reason to enter specific market is because of the potential market on the population of Indonesia in which almost 90% of the populations are Muslims. In addition, the increasing needs on “halal” tourism, food and business in Indonesia are a big pie and is a real challenge, since there are only few players at the

moment and the performance of sharia banking is quite unfavorable due to strict regulation from regulator. Indves.com has a network of 2,420 investors and 264 SMEs.

Indves.com started to operate effectively in June 2016. According to Khairusy, the CEO, the main difference between conventional platforms and sharia-based platforms is the type of contract and recognition of profit sharing/profit loss. (Types of contract used by Indves.com are explained in the appendix 2). Other things to consider is all sharia-based crowdfunding will be supervised by “Dewan Pembina Syariah” or in “Sharia Board” to ensure all the process and activities are following Islamic principle. Indves.com applies a fully sharia-based principle in its operation.

Almarqozi (2014) explained that Islamic finance is based on Islamic principles that prohibit the charging or receiving of interest in money lending and borrowing. Instead, it performs financial intermediation collecting savings to finance projects and conducting economic activities through profit and loss sharing (PLS) contracts and markup instruments. Islamic finance describes the sector of finance that follows the rules of Sharia’h, the Islamic law, based on the Quran and the Sunna. Sharia’h has identified interest (riba), uncertainty (gharar) and gambling (maysir) as elements which are to be avoided in business transactions. Following these prohibitions, Islamic banking is defined by a set of rules: interest is forbidden, uncertainty in contractual terms and conditions is not allowed, investment in certain economic activities is banned (including pork, alcohol, tobacco and weapons production, gambling and adult entertainment), the rewards and risks of the economic activities have to be shared by all parties involved, and every financial transaction must be backed by a tangible asset.

Islamic finance is still new in Indonesia in comparison with conventional banking. Khairusy mentioned that sharia based platform is the right concept to help the small entrepreneurs in Indonesia who has difficulty to get loan from Bank since sharia based platform does not adopt interest recognition but profit or loss sharing between the project owner and the investors. It is believed that profit loss sharing or partnership finance with its focus on cash poor promising entrepreneurs has more economic potential than conventional collateral based lending which favors established business.

Therefore combining Islamic finance and crowdfunding will be beneficial for local communities and provide financial inclusion to those people who had been excluded by banks. Islamic finance and crowdfunding both conceptualize customers as investors and can potentially provide investment opportunities with higher returns. Interestingly, as most crowdfunding platforms charge a percentage commission on funds paid out to fundraisers, they are already applying a profit loss sharing formula. In addition, they both place a strong emphasis on transparency, mutual involvement and trust. Almarqozi, 2014

The survey conducted by Indves.com management about the motivation of Investors to join the platforms shows an interesting fact in which the main driver of most people investing in Indves.com is because of the religious reason. Adopting the value of “aman, halal dan berkah” or in English “ safe, halal and blessed” Indves.com found out that profit is not the main important thing for the investor but the motivation to help others. One unique fact mentioned by Khariusy, there are some recurring investors who are still willing to invest even after they incurred loss from the previous projects.

All projects funded by Indves.com are in real sector like agriculture, trading, farms, etc. The amount of each single project is varying but in general the financing is lower than the project offered by other conventional platforms. As per September 2017, total financing is approximately 500 million rupiahs or 33,000 Euros and the most funded projects are trading sectors. Indves.com consists of two group of team in managing the platforms. Group business is responsible for end-to-end operational activities including the financing initiation, disbursement, monitoring and collection. While Group IT is responsible to translate the business need into products feature, starting from designing, building mock up, releasing and testing. Testing is done repetitious in order to fully understand the market need and to create product that provides the right solution. Most of the team members are experienced and skilled in specific field.

The business process is started with the project owner filled the application in the platform. Then the team will start validating the feasibility of the project. Credit scoring is used to help in the screening process. 3 main parameters are applied namely,

location, character and the project feasibility. Location is really important since Indves.com will visit the location to validate the project. Currently, Indves.com only serve area of Jakarta, Bogor, Depok, Tangerang, Bekasi and Bandung that relatively can be reached within a day. For this reason the management has started to think to open branch in others islands due to an increasing financing proposals coming from all over Indonesia. The business feasibility is checked to ensure that business is really exist with minimum 1-year operation or 6 months is also accepted with strong consideration. Types of project that can be financed are real sector and for specific project such as seasonal income, will need an extra assessment from the expert. The last but not the least, the character is checked by asking some questions related to the project owner.

Indves.com management communicates and provides report to the investors monthly. When the project is unsuccessful, process of refund or reinvest in other project will be renegotiated. Profit or Loss will be shared both by investors and project owner as agreed in the contract. According to Khairusy, sharia based crowdfunding is very potential in Indonesia and just about time to grow exponentially. Robust and clear policy is required especially in relation to investor protection and also idea protection. Furthermore, the financial literacy and sharia knowledge are also important to attract more people to use the platforms.

# CHAPTER 6

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## CONCLUSION

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To conclude, the crowdfunding phenomenon in Indonesia is growing rapidly, following the increasing rate of crowdfunding growth in Asia. Indonesia being the largest economy in Southeast Asia, plays a significant role in the development of crowdfunding in Asia. Some players from other countries like Singapore, Netherland and United States of America are targeting Indonesia as a favorable market. Moreover, having demographic bonus as around half of the population is below 30 years old, numbers of entrepreneurs have increased significantly which will motivate people to start looking at crowdfunding as an alternative of financing solution.

The new regulatory framework on P2P Lending has stimulated the increasing number of lending platforms made it as the most dominant model in the country. An important and substantial agroindustry plus growing trend in real estate industry make crowdfunding becoming an interesting instrument to finance the emerging project. P2P lending is also answer to the non-bankable society who was excluded by Banks or other formal financial institutions. In addition, the presence of a sharia-based platform is another challenge to support the implementation of Islamic finance. As the need on the halal industry is increasing, more and more people are aware to the sharia based financing solution, which introduce a new concept of financing, prohibiting the recognition of interest and adopting profit and loss sharing. However, government, the companies who run crowdfunding, and the citizens need to work together to improve financial literacy and the knowledge of Islamic finance.

Fundraising and donation based platforms is reflecting the spirit of living in a community working together hand in hand to achieve the shared goals. Total fund

collected through donation platforms has recorded an impressive achievement reflecting the high level of society trust on the campaign management, thus encourage people to participate in social activities.

It is also important to highlight the willingness of regulator to formulate specific regulation on crowdfunding in a near future especially on the equity crowdfunding so that people will be more optimistic that this phenomenon will continue to happen and more players are willing to enter the market. Not to forget the absence of incumbent in the financial industry like banks or other financial institution should be taken into account. Further research needs to be conducted to understand more clearly how crowdfunding will affect the performance of those incumbent players.

# APPENDIX I

| platform_name | url_at_creation           | url_today                 | company_name                       | no_profit | de alio | de alio_type            | de alio_industry        | closed_pla<br>tform | acquired_<br>platform | inactive_<br>platform | exit_year | county    | equity | reward | donation | lending | mixed model | model_<br>changes | language_2015 | language_<br>changes | platform_<br>creation_<br>year |          |
|---------------|---------------------------|---------------------------|------------------------------------|-----------|---------|-------------------------|-------------------------|---------------------|-----------------------|-----------------------|-----------|-----------|--------|--------|----------|---------|-------------|-------------------|---------------|----------------------|--------------------------------|----------|
| Kitabisa      | https://kitabisa.com      | https://kitabisa.com      | PT. Kita Bisa Indonesia            | 1         | 0       | non profit organization | IT Based Business Model | 0                   | 0                     | 0                     |           | Indonesia | 0      | 0      | 0        | 1       | 0           | 0                 | 1             | INA; EN              | 17/12/14                       | 04/10/14 |
| GandengTangan | http://gandengtangan.org  | https://gandengtangan.org | Yayasan Gandeng Tangan Indonesia   | 1         | 0       | non profit organization | IT Based Business Model | 0                   | 0                     | 0                     |           | Indonesia | 0      | 0      | 0        | 0       | 1           | 0                 | 1             | INA; EN              | 10/10/16                       | 23/06/15 |
| WeCare.id     | http://wecare.id:80/      | https://wecare.id         | Yayasan Pelita Cakrawala Inspirasi | 1         | 0       | non profit organization | IT Based Business Model | 0                   | 0                     | 0                     |           | Indonesia | 0      | 0      | 0        | 1       | 0           | 0                 | 1             | INA                  |                                | 17/10/15 |
| Indves        | https://indves.com        | https://indves.com        | PT Indves Dana Syariah             | 0         | 0       | profit sharing          | IT Based Business Model | 0                   | 0                     | 0                     |           | Indonesia | 0      | 0      | 0        | 0       | 1           | 0                 | 1             | INA                  |                                | 09/01/16 |
| iGrow         | http://www.igrow.asia:80/ | https://www.igrow.asia    | PT. iGrow Resources Indonesia      | 0         | 0       | profit sharing          | IT Based Business Model | 0                   | 0                     | 0                     |           | Indonesia | 0      | 0      | 0        | 0       | 1           | 0                 | 1             | INA; EN              | Mar-16                         | 21/10/14 |

|              |                                 |                               |                              |   |   |                                |                         |   |   |   |  |           |   |   |   |   |   |   |   |         |          |          |
|--------------|---------------------------------|-------------------------------|------------------------------|---|---|--------------------------------|-------------------------|---|---|---|--|-----------|---|---|---|---|---|---|---|---------|----------|----------|
| IwaK         | http://iwak.me:80/              | http://iwak.me                | PT Gama Inovasi Berdikari    | 0 | 0 | profit organization            | IT Based Business Model | 0 | 0 | 0 |  | Indonesia | 0 | 0 | 0 | 0 | 1 | 0 | 1 | INA     |          | 18/10/15 |
| KapitalBoost | http://www.kapitalboost.com:80/ | https://kapitalboost.com      | KAPITAL BOOST PTE LTD        | 0 | 0 | profit sharing                 | IT Based Business Model | 0 | 0 | 0 |  | Singapore | 0 | 0 | 0 | 0 | 0 | 1 | 1 | EN      |          | 12/11/15 |
| Koinworks    | http://www.koinworks.com:80/    | http://koinworks.com          | PT. Lunaria Annuu Teknologi] | 0 | 0 | profit organization            | IT Based Business Model | 0 | 0 | 0 |  | Indonesia | 0 | 0 | 0 | 0 | 1 | 0 | 1 | INA; EN | 01/01/16 | 19/11/15 |
| Amartha      | https://amartha.com             | https://amartha.com           | PT Amatha Mikro Fintek       | 0 | 1 | financial institution non bank | microfinance            | 0 | 0 | 0 |  | Indonesia | 0 | 0 | 0 | 0 | 1 | 0 | 1 | INA     |          | 09/03/16 |
| DANAdidik    | http://danadidik.com:80/        | http://danadidik.com          | PT. Pasar Dana Teknologi     | 0 | 0 | profit sharing                 | IT Based Business Model | 0 | 0 | 0 |  | Indonesia | 0 | 0 | 0 | 0 | 1 | 0 | 1 | INA; EN |          | 23/01/12 |
| CROWDO       | https://p2psg.crowdo.com        | https://p2psg.crowdo.com      | CROWDO Indonesia             | 0 | 0 | profit organization            | IT Based Business Model | 0 | 0 | 0 |  | Singapore | 0 | 0 | 0 | 0 | 0 | 1 | 1 | INA; EN |          | 2013     |
| blossom      | https://blossomfinance.com/     | https://blossomfinance.com/#/ | Blossom Labs, Inc            | 0 | 0 | profit sharing                 | IT Based Business Model | 0 | 0 | 0 |  | US        | 0 | 0 | 0 | 0 | 1 | 0 | 1 | EN      |          | 30/03/15 |

|             |   |  |                            |   |   |                         |                         |   |   |   |   |      |           |   |   |   |   |   |   |   |   |     |          |
|-------------|---|--|----------------------------|---|---|-------------------------|-------------------------|---|---|---|---|------|-----------|---|---|---|---|---|---|---|---|-----|----------|
| CROWD       | <a href="https://www.crowd.co.id">https://www.crowd.co.id</a>     | <a href="https://www.crowd.co.id">https://www.crowd.co.id</a>                | PT Digi Laras Prosperindo  | 0 | 0 | profit sharing          | IT Based Business Model | 0 | 0 | 0 | 0 | 0    | 0         | 0 | 0 | 0 | 0 | 0 | 0 | 1 | 0 | INA | 29/04/17 |
| ETHIS CROWD | <a href="http://ethiscrowd.com:80/">http://ethiscrowd.com:80/</a> | <a href="https://www.ethiscrowd.com">https://www.ethiscrowd.com</a>          | Ethis Pte Ltd              | 0 | 0 | profit organization     | IT Based Business Model | 0 | 0 | 0 | 0 | 0    | 0         | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0   | 04/04/16 |
| wujudkan    | <a href="https://wujudkan.com:80/">https://wujudkan.com:80/</a>   | <a href="http://wujudkan.com/">http://wujudkan.com/ (not active anymore)</a> |                            | 1 | 0 | non profit organization | IT Based Business Model | 1 | 0 | 0 | 0 | 2017 | Indonesia | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0   | 31/01/12 |
| uangteman   | <a href="https://uangteman.com">https://uangteman.com</a>         | <a href="https://uangteman.com">https://uangteman.com</a>                    | PT Digital Alpha Indonesia | 0 | 0 | profit organization     | IT Based Business Model | 0 | 0 | 0 | 0 | 0    | Indonesia | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0   | 15/09/14 |

|                        |   |   |  |   |   |                         |                         |   |   |   |   |   |            |   |   |   |   |   |   |   |   |   |        |          |
|------------------------|---|---|--|---|---|-------------------------|-------------------------|---|---|---|---|---|------------|---|---|---|---|---|---|---|---|---|--------|----------|
| Foundation Peduli Anak | <a href="https://www.pedulianak.org">https://www.pedulianak.org</a>         | <a href="https://www.pedulianak.org">https://www.pedulianak.org</a>         | Foundation Peduli Anak                   | 1 | 0 | non profit organization | IT Based Business Model | 0 | 0 | 0 | 0 | 0 | Indonesia  | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 1 | INA    | 22/09/11 |
| Akseleran              | <a href="https://www.akseleran.com">https://www.akseleran.com</a>           | <a href="https://www.akseleran.com">https://www.akseleran.com</a>           | PT Akseleran Keuangan Inklusif Indonesia | 0 | 0 | Profit Organization     | IT Based Business Model | 0 | 0 | 0 | 0 | 0 | Indonesia  | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0      | 2017     |
| Ayodana                | <a href="https://ayodana.com">https://ayodana.com</a>                       | <a href="https://ayodana.com">https://ayodana.com</a>                       | Ayodana                                  | 1 | 0 | non profit organization | IT Based Business Model | 0 | 0 | 0 | 0 | 0 | Indonesia  | 0 | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0      | 2017     |
| MODALKU                | <a href="https://modalku.co.id">https://modalku.co.id</a>                   | <a href="https://modalku.co.id">https://modalku.co.id</a>                   | PT. Mitrausaha Indonesia Group           | 0 | 0 | profit organization     | IT Based Business Model | 0 | 0 | 0 | 0 | 0 | Indonesia  | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 1 | 0 | INA    | 03/12/15 |
| INVESTREE              | <a href="https://www.investree.id">https://www.investree.id</a>             | <a href="https://www.investree.id">https://www.investree.id</a>             | PT Investree Radhika Jaya                | 0 | 0 | profit organization     | IT Based Business Model | 0 | 0 | 0 | 0 | 0 | Indonesia  | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 1 | 0 | INA    | 12/12/15 |
| CROWDE                 | <a href="https://crowde.co">https://crowde.co</a>                           | <a href="https://crowde.co">https://crowde.co</a>                           | PT Crowde Membangun Bangsa               | 0 | 0 | profit sharing          | IT Based Business Model | 0 | 0 | 0 | 0 | 0 | Indonesia  | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 1 | 0 | EN:INA | 25/04/17 |
| MEKAR                  | <a href="https://mekar.id/en/">https://mekar.id/en/</a>                     | <a href="https://mekar.id/en/">https://mekar.id/en/</a>                     | PT. Sampoerna Wirausaha                  | 0 | 0 | profit organization     | IT Based Business Model | 0 | 0 | 0 | 0 | 0 | Indonesia  | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 1 | 0 | EN:INA | 26/10/16 |
| 1%club                 | <a href="https://onepercentclub.com/en/">https://onepercentclub.com/en/</a> | <a href="https://onepercentclub.com/en/">https://onepercentclub.com/en/</a> | 1%Club                                   | 1 | 0 | non profit organization | IT Based Business Model | 0 | 0 | 0 | 0 | 0 | Netherland | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0      | 04/10/13 |
| GRANADA                | <a href="http://gradana.com/#/home">http://gradana.com/#/home</a>           | <a href="http://gradana.com/#/home">http://gradana.com/#/home</a>           | PT Gradana Teknoruci Indonesia           | 0 | 0 | profit organization     | IT Based Business Model | 0 | 0 | 0 | 0 | 0 | Indonesia  | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 1 | 0 | INA    | 03/03/17 |
| TARALITE               | <a href="https://www.taralite.com/">https://www.taralite.com/</a>           | <a href="https://www.taralite.com">https://www.taralite.com</a>             | PT Indonusa Bara Sejahtera               | 0 | 0 | profit organization     | IT Based Business Model | 0 | 0 | 0 | 0 | 0 | Indonesia  | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 1 | 0 | INA    | 12/01/16 |
| JULO                   | <a href="http://julofinance.com:80/">http://julofinance.com:80/</a>         | <a href="https://www.julofinance.com">https://www.julofinance.com</a>       | PT. Julo Teknologi Perdana               | 0 | 0 | profit organization     | IT Based Business Model | 0 | 0 | 0 | 0 | 0 | Indonesia  | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 1 | 0 | INA    | 20/10/16 |
| SOFIS                  | <a href="http://sofis.id:80/">http://sofis.id:80/</a>                       | <a href="https://sofis.id">https://sofis.id</a>                             | PT SOFIS Lestari Fintechindo             | 0 | 0 | profit organization     | IT Based Business Model | 0 | 0 | 0 | 0 | 0 | Indonesia  | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 1 | 0 | INA    | 15/01/17 |

|                 |   |   |                               |   |   |                         |                        |   |   |   |   |   |   |   |   |   |   |            |        |          |
|-----------------|---|---|-------------------------------|---|---|-------------------------|------------------------|---|---|---|---|---|---|---|---|---|---|------------|--------|----------|
| Danabijak       | <a href="https://danabijak.com/index.html">https://danabijak.com/index.html</a>           | <a href="https://danabijak.com/index.html">https://danabijak.com/index.html</a>           | PT Digital Micro Indonesia    | 0 | 0 | profit organization     | IT Based Business Mode | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 1 | 0 | 0 | INA        |        | 2017     |
| FINTAG Maritime | <a href="http://fintegra.co.id">http://fintegra.co.id</a>                                 | <a href="http://fintegra.co.id">http://fintegra.co.id</a>                                 | PT. FINTEGRA HOMIDO INDONESIA | 0 | 0 | profit organization     | IT Based Business Mode | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 1 | 0 | 0 | INA        |        | 27/06/17 |
| Kreditcepat     | <a href="https://kreditcepat.id">https://kreditcepat.id</a>                               | <a href="https://kreditcepat.id">https://kreditcepat.id</a>                               | PT Credo Data Indonesia       | 0 | 0 | profit organization     | IT Based Business Mode | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 1 | 0 | 0 | INA        |        | 10/03/16 |
| Dynamic Credit  | <a href="http://dynamiccredit.com:80/">http://dynamiccredit.com:80/</a>                   | <a href="https://dynamiccredit.com">https://dynamiccredit.com</a>                         | Dynamic Credit Partners LLC   | 0 | 0 | profit organization     | IT Based Business Mode | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 1 | 0 | 0 | ENG        |        | 2017     |
| Artawana        | <a href="https://www.artawana.com">https://www.artawana.com</a>                           | <a href="https://www.artawana.com">https://www.artawana.com</a>                           | PT Kluge Inovasi Indonesia    | 0 | 0 | profit organization     | IT Based Business Mode | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 1 | 0 | 0 | INA        |        | 2017     |
| pendanaan.com   | <a href="http://www.pendanaan.co.id/index.html">http://www.pendanaan.co.id/index.html</a> | <a href="http://www.pendanaan.co.id/index.html">http://www.pendanaan.co.id/index.html</a> | PT Pendanaan Teknologi Nusa   | 0 | 0 | profit organization     | IT Based Business Mode | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 1 | 0 | 0 | INA        |        | 2016     |
| KOPERNIK        | <a href="https://id.kopernik.info/">https://id.kopernik.info/</a>                         | <a href="https://id.kopernik.info">https://id.kopernik.info</a>                           | Yayasan Kopernik              | 1 | 1 | non profit organization | IT Based Business Mode | 0 | 0 | 0 | 0 | 0 | 0 | 1 | 0 | 0 | 0 | INA;ENG;PN | Jun-17 | Nov-16   |

## APPENDIX II

| No | Type of Contract      | Description  |
|----|-----------------------|--|
| 1  | MURABAHAH BIL WAKALAH | Investors represent entrepreneurs to make purchases of goods that are used as investment objects with additional mutually agreed (margin) benefits. In this case wakalah process is performed first. Indves monitor the process, and then the sale and purchase transactions are realized.   |
| 2  | MUDHARABAH MUQAYYADAH | Investors involve in joint capital as shahibul maal (owner of capital) to fund entrepreneurs in carrying out the operational activities of entrepreneurs. The portion of the investor's capital is 100%. The profit loss sharing formula is specified in the beginning.  |
| 3  | MUSYARAKAH            | Similar to Mudharabah Muqayyadah, but in this contract, the entrepreneur is obliged to contribute capital of certain amount for the purpose of the financing.  |
| 4  | IJARAH                | Investors make a purchase of goods that will be used as an investment object with the agreed rental cost (ujroh).  |
| 5  | ISTISHNA BIL WAKALAH  | Investors represent entrepreneurs to make purchases of goods to be used as investment objects with additional mutually agreed (margin) benefits. Procurement process carried out in stages (not in the beginning of the transaction because the reservation made first). In this case wakalah process done first, Indves monitor the process, then istishna sale and purchase transactions are realized. |
| 6  | QARDH                 | Investors collectively collect money to lend it to entrepreneurs. Investors are not receiving any yield on the loan proceeds. The money is used for social activities.   |

## APPENDIX III

The purpose of designing questionnaires is to facilitate the discussion between interviewer and interviewee so that the discussion related to the research topic can be done in a more comprehensive way. Different questions were designed for different CEO since the availability of information is different on each platform's websites and there some specific question addressed to each CEO.

### Interview Questions to CEO of indves.com

1. Can you tell me the motivation behind the establishment of indves.com as P2P Lending Platform based on Islamic Law? Is there any specific reason to enter sharia market?
2. When did Indves.com start giving financing to people?
3. Who are the shareholders of indves.com?
4. Can you tell me the Indves management team and their background?
5. What do you think the differences between sharia-based platforms and conventional based platforms in term of regulation and types of contract?
6. Can you elaborate more about the business model and business process of Indves.com?
7. How do you validate the source of fund as it says on the website that money from investor must not come from an illegal or non-halal sources?
8. How much is the total financing disbursed and which category is the most funded project?
9. In average, how long does it take to collect the money needed for every project?
10. What do you think the main reason why banking or other financial institutions do not enter the crowdfunding industry?
11. How does Indves's management see the increasing number of P2P platforms or other crowdfunding models which expanding the business entering the lending market?
12. What do you think about the opportunity of sharia-based crowdfunding in the future?

### Interview Questions to CEO of kitabisa.com

1. Tell me the motivation behind the establishment of kitabisa.com as donation based platform? Is there any specific reason why does kitabisa.com focus only on donation and charitable fundraising?
2. How does the platform work? How does the verification process take place?
3. In average how long does it take to collect the fund for every project?
4. When did you add the feature "zakat" in the platform? And what is the reason behind the new feature added?
5. What do you think about expanding the business, like entering other segments such as lending or equity crowdfunding?
6. Where do you see the donation-based crowdfunding in the next 10 years?

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