

SME Funding And Crowdfunding Implementation of Badan Ekonomi Kreatif

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Abstract - This paper provides insights mechanism on how one of Indonesian public body called Badan Ekonomi Kreatif, or BEKRAF, helps Indonesian SMEs who operate in creative industry by funding their project or business. In the past, scholars already figured out that Indonesia didn't have any specific regulation on crowdfunding, but they figured out that there are hopes in Indonesian regulations that allowed the usage of crowdfunding in Indonesia for individuals and firms.

Purpose – This study aims for BEKRAF to initiate crowdfunding for themselves

Design/Methodology/Approach – Case Study. The study subjects are BEKRAF and SME's that are funded by BEKRAF. Primary data obtained through in-depth interview, while secondary data through Indonesian regulation. Results from both data are validated using triangulation method

Findings - The research shows that BEKRAF doesn't do crowdfunding for themselves because Indonesia doesn't have Crowdfunding Law specifically, but they still could initiate crowdfunding for themselves based on other regulations.

Research Limitations / Implications – The result of this research can only be used for BEKRAF and SME's who are funded by BEKRAF.

Originality / Value – This research provides insights on how important BEKRAF is for Indonesian SME's, specifically those who are competing in creative industry

Keywords – BEKRAF, Crowdfunding, Indonesia, Law, SME

1. Introduction

Money holds an important role for every firms to keep existing. In common, firms could get their money from two sources, borrowing from bank or founders cash. In the future, when the business get bigger, firms need extra cash to fund their business expansion. Speaking about obtaining extra cash to fund their business expansion, firms could get their money from financial institution of issuing new shares. These two methods are known as best practice for firms to gain extra cash. Meanwhile in USA, there has been an alternative for firms or person to gain extra cash called crowdfunding.

Crowdfunding in USA is a new alternative method for a person or firms to gain extra cash. Crowdfunding is well-known in USA since 2012, when an entrepreneur named Eric Migicovsky initiate a crowdfunding to fund his project in creating "Pebble" watch. At that time, Eric Migicovsky needed only US\$100.000 to fund his project, but he managed to gain US\$10.000.000 instead, which donated by 68.929 people. The results of Eric's crowdfunding is quiet marvelous, considering his campaign only lasted for 37 days. Eric's crowdfunding campaign was well executed from start to finish. Eric and his team prepared their campaign by presenting their prototype, making video, and partnering with the right party. The video that Eric and his team made is based on videos that are succeeded from others previous campaign that initiated in Kickstarters, a crowdfunding platform.

Eric's accomplishment in gaining extra cash using crowdfunding cannot be achieved without the ratification of Jumpstart Our Business Startup (JOBS) which signed by President Barack Obama in April 2012. The main purpose of the ratification is to allow firms or person to gain cash as capital through crowdfunding platform in order to make less restrictions of selling firms equity. The ratification of JOBS and the succession of Eric's crowdfunding campaign are proves that there are changes in firms or person funding.

Crowdfunding is a method used by person or firms to gain extra cash through internet

as platform which connect them to the crowd to fund their project or business. There are three categories of crowdfunding, which are donation-based, reward-based, lending-based, and security/equity-based crowdfunding. These kind of fundraising needs to be done on the sole purpose of economic growth. Crowdfunding user relishes many benefits, one of which are less cost of equity.

In Indonesia, capital market holds an important role in providing firms to gain extra cash by selling their equity or issuing new shares, meanwhile crowdfunding could be an alternative for SME's to keep existing. SMEs very existence need to be sustained because SMEs can survive for global economic crisis. SME's in Indonesia are also important, because they reduce Indonesia's unemployment rate.

Although SMEs hold important role in order to grow the nation's economy, in reality SMEs still face difficulties to get access to financial institution in order to gain cash as a capital. This phenomena keeps happening because there is a tendency from financial institution to take extra caution in lending their money to SMEs. Here is the part where BEKRAF could make an impact for SMEs, specifically those who compete in creative industry, in form of fund their business.

BEKRAF as a public institution is assigned to help those SMEs who compete in creative industry to expand their business. In order to achieve their goal, BEKRAF set a program called Dana Ekonomi Kreatif (Dekraf), a program assigned to fund SMEs. In Dekraf, there are two schemes of SMEs funding, which are internal and external funding. Internal funding is based on State Budget (APBN) and Crowdfunding (based on BEKRAF's official website), meanwhile external funding is from third party in form of partnership.

The fact that BEKRAF put crowdfunding as one of their funding source is intriguing, because Indonesia hasn't ratified Crowdfunding Law but people in Indonesia could still initiate crowdfunding. This research is to shows how BEKRAF could initiate crowdfunding in situation where there hasn't any law that regulate crowdfunding.

2. Literature Review

Crowdfunding is not something new to communities. Crowdfunding is actually exist since a long time ago, in 1770. At that year, a man named Jonathan Swift introduced and implemented a micro-funding concept called "Irish Loan Funds" (Sweetman, 2005). Crowdfunding was also famously well-known to gather funds to built The Statue of Liberty, initiated by Joseph Pulitzer (BBC Magazines, 2013). Since then the use of crowdfunding to gather funds globally from year to year increases. Statistically, the amount of funds gathered using crowdfunding increased by 167% in 2014, and it will not stop there (Massolution, 2015). Many scholars tried to define what crowdfunding is. An organization called International Organization of Securities Commissions define crowdfunding as an umbrella term describing the use of small amounts of money, obtained from a large number of individuals or organizations, to fund a project, a business, or a personal loan, and other needs through an online web-based platform (Kirby & Worner, 2014).

Mason & Pierrakis (2013) stated that there are at least four kind of crowdfunding. Four of those are donation-based crowdfunding, reward-based crowdfunding, debt-based crowdfunding, and equity-based crowdfunding. Donation-based crowdfunding is part of crowdfunding where an individual or organization who act as funders will give their money to another individual or organization to fund their project without expecting any return. According to Vargas, Dasari, and Vargas (2014), donation-based crowdfunding can be divided into to subcategory, which are personal campaign and charity fundraising. Personal Campaign usually executed by and individual or a small community to fund their social activities or their family needs. Charity fundraising is utilized when a crowdfunding is used to gather funds for a registered charity. Meanwhile, reward-based crowdfunding is a crowdfunding where the

funders deserved to get some returns for what they have donated to the fundraiser, but the returns are not financially. Because the returns are not financially, Vargas, Dasari, and Vargas (2014) stated that it is hard to differentiate between donation-based crowdfunding and reward-based crowdfunding.

According to Vulkan, Åstebro, & Sierra, (2016), crowdfunding is becoming a phenomena, exclusively in United Kingdom. Crowdfunding has already made a big impact in UK economic scene and could became an important tools for entrepreneurial finance in US. Vulkan, Astebro, and Sierra's study found that in one of crowdfunding platform in UK, there is an increase on the amount of project funded using crowdfunding in 2015. Even the study found that there are many project that are overfunded. The study shows that the finding is consistent with Agrawal, Catalini, & Goldfarb, (2015).

3. Methodology

The research subject is a public institution called Badan Ekonomi Kreatif (BEKRAF) and an SME called Soul in The Box who has received funding from BEKRAF. There are two types of data used for the purpose of this research, which are Primary Data and Secondary Data. Primary Data was obtained through In-Depth Interview, while the Secondary Data consist of Indonesian Regulation that still relevant in October 2018.

- In-Depth Interview

Researcher conducted three interview with three different person. The first interviewee was Ms. Hanifah Makarim, as the Head of Sub Fund Society of BEKRAF. The interview was to discuss about whether BEKRAF could initiate crowdfunding or not. The conclusion from the interview was BEKRAF could and will not initiate

crowdfunding because Indonesia hasn't ratified Crowdfunding Law.

The second interviewee was Ms. Fika Utami, as staff of Sub Fund Society of BEKRAF. The interview was to discuss the possibilities of BEKRAF to initiate crowdfunding and how BEKRAF fund SMEs business, especially those who compete in creative industry. The conclusion from the interview was BEKRAF could initiate crowdfunding through a set of old Law, ratified in 1961 and 1980. BEKRAF also help Indonesian SMEs by funding their business.

The third interviewee was Ms. Ayesha Kusuma Wardhani as the CEO of Soul in The Box. She and her business was one of many SMEs that received BEKRAF's funding in form of Bantuan Insentif Pemerintah. The interview was to discuss the mechanism of how BEKRAF fund SME's business and what is the impact of the fund that given by BEKRAF for the business. The conclusion of the interview was most SMEs chose BEKRAF to get extra cash because there will be no further obligations towards BEKRAF. Not all SME's. They will have to get through several selection process before chosen as the receiver of the fund.

- Indonesian Law
Indonesian Law used in this research is Law No. 9 of 1961 on Collecting Money or Goods, Government Regulation Number 29 of 1980 on Implementation of Collecting Donation

The results of those interview is validated using Triangulation Method. Triangulation Method is a method used to

obtain a validity of data using multiple methods. The multiple method that is intended to obtain a data policy is to use things that are not part of the data itself. The triangulation method that I use in this research is Triangulation Method, which compares some information obtained from different sources. In this study, the researcher compared the results of one interview with another interview and compared the results of interviews with laws and regulations.

4. Findings

- Conclusion from Three Interviews

BEKRAF is a government institution whose duty is to help creative economic actors develop their business or project, whether in terms of providing training, mentoring, or providing additional funds for creative economic actors in need. In providing assistance in the form of additional funds, the funds in question can come from the State Budget which has indeed been budgeted or originates from partnerships with third parties, namely the banking and non-banking parties. Based on the official page from BEKRAF, one of the funding sources obtained by BEKRAF came from crowdfunding. However, based on the information from the first speaker, BEKRAF never initiated crowdfunding. What BEKRAF does is only matchmaking between potential investors and creative economic actors. This is what crowdfunding means on the official website of BEKRAF according to the first guest speaker. Assistance to creative economic actors still exists, but not from crowdfunding

In line with the first speaker, the second guest speaker also stated that it was true that BEKRAF had never initiated crowdfunding, but in fact, BEKRAF could still play a role in supporting creative economic actors who initiated

crowdfunding. This support is demonstrated by the inclusion of the name BEKRAF on the campaign pages of creative economic actors on every crowdfunding platform. The second speaker stated that crowdfunding could be an alternative solution for creative economic actors who want to find additional funds but do not want to be burdened with certain obligations should borrow money from a banking institution. Furthermore, the second speaker regretted that the crowdfunding method was not considered by donors or the community because of the stigma attached to the community that crowdfunding was only for social purposes, such as natural disasters, health, education, and others. Until now, BEKRAF has not dared to initiate crowdfunding because there is no adequate legal basis for BEKRAF.

BEKRAF is a solution for economic actors in seeking additional funds because in providing additional funds, BEKRAF does not expect any contribution. BEKRAF only asks creative economic actors who are given funds to continue reporting on the development of their business for the next one or two years. This is also the reason for the third source asking for additional funds to BEKRAF. The third resource person considers that some investors lend their money by expecting a return contribution of a percentage of profit, whereas according to the third source, this is usury and is not in line with the principle of the third source. Based on this statement, asking for money to BEKRAF is the best solution for the third resource person.

- Results from Interview Compared to Regulations

Crowdfunding conducted by BEKRAF aims to help creative industries in Indonesia to achieve prosperity. The crowdfunding conducted by BEKRAF is also part of the BEKRAF program itself, which means that crowdfunding conducted by BEKRAF is in accordance with government programs. Thus, BEKRAF can use crowdfunding based on the two laws and regulations to raise funds that can later be given to help creative economic actors.

5. Conclusion

This research was conducted with the aim of finding out whether non-Ministry Government Institutions, especially BEKRAF can use crowdfunding methods to raise funds aimed at helping creative economic actors in developing their business or project. The study was conducted by interviewing two people from BEKRAF and one from the UMKM who received assistance from BEKRAF. The researcher used the triangulation method in processing research data.

The conclusions obtained from the results of this study are as follows:

- Crowdfunding that is meant by BEKRAF on their official website is BEKRAF as a matchmaker between creative economic actors and potential investors. This understanding is different from the understanding of crowdfunding in general.
- BEKRAF has never initiated crowdfunding to raise funds to help creative economic actors. This is because BEKRAF feels that it does not have a legal umbrella for crowdfunding.
- BEKRAF has collaborated with crowdfunding platforms in Indonesia to help creative economic actors in raising funds. This has often been done, even for film projects that were previously

doubted by the platform in question, BEKRAF also supported it.

- BEKRAF helps creative economic actors who seek additional funds through internal and external funding. Internal funding is funding originating from the APBN which is indeed budgeted to help grant creative economic actors named Government Incentive Assistance. External funding is done in collaboration with third parties, namely banking and non-banking.
- Creative economic actors prefer to seek additional funds to BEKRAF because the funds provided by BEKRAF are grant funds, so creative economic actors do not need to contribute back in any form. It's just that BEKRAF requires creative economic actors who receive Government Incentive Assistance to provide reports on the business development of these creative economic actors. There are also creative economic actors who prefer to request funds from BEKRAF to avoid usury

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