

## Conference Paper

# The Role of Social Capital in the Fintech Application with the Crowdfunding Scheme

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## Abstract

The crowdfunding phenomenon began to develop in Indonesia since the emergence of various applications that used crowdfunding schemes such as akseleran.com, kitabisa.com, wecare.id, gandengtangan.com, wujudkan.com. Crowdfunding has the hallmark of mutual funds that are interconnected usually through the internet, to invest and support efforts initiated by other people and organizations. Community involvement in crowdfunding requires social capital in the form of trust, social networks and norms. Various studies of crowdfunding and social capital find the role of social capital in the development of crowdfunding. This article intends to gather various views on the role of social capital in fintech applications with crowdfunding schemes in Indonesia and abroad. The development of crowdfunding is not only influenced by social capital but also by regulations governing crowdfunding schemes in each region. Therefore it is important to develop regulatory policies that support the development of crowdfunding and also increase the involvement of the community.

**Keywords:** crowdfunding, social capital, equity crowdfunding

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## 1. Introduction

Social capital in society has many forms and roles, one of which is crowdfunding. The goal can be for business or for social purposes. The term crowdfunding, according to the first time appeared on the Kickstarter page in 2009, is a funding scheme used so that a large group of people can collect their money to help fund an idea [1]. Kickstarter took this concept to develop creative models to get funding from friends. Projects range from documentaries to items in the form of iPod watches. The rewards range from digital movie downloads to VIP theater viewing experiences. This research on Kickstarter was discussed in several British journals, Italy which became references in this article such as the role of social capital in the success of crowdfunding projects [2], gender dynamics in crowdfunding with the Kickstarter sample [3].

Crowdfunding in Indonesia is still only in the form of social activities such as 5 web portals that operate, namely: akseleran.com, kitabisa.com, wecare.id, gandengtangan.com, wujudkan.com. In several zakat institutions such as Dompot Dhuafa, Lazimu, Rumah

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Zakat and several other zakat institutions, they have actually implemented the concept of funding or crowdfunding to finance several social projects for the poor [4]. The scheme used is zakat, infaq, almsgiving, endowments from donors of zakat institutions.

## 2. Research Methods

The method used in writing this article is a qualitative method of phenomenology. Phenomenological analysis is analyzing how individuals understand their world (world of life). Look for insights about the meaning possessed by events and experiences for people [25]. This method is considered appropriate for discussing crowdfunding because there are not many fintechs in Indonesia that use crowdfunding schemes. The way to obtain information is by studying literature to find information about the role of social capital in crowdfunding. Dozens of journals, regulations both from abroad and within the country were reviewed and conclusions were drawn and criticized. Regulations related to crowdfunding both abroad and domestically are also reviewed based on sources of information obtained from various articles.

## 3. Result

### 3.1. Rules about crowdfunding

In Indonesia the rules regarding new crowdfunding are in the form of rules relating to fintech (financial technology) which are divided into 4 things:

1. Peer to peer lending: POJK Number 77 / POJK.01 / 2016 concerning Information Technology-Based Lending and Borrowing Services [20].
2. Digital Financial Innovation: POJK Number 13 / POJK.02/2018 concerning Digital Financial Innovation in the Financial Services Sector [21].
3. Payment System: PBI Number 19/12 / PBI / 2017 concerning the Implementation of Financial Technology [22].
4. Technology-Based Stock Funds Urgent: POJK... / POJK.04 / 2018 Draft on Funds Under Service through Equity Crowdfunding [23].

Fintech applications at OJK as of April 2019 registered and licensed are 106 companies. The majority are money lending and borrowing services, while crowdfunding in Indonesia is less than 5 web portals [24]. Compare this with England which already has

more than 1,000 portals for crowdfunding schemes [5]. Despite technological advances, does social capital affect the success of crowdfunding? This article tries to answer this question by examining various studies on social capital and its relationship with crowdfunding.

Crowdfunding activities can be defined as collection and distribution activities. This new definition is regulated in POJK Number 13 / POJK.02/2018 concerning Digital Financial Innovation (IKD) article 3 paragraph b concerning equity crowdfunding classified as capital accumulation and verse g about social / eco crowdfunding classified as other digital financial supporters [21]. Research on crowdfunding in Indonesia which was recorded in Mendeley as of June 29, 2019, only 25 studies with research samples still ranged in 5 web portals namely: akseleran.com, kitabisa.com, wecare.id, gandengtangan.com, wujudkan.com.

In Europe crowdfunding applications develop mainly in the United Kingdom, Italy, France and the Netherlands [6]. The European Union through the European Parliamentary Research Service conducts research on crowdfunding markets in Europe. They divided the crowdfunding scheme into four parts, namely:

1. Donation based, where people do not receive any compensation for their contributions (although, depending on the project and jurisdiction, they can be entitled to deduction taxes);
2. Reward based, where people receive goods or services in return for their contributions;
3. Loan based, where contributors receive interest payments in return for financing projects with agreed return and maturity dates;
4. Equity based, where people receive shares in a venture, in return for contributions.

### 3.2. The role of social capital in crowdfunding

Some researchers from both Indonesia and abroad began to look for the role of social capital in crowdfunding success. Allegedly because of crowdfunding schemes that require many people to fund their projects, social capital is considered to have an important role in the success of the project both in terms of the acquisition of funds and other targets such as the amount of participation.

Social capital according to Bourdieu [17] is defined as an aggregate of actual or potential resources bound to create durable networks so as to institutionalize mutually

beneficial relations. Social capital can be simplified as something embodied in the structure of relationships between individuals. Bourdie believes [17] that social networks are not natural given but are constructed through investment strategies that are oriented towards the institutionalization of group relations that can be used as a reliable source for benefits. This is where crowdfunding can be used as an institutionalization of group relations to make a profit.

Parties involved in social capital can gain direct access to economic resources (subsidized loans, investment advice, protected markets); they can increase cultural capital through contact with civilized experts or individuals (inherent in cultural capital). Social capital structures separate between two elements [18], namely:

1. Social relations alone allow individuals to claim access to the resources their associations have.
2. Amount and quality of these resources.

### **3.2.1. Social Capital Can Provide Crowdfunding Feedback**

The forms of social capital turned out to be one of the advantages of crowdfunding entrepreneurs [5]. For example by exposing products to the public, employers can receive a wide and varied set of feedback. In addition, campaigners can enjoy tremendous positive exposure to potential customers and potential investors. The method used by Forbes and Schaefer is a qualitative method by assessing crowdfunding experience, namely:

1. The subject's experience about crowdfunding including any investment has been discussed
2. Exploring Exercises: Subjects are shown on the Kickstarter home page and asked to see some of their chosen projects.
3. Individual Campaign Study: The subject is asked to look at the campaign by first watching the video, then looking at the description before learning all the other features and making the decision whether to invest.
4. General Comments: Participants are finally asked for comments or general opinions about crowdfunding.

### 3.2.2. Social capital helps increase contribution in crowdfunding

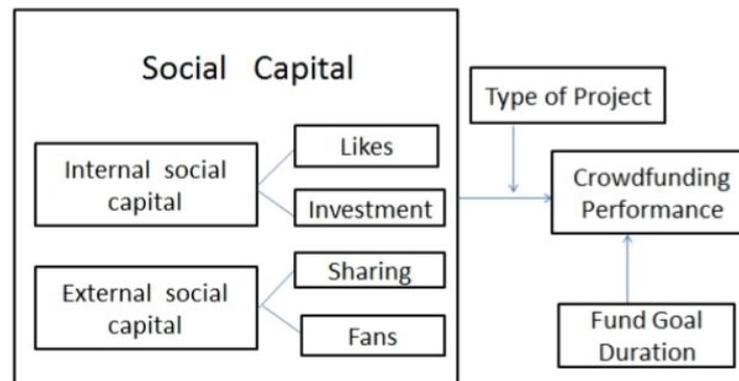
Another study of the role of social capital in crowdfunding is research that analyzes how social capital helps attract contributions early in a campaign under conditions of uncertainty [2]. This research is to highlight that the use of crowdfunding platforms allows supporters to utilize not only their external social capital (community unknown to businessmen), but also additional stocks of social capital specifically built in crowdfunding communities. Researchers suspect that crowdfunding platforms are not only intermediaries for monetary transactions, but also a locus of social connections. The sample used was 669 crowdfunding projects on Kickstarter.

Another findings show that internal social capital (community known to business actors such as family, friends) is positively related to the amount of initial capital and the number of initial supporters, and that the positive relationship between internal social capital and the probability of project success is fully mediated by these two variables [8]. The researcher controls external social capital and confirms its influence on the attractiveness of the initial contribution. The researchers also showed that external social capital did not have a direct effect on success and found that the effects of external social capital on initial contributions were less impacted on crowdfunding projects than the effects of internal social capital.

### 3.3. Intermediary social capital in crowdfunding

Research on social capital and crowdfunding was also conducted by researchers from China. They suggest that the design of social capital and social networking in crowdfunding projects must be taken into consideration, because the platform itself must be considered an intermediary for social capital [7]. The models they developed are as follows:

This research supports the influence of social capital (both internal and external from the community initiating crowdfunding projects) on the success of crowdfunding projects. The model presented is the dependent variable is crowdfunding performance. Two types of social capital, namely internal social capital and external social capital are identified as independent variables. The researcher also models the type of campaign as a moderator variable. They set that type = 1 when the project is for profit, and type = 0 for nonprofit projects. Then they enter crowdfunding goals and project campaign duration as control variables. The results of the study show that non-profit project



**Figure 1:** Research model role from internal and external social capital in crowdfunding [7].

proponents must build their internal and external social capital to promote crowdfunding performance.

Relationships between geography, capital and social areas with crowdfunding also began to be investigated. The first finding said that geographical areas also influenced altruism which became a source of social capital which influenced the performance of crowdfunding in Italy [8]. The second finding says that crowdfunding strengthens social capital which has been limited by China's geography because of the presence of social media such as the SNS or its Chinese notebook that is used to crowdfunding funds [9]

From Indonesia, research on social capital and crowdfunding is associated with the concept of mutual cooperation (*gotong royong*) [10], [11]. Mutual cooperation which is defined as a form of social solidarity in the form of assistance from other parties, both for personal interests and for the public interest, so that in it there is a loyal attitude of each community as a whole [11]. Assistance provided is carried out sincerely without compensation. Mutual cooperation is a social movement that finds new forms in the spirit of collaboration for crowdfunding funding activities [10]. The essence of mutual cooperation as an act of cooperating selflessly remains not lost. But it changes using different methods. This social capital can be a new strategy for non-profit organizations or social service organizations in building a wider network of audiences including the role of social workers.

The crowdfunding rules for international have been made by The International Organization of Securities Commissions (IOSCO). Whereas in Indonesia crowdfunding rules are made by the Financial Services Authority (OJK). These rules have included four types of crowdfunding, namely: 1. Based on donations, 2. Reward based, 3. Loan-based, 4. Equity-based.

### 3.4. Alternative Investment Funding in the form of Equity Crowdfunding

Equity crowdfunding can actually be an investment funding alternative that cannot be served by capital markets and banks. Indonesia has a culture of sharing results in investing in real assets [16]. The type of investment in real assets still cannot be served by the capital market and banking. But starting to appear in fintech applications such as iGrow, iTernak which offers real asset investments in agriculture, animal husbandry and fisheries. Trading sector like Koperasi212, Tokokita is also one form of crowdfunding equity.

People number millions of people can fund or crowdfunding in investment. The stronger the social capital that is owned, the more people participate and the number will increase. However, the FSA or OJK actually looks to limit this opportunity and limit the number of investors and the amount of investment. The draft POJK article 4 states that the Issuer is not a Public Company as referred to in Act Number 8 of 1995 concerning the Capital Market if: a. the number of shareholders of the Issuer is not more than 300 (three hundred) parties; and b. the amount of paid-up capital of the Issuer is not more than Rp. 18,000,000,000 (eighteen billion rupiah).

## 4. Conclusion

Social capital has a new form along with the development of technology, especially the application of financial technology in the form of crowdfunding, which began around 2011. After several years of operation, various studies strengthen the important role of social capital. Social capital can be from the internal community or outside the community initiating crowdfunding project. Both profit-oriented and non-profit business actors must be good at maximizing the potential of social capital if they want the project to be initiated successfully.

In Indonesia, crowdfunding is still associated only with social activities such as 5 web portals that operate only in the social field. Even if it is developed further to become profit oriented, it will get funding for business projects that cannot be served by the capital market and banking. Profit-oriented crowdfunding, which is equity crowdfunding, will give investors more advantage, that is, instead of accepting a simple return, people who act as equity investors, crowdfunding will have the opportunity not only to gain profits but also to have a percentage of the company itself. Unfortunately, this opportunity has not been captured by the OJK because POJK's design of equity crowdfunding article 4

only limits a maximum of 300 investors even though potential crowdfunding investors may become members of a community of millions [23].

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