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Islamic Financial Literacy and Regulatory Framework in the Implementation of Equity Crowdfunding in Indonesia

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Abstract

Sharia investment through Equity Crowdfunding (ECF) has become one of the main pillars in developing the Islamic financial system in Indonesia. Although it is regulated by OJK Regulation No. 57/POJK.04/2020 and strengthened by the DSN-MUI fatwa, the implementation of Sharia-compliant ECF still faces significant challenges. This study aims to analyse the legal framework of Sharia ECF in Indonesia, evaluate compliance with its principles in its practices, and identify challenges related to financial literacy and legal protection for investors and issuers. The research method used is a normative legal approach with qualitative analysis through a literature review of relevant regulations, fatwas, and legal documents. The findings show that the low level of financial literacy and inadequate supervision of ECF platforms affect investor participation and the effectiveness of legal protection. Based on these findings, the study recommends the massive enhancement of financial literacy, strengthening Sharia-based supervision, and developing Sharia dispute resolution mechanisms to create a fair, sustainable, and inclusive Islamic capital market.

Keywords: *Equity Crowdfunding; Islamic Investment; Financial Literacy; Regulation.*

Abstrak

Investasi syariah melalui Equity Crowdfunding (ECF) merupakan salah satu pilar utama dalam pengembangan sistem keuangan syariah di Indonesia. Meskipun telah diatur melalui POJK No. 57/POJK.04/2020 dan diperkuat oleh fatwa DSN-MUI, implementasi ECF syariah masih menghadapi tantangan signifikan. Penelitian ini bertujuan untuk menganalisis kerangka hukum ECF syariah di Indonesia, mengevaluasi kepatuhan terhadap prinsip syariah dalam praktiknya, serta mengidentifikasi tantangan-tantangan yang muncul terkait literasi keuangan syariah dan perlindungan hukum bagi investor maupun emiten. Metode yang digunakan adalah pendekatan yuridis normatif dengan teknik analisis kualitatif melalui studi pustaka terhadap regulasi, fatwa, serta dokumen hukum relevan. Hasil penelitian menunjukkan bahwa rendahnya literasi keuangan syariah dan lemahnya pengawasan terhadap platform ECF berdampak pada partisipasi investor dan efektivitas perlindungan hukum. Berdasarkan temuan tersebut, Penelitian ini merekomendasikan peningkatan literasi keuangan syariah secara masif, penguatan pengawasan berbasis prinsip syariah, serta pengembangan mekanisme penyelesaian sengketa syariah guna menciptakan pasar modal syariah yang adil, berkelanjutan, dan inklusi pasar modal syariah.

Kata Kunci: *Equity Crowdfunding; Investasi Syariah; Literasi Keuangan; Regulasi*

Introduction

Sharia-compliant investment has become one of the main pillars in developing the Islamic financial system in Indonesia. Along with the rapid advancement of technology and the growing public demand for more flexible investment options, the mechanism of Equity Crowdfunding (ECF) has emerged as a promising alternative within the sharia capital market. Previous studies have shown that financial statement disclosures on the websites of Sharia-compliant crowdfunding platforms are voluntary and not mandated by the Financial Services Authority Regulation (POJK) No. 77/2016. This practice does not comply with the PSAK 101 accounting standard, thereby raising concerns about the accuracy and quality of public financial information in the Sharia fintech sector, which demands high levels of transparency and accountability (Rifqiawan & others, 2025). Asyharul Muala (2020) argues that economic globalization has reinforced the dominance of capitalism and liberalism. In contrast, Islam, through its Sharia-based economic system, offers an alternative approach to addressing global economic challenges. In this context, Islamic economics and sharia-compliant equity crowdfunding (ECF) emerge as viable solutions to fulfill fundamental human needs and generate shared benefits in alignment with the principles of maqashid al-shariah. This concept is particularly relevant in responding to the challenges posed by globalization that impact the Indonesian economy (Muala, 2020).

ECF serves as a platform that facilitates the fundraising efforts of growing companies by enabling them to sell shares directly to investors while strictly adhering to Islamic law principles (Rahmawati dkk., 2018). These principles include the prohibition of *riba* (usury), *gharar* (uncertainty), and *maysir* (gambling) to ensure fairness and sustainability in financial activities. Accordingly, the role of Sharia-compliant Equity Crowdfunding (ECF) platforms is to provide entrepreneurs with access to capital and encourage public participation in sustainable economic development in alignment with Sharia principles.

However, despite the significant potential offered by Sharia-compliant Equity Crowdfunding (ECF), its implementation in Indonesia still faces various challenges, both from within business actors and from the regulatory framework governing ECF operations. One of the main challenges is the low level of financial literacy among the general public and corporate actors (Tripalupi, 2020). According to data released by the Financial Services Authority (Otoritas Jasa Keuangan, OJK) in 2024, Indonesia's Islamic financial literacy index was only 39.11%. This figure highlights a significant disparity between the proportion of the Muslim population, which accounts for 86.7% of the total population, and the number of individuals who have an understanding of Sharia-compliant financial products (*HASIL SURVEI NASIONAL LITERASI DAN INKLUSI KEUANGAN TAHUN 2024*, 2024). Furthermore, the study by Hafizhah and Rialdy (2024) found that many members of the public who lack a proper understanding of Sharia principles in investment tend to be hesitant to participate in Sharia-compliant Equity Crowdfunding (ECF) (Hafizhah & Rialdy, 2024). This indicates that most of the public has not yet fully understood Sharia-based financial products, which hampers this sector's growth.

In addition, advancements in information technology have brought significant changes to the financial sector, including Islamic fintech. Fathul Aminudin Aziz (2020) highlights that although regulations from the Financial Services Authority (OJK) are already in place, challenges remain in implementing Islamic fintech, particularly in terms of public literacy and operational transparency (Aziz, 2020). Therefore, educating the public about halal in fintech is essential to ensure the healthy development of Islamic investment.

Moreover, although the existence of ECF is legally regulated through the Financial Services Authority Regulation (POJK) No. 57/POJK.04/2020 and supported by the fatwa of the Sharia National Council – Indonesian Ulema Council (DSN-MUI), its implementation still faces various challenges from a regulatory perspective. Regulation in Sharia-compliant financial services is crucial, including ensuring compliance with Sharia principles, protecting consumers, and improving corporate governance (Rohmah dkk., 2024). Challenges in the regulatory aspect arise from the complex legislative process, the intricate enforcement of regulations, and the harmonization between Sharia principles and existing provisions. The study by Santi et al. (2017) found that the lack of oversight on Sharia compliance and the absence of an optimal mechanism for verifying incoming capital flows are the main factors contributing to the insufficient implementation of regulations in Sharia-compliant financial services (Santi dkk., 2017). As Kadir (2021) discussed, legal clarity and the concept of justice in contracts are essential considerations in safeguarding the protection of investors and stock issuers (Kadir, 2021). From this condition, Shalihah et al. (2022) discuss the importance of establishing an active Sharia Supervisory Board (SSB) to monitor and address legal issues related to Sharia crowdfunding practices. This is crucial to ensure that such practices comply with Sharia regulations and provide a sense of security for the public in making investments (Shalihah dkk., 2022). This finding is further supported by the study of Prayitno & Setyowati (2020), which also highlights the importance of the presence of a Sharia Supervisory Board (DPS) in ensuring compliance with Sharia principles in fintech, including Sharia-based ECF. Although the DPS serves as the primary oversight body, challenges remain—particularly regarding the limited availability of human resources with expertise in Sharia and the fact that the role of the DPS is not yet fully recognized as crucial by industry players (Prayitno & Setyowati, 2020).

In addition, Yenni Batubara (2021) emphasizes that although many fintech companies offer Sharia-compliant products—such as PayLater services on platforms like Gojek—their terms and conditions often do not fully align with Islamic principles. This presents an additional challenge in fostering public trust in Sharia-based financial products (Batubara, 2021). The study by Ahmad et al. (2020) also highlights the importance of a broader understanding of maqāṣid al-sharīʿah within social and economic systems, including in the context of Sharia-compliant Equity Crowdfunding (ECF). Their thinking expands on the concept of ḥifẓ al-ummah, which emphasizes collective societal welfare, and suggests that this should serve as a fundamental principle in implementing Sharia-based ECF. By incorporating this concept, it is expected that Sharia-compliant ECF can prioritize the wider public interest rather than merely serving the interests of individuals or specific groups (Ahmad dkk., 2020).

On the other hand, Qodariah Barkah et al. (2024) propose a more substantial legal transformation to prepare Islamic banking for the challenges of the digital era in Indonesia. In this context, a similar legal transformation could also be applied to Sharia-compliant Equity Crowdfunding (ECF), including revising the Islamic Banking Law and establishing a dedicated institution to resolve emerging disputes. Their study emphasizes the importance of legal adaptation in response to technological advancements to ensure the sustainability and integrity of the Sharia financial market (Barkah dkk., 2024).

Previous studies have extensively discussed the potential and mechanisms of Equity Crowdfunding (ECF) as an alternative Sharia financing option for Micro, Small, and Medium Enterprises (MSMEs) in Indonesia. For example, Wilantini & Fadllan (2021) found that ECF can be an effective funding instrument for Sharia-compliant MSMEs, provided it is implemented by Sharia principles (Wilantini & Fadllan, 2021). Another study by Virgiawan & Luthfiani (2023) shows that the implementation of Sharia-compliant ECF contributes positively to employee welfare and business sustainability, in line with the objectives of maqasid al-shariah in economics (Virgiawan & Luthfiani, 2023). From a legal perspective, Pratama (2024) highlights the complexity of ECF contracts that may lead to disputes and recommends the establishment of a Sharia-based dispute resolution mechanism, such as an integrated Alternative Dispute Resolution (ADR) system (Pratama, 2024). Furthermore, the aspect of contractual justice for investors and stock issuers in ECF has also been discussed, emphasizing the importance of legal protection and clarity of regulations to maintain the trust of the parties involved (Octaviani dkk., 2021).

Although various studies have examined the potential of Sharia-compliant ECF and some of its legal challenges, there remains a clear research gap: limited studies comprehensively address the role of regulation and the level of Sharia financial literacy among the public in the successful implementation of Sharia ECF. While some studies touch on the issue of low literacy or legal aspects, they do not specifically combine an analysis of the regulatory framework with Sharia financial literacy as a key variable. Low Sharia financial literacy among the public has been identified as a significant obstacle hindering retail investor participation in Sharia-compliant ECF (Tripalupi, 2020). A national survey by OJK also shows that Sharia financial literacy remains in the single digits (below 10%), significantly lagging behind general financial literacy. This indicates that many members of the public still lack an understanding of Sharia investment concepts, including ECF, leading to suboptimal utilization of this financial innovation. Furthermore, although some Sharia-compliant fintech ECF platforms have published financial reports on their official websites, many have not fully adhered to Sharia accounting standards, resulting in suboptimal Sharia compliance (Rifqiawan, 2025).

From a regulatory perspective, Sharia-compliant ECF is a relatively new phenomenon (with specific regulations issued in 2020), meaning that legal studies on the regulations' adequacy and implementation are still limited. There is no certainty as to whether the existing rules fully accommodate all the needs of Sharia ECF practices or if there are legal gaps that could hinder the growth of ECF. Therefore, this research gap should be addressed through studies examining both the legal framework (regulations) and the level of Sharia financial literacy as key factors in implementing Sharia-compliant ECF.

The novelty of this research lies in its integrated approach: analyzing ECF regulations from a Sharia law perspective and linking it with the level of Sharia financial literacy among the public. This combination has not been extensively explored in previous studies. The study's findings are expected to fill this gap and strengthen an inclusive, fair, and effective Sharia-compliant ECF framework for developing the Sharia capital market in Indonesia.

Methods

Based on identifying the above gap, this study focuses on two main variables: regulation and Sharia financial literacy, with two primary objectives. First, to analyze the existing rules related to Sharia-compliant Equity Crowdfunding (ECF) in Indonesia, specifically the Financial Services Authority Regulation No. 57/POJK.04/2020 and the Fatwa of the Sharia National Council – Indonesian Ulema Council (DSN-MUI) No. 107/2020, in order to assess the extent to which these regulations support the implementation of ECF by Sharia principles and to identify existing challenges. Second, to evaluate the impact of low Sharia financial literacy on public participation in Sharia ECF and how this literacy factor influences the acceptance and effectiveness of the Sharia ECF system in Indonesia.

This study employs a normative legal method, focusing mainly on analyzing legislation and relevant legal principles, both normative and conceptual. The choice of this method is based on several kinds of literature that emphasize the need for a normative approach to understanding the effectiveness of regulations within a legal system, highlighting the applicable legal provisions. Santi et al. (2017) indicate that to assess compliance with Sharia principles in ECF, it is crucial to conduct a normative legal analysis of the existing regulations, such as POJK No. 57/POJK.04/2020 and the DSN-MUI fatwa (Santi dkk., 2017). This study emphasizes that, despite regulations, the main challenge lies in inadequate oversight regarding compliance with Sharia principles. The normative approach helps to identify whether the existing rules are sufficient to protect consumers and ensure transparency in Sharia ECF practices.

A qualitative approach was chosen because this study aims to understand better the regulatory issues and challenges in implementing Sharia-compliant ECF, which cannot be fully understood through quantitative data alone. The qualitative approach provides an opportunity to comprehend the meaning and impact of existing regulations and offer insights into the practical challenges ECF operators and consumers face. For example, Virgiawan & Luthfiani (2023) explain that to analyze how Sharia ECF platforms operate comprehensively, an approach is needed that not only relies on statistical data but also explores the interactions between entrepreneurs, investors, and regulations (Virgiawan & Luthfiani, 2023). Through the qualitative approach, this study can identify deeper challenges not apparent in quantitative data, such as issues related to transparency, data security, and oversight of Sharia ECF practices.

The approach used in this study includes a regulatory approach, which examines the various applicable formal regulations, as well as a conceptual approach to understanding Islamic legal principles, such as the prohibition of riba, gharar, and maysir. This study also employs a literature review by examining relevant books, journals, articles, and other official documents to strengthen the theoretical foundation and the analysis conducted.

Regulatory Compliance Theory

Regulatory Compliance Theory is an approach in legal studies and public policy that explains that the effectiveness of a regulation is not solely determined by its formal existence, but also by the extent to which actors or legal subjects actually comply with the regulation in practice (Popa Tache & Săraru, 2024). In this context, compliance is regarded as a key element in determining the success of the implementation of a policy or regulation (Handoyo & Anas, 2024). According to Ayres & Braithwaite (1992), as cited in Hardy, the law cannot function optimally through a purely coercive approach or the imposition of sanctions alone (Hardy, 2021). They proposed *responsive regulation*, a legal approach that combines compliance incentives with sanctions adjusted to the severity of the violation. Thus, regulation should be adaptive to the behavior of business actors, encouraging voluntary compliance before resorting to coercive measures or penalties.

Scholz (1997) emphasizes the importance of *cooperative enforcement*, a regulatory oversight approach that integrates elements of collaboration between regulators and industry actors (Scholz, 1997). In this model, compliance is not seen as the result of threats alone, but rather as the outcome of a reciprocal relationship built through communication, trust, and mutual understanding of the regulation's objectives. Scholz developed the idea that relying too heavily on harsh sanctions can lead to resistance or legal avoidance. Conversely, when regulation is accompanied by education and incentives, economic actors are more likely to develop a *normative commitment* to comply. In this context, the level of literacy and understanding that actors have regarding the content and purpose of the regulation significantly influences their level of compliance.

This theory is highly relevant for analyzing the implementation of OJK Regulation No. 57/POJK.04/2020 and DSN-MUI Fatwa No. 107/2020 concerning Sharia-based Equity Crowdfunding (ECF) in Indonesia. Although these two legal instruments normatively provide an adequate legal framework, they are not necessarily implemented effectively in practice. Many market participants and ECF platform providers have yet to fully understand let alone comply with the Sharia provisions in their operations (Azwar & Jamaluddin, 2024; Dai, 2020). This situation is exacerbated by weak supervision and the absence of clear sanction or incentive mechanisms. Within the framework of regulatory compliance theory, the low level of compliance may be attributed to the ineffectiveness of regulatory implementation strategies that overlook the educational and motivational aspects for the actors involved.

Regulations that rely solely on a top-down approach without considering the dynamics and capacities of actors on the ground often fail to build long-term commitment to compliance. In the context of the OJK regulation and the DSN-MUI fatwa, it is crucial to develop a *responsive regulation* approach that places education, economic incentives, and transparent reporting mechanisms as primary instruments. For instance, ECF platforms that demonstrate strong compliance with Sharia principles may be awarded certifications or tax incentives, while those that deviate should face warnings, license suspension, or even legal sanctions. This reflects the regulatory enforcement pyramid proposed by Ayres & Braithwaite, which begins with persuasion and escalates to punitive measures when necessary. Such an approach offers a balance between justice and legal effectiveness.

Moreover, the level of compliance by actors is closely linked to their perception of the legitimacy of the regulatory institutions. If actors do not trust the credibility and integrity of OJK or DSN-MUI as supervisory and regulatory bodies, their willingness to comply will likely decline. Therefore, it is essential for regulators to build an institutional image that is transparent, accountable, and communicative. Scholz emphasizes that *procedural fairness* significantly shapes actors' attitudes toward regulation: actors are more likely to comply when they feel included in the policy-making process, receive clear information, and have channels to voice their concerns. This underscores the importance of enhancing regulatory socialization and the developmental role of regulators in fostering ECF platform compliance systematically.

By applying the framework of regulatory compliance theory, it can be concluded that the effectiveness of POJK and the DSN-MUI fatwa in regulating Sharia-based ECF should not be measured solely by their normative existence. More importantly, attention must be given to how the implementation strategies are designed to encourage voluntary compliance, educate stakeholders, and provide fair and responsive reward and sanction mechanisms. In the long run, a compliance model based on participation and collaboration will foster a Sharia capital market ecosystem that is not only legally compliant but also ethical and sustainable. This approach is more aligned with Islamic values that emphasize justice (*'adl*), social responsibility, and collective welfare (*maslahah*) in economic practice.

Sharia Financial Literacy Theory

Sharia Financial Literacy Theory is a conceptual approach used to measure and understand the extent to which individuals or communities possess the ability to recognize, comprehend, develop attitudes toward, and act in accordance with Sharia financial principles in their daily lives (Rifani et al., 2025). Sharia financial literacy encompasses not only cognitive or technical understanding but also affective and behavioral aspects, as moral values and faith play a crucial role in financial decision-making within the Islamic economic system. In the context of Sharia-compliant Equity Crowdfunding (ECF), this literacy becomes a key factor in determining public participation, both as investors and as fund recipients (Redzuan et al., 2024). The theoretical framework developed by Pradini and Faozan (2024) introduces four core dimensions of sharia financial literacy: awareness, understanding, attitude, and behavior. These four dimensions are interrelated and form a socio-economic learning cycle that encourages active engagement in the Sharia financial system (Pradini & Faozan, 2023).

The first dimension is awareness, which refers to the extent to which an individual recognizes the existence of Sharia financial products and services, including Sharia-compliant

Equity Crowdfunding (ECF). Many Indonesians despite being part of a Muslim-majority population still lack basic awareness of the existence of the Sharia financial system as a viable alternative to the conventional financial system (Nasrullah, 2017). For example, they may be unaware that there are Sharia-based ECF platforms that enable business funding without involving *riba* (usury) (Virdi, 2022). This awareness is strongly influenced by information exposure, digital literacy, and the role of media and educational institutions. Without adequate awareness, the public tends to perceive the Sharia financial system as irrelevant or limited solely to Islamic banking. Therefore, enhancing public awareness through educational campaigns, the dissemination of fatwas, and collaboration with religious institutions is a crucial first step in building an inclusive Sharia investment ecosystem.

The second dimension is understanding, which encompasses an individual's knowledge and technical competence in comprehending the fundamental principles of Sharia finance, including contract mechanisms (*akad*), the prohibition of *riba* (usury), *gharar* (uncertainty), *maysir* (gambling), as well as the structure of halal investments. In the context of ECF, this understanding includes the ability to analyze investment projects, read business prospectuses, assess the Sharia compliance of business models, and grasp the concept of *profit and loss sharing*, which serves as the foundation of Sharia-based transactions (Nurlaeli & Sarpini, 2022). Without this understanding, people may participate in ECF but unknowingly violate Sharia principles for example, by misjudging a business project or becoming involved in speculative activities. A strong grasp of Sharia financial concepts will enhance the public's capacity to make investment decisions that are both ethically and religiously responsible.

The third dimension is attitude, which refers to a person's value orientation, beliefs, and preferences toward Sharia finance. A positive attitude toward Sharia products and systems does not always align with technical understanding; one may understand Sharia principles yet still doubt the system's efficiency or relevance in the modern economy. This attitude is shaped by ideological factors, personal experiences, and social narratives surrounding Islamic finance. In the Indonesian context, negative assumptions still persist—portraying Sharia finance as slow, uncompetitive, or merely symbolic. Therefore, cultivating a positive attitude requires both cultural and spiritual approaches, such as reinforcing the narrative that Sharia-compliant investment is not only safe but also brings individuals closer to the values of justice and divine blessing (*barakah*).

The final dimension is behavior, which represents the tangible manifestation of awareness, understanding, and attitude in everyday economic actions. This includes concrete actions such as choosing Sharia-compliant financial products, investing through Sharia-based

ECF platforms, or rejecting investment offers that conflict with Islamic principles. This behavior can be measured through indicators such as investor participation rates, transaction volumes, and loyalty to Sharia platforms. However, a common challenge is the presence of an *attitude-behavior gap*—a situation in which individuals hold positive attitudes toward the Sharia system but have not yet made it their primary choice in economic practices due to various practical barriers, such as limited access, service convenience, or perceived risks (Hasibuan & Wahyuni, 2020; Kadir & Salfianur, 2021; Miftaqurromah, 2021).

Analysis of the Regulatory Framework for Islamic ECF in Indonesia

Fundamentally, Indonesia has a legal basis for the implementation of Sharia-compliant Equity Crowdfunding. The central regulation is POJK No. 57/POJK.04/2020, which governs fundraising services through technological platforms. Key provisions in this regulation include a maximum fundraising limit of IDR 10 billion per issuer per year, the obligation of issuers to provide transparency of information, requirements for platform operators, and oversight by the Financial Services Authority (OJK) (*Peraturan Otoritas Jasa Keuangan No. 57/POJK.04/2020 tentang layanan urun dana berbasis teknologi informasi (POJK No. 57/POJK.04/2020)*, 2020). In the Sharia domain, the DSN-MUI Fatwa No. 107/2020 provides guidance that the ECF scheme must be free from riba, gharar, and maysir and should only finance halal business activities (*Fatwa DSN-MUI No. 107/DSN-MUI/II/2020 tentang Equity Crowdfunding dalam Pasar Modal Syariah*, 2020). This means that companies offered through Sharia-compliant ECF must not operate in sectors contrary to Islamic principles (e.g., the alcohol industry or conventional usurious practices). Combining OJK regulations and the DSN-MUI fatwa demonstrates an integrative effort to incorporate Islamic legal principles into the modern ECF financial system.

From the analysis of the regulations, it can be concluded that the normative legal framework for Sharia-compliant ECF is indeed in place. The regulations establish a profit-loss sharing mechanism as the model for investment returns, replacing the concept of fixed interest, thus making ECF compliant with Islamic law. Furthermore, the regulations mandate a written agreement between investors, issuers, and platforms and require platforms to monitor and report ECF activities. Legal protection for investors and issuers is also provided, such as through the obligation to disclose material information and the prohibition of fraudulent practices.

However, despite regulations, implementation on the ground faces several shortcomings. Sharia supervision, in particular, still needs to be strengthened; the OJK, as the general financial regulator, requires support from Sharia experts to ensure that every ECF transaction complies with the fatwa. Weaknesses in the technical regulations are also evident, such as the lack of detailed procedures for Sharia-compliant dispute resolution in case of conflicts between investors and issuers. Currently, disputes in the financial services sector are typically resolved through OJK mediation or general courts, which may not fully accommodate Sharia principles. Pratama (2023) suggests the need for an integrated Sharia dispute resolution forum (Sharia arbitration or mediation) within the ECF ecosystem so that Islamic justice values can resolve any conflicts without compromising legal certainty for the parties involved (Pratama, 2023). Therefore, from a regulatory perspective, the main challenge lies in enforcement and supervision: ensuring that the existing rules are effectively implemented and, if there are any gaps, regulators should proactively refine the regulations.

Analysis of the Level of Islamic Financial Literacy and Its Impact

The analysis of the second factor shows that the level of financial literacy in Islamic finance among the Indonesian population remains low, which directly impacts the implementation of Sharia-based ECF. According to OJK surveys and various studies, most people lack a deep understanding of Islamic investment concepts and financial products. Tripalupi (2020) notes that the low level of financial literacy in Islamic finance is a significant barrier to retail investor participation in ECF (Tripalupi, 2020). The public, unfamiliar with Islamic stocks, profit-sharing, or ECF platforms, tends to hesitate to get involved due to a limited understanding of the risks and benefits. Some even perceive investments in the capital market (including ECF) as complicated or speculative, especially with the additional layer of Sharia compliance, which is seen as more complex. As a result, the number of investors participating in Sharia-compliant ECF schemes grows slowly. The potential for Islamic financial inclusion expected through ECF has not been fully realized. Low literacy means that only a few individuals are willing or interested in trying this investment.

The low level of financial literacy also impacts the issuers (Sharia-compliant SMEs). Many small business owners are unfamiliar with the ECF mechanism, making them reluctant to take advantage of this funding opportunity. Instead, they prefer conventional methods such as bank loans or personal capital. They are concerned about legal requirements and profit-sharing or are simply unaware of the procedure for registering on an ECF platform. From the investors' perspective, a lack of literacy can make them vulnerable to poor risk assessment. Without adequate understanding, investors might be tempted to invest in ECF projects that do not align with their risk profile or may even violate Sharia principles simply due to the promise of returns. This can lead to disappointment or losses, undermining public trust in ECF.

Furthermore, the study by Selasi et al. (2024) demonstrates a strong relationship between financial literacy and investment interest, where Islamic finance significantly influences investment interest in the Islamic capital market (Selasi dkk., 2024). Therefore, low Islamic financial literacy creates a domino effect: a lack of investors → few successful funding projects →, underdeveloped ECF platforms, → slow innovation. On the other hand, if literacy increases, public participation in ECF can grow, encouraging more companies to utilize this scheme and creating a vibrant ecosystem. Tripalupi (2020) even argues that increased public involvement in ECF will enhance Islamic financial literacy, as people learn directly through participation (Tripalupi, 2020). This means there is potential for a reciprocal positive effect: literacy drives ECF participation, and as participation increases, public literacy on Islamic investments is also elevated.

Analysis of the Impact of Regulation and Literacy Levels

Two main findings can be identified based on the abovementioned regulations and literacy conditions. First, in terms of regulation, Indonesia has a legal foundation for Islamic ECF; however, the normative implementation is not yet fully effective. The laws exist, but enforcement and operational details (particularly regarding Shariah compliance oversight and investor protection) must be strengthened. Second, in terms of literacy, the lack of public understanding of Islamic finance is a crucial factor hindering the progress of Islamic ECF. These two factors are interconnected and affect the achievement of ECF's goals as a halal investment and capital-raising platform. Low literacy means that even reasonable regulations are insufficient, with few market participants. Conversely, weak regulations or inadequate oversight will worsen the impact of low literacy, leading to cases that could erode public trust.

The Role of Sharia Financial Regulation and Literacy in the Development of ECF in Indonesia

Based on the analysis above, it can be discussed that regulation and Islamic financial literacy are two main pillars determining the success or failure of implementing Islamic ECF in Indonesia. Regulations provide the legal infrastructure and the game's rules, while literacy ensures that the actors understand and properly utilize this infrastructure. The balance between the two is crucial: strong regulations with low literacy are like "a smooth highway with no vehicles on it." In contrast, high literacy but weak regulations may result in "chaotic traffic without clear road signs." Therefore, efforts to develop Islamic ECF must simultaneously address improvements on both fronts.

In-depth discussions show that the existing regulatory framework for Islamic ECF has already sent positive signals to the market—clear regulations enhance initial trust that these activities are government-monitored and comply with Shariah. Institutional investors and stakeholders are more confident about participating when they know a legal umbrella (POJK and fatwa) oversees ECF. However, any gaps or deficiencies in the regulations can have significant consequences. For instance, if fraudulent cases or problematic ECF projects arise due to weak supervision, this could set a negative precedent that undermines public trust. Identifying limitations in Shariah supervision becomes a critical point. Without adequate monitoring, it is not impossible for deviations to occur, such as funds being misused for non-halal purposes or hidden gharar in contracts. Therefore, regulatory improvements and law enforcement must be continuously carried out adaptively. Regulators (OJK) should work closely with DSN-MUI and Shariah experts to oversee ECF platforms, for example, by requiring the establishment of a Shariah Supervisory Board (DPS) on each Islamic ECF platform that regularly reports Shariah compliance. Additionally, detailed regulations or technical guidelines should be developed to clarify the procedures for resolving Shariah disputes, establish fair equity crowdfunding contract standards, and create mechanisms for protecting minority investors in profit-sharing schemes. Strengthening these regulatory aspects will provide legal certainty and a sense of security for both investors and issuers, ultimately encouraging the healthy growth of the ECF ecosystem.

On the other hand, improving public financial literacy in Islamic finance is a significant task requiring the involvement of many stakeholders (Pradini & Faozan, 2024). Low literacy is a fundamental issue that affects not only ECF but also the entire Islamic finance sector (such as Islamic banking, sukuk, Islamic mutual funds, etc.). Therefore, the literacy agenda must be prioritized as a national strategy.

Several strategic steps can be taken to improve Islamic financial literacy. First, strengthening Shariah supervision: There is a need for tighter supervision of ECF platforms to ensure they comply with Shariah principles. Establishing a Shariah Supervisory Board on each ECF platform is essential to maintaining Shariah's integrity in every transaction. Second, enhancing Islamic financial literacy: The government and the education sector should conduct more intensive campaigns on Islamic financial literacy through social media, seminars, and online courses that can reach a wider audience. Regulators, ECF platforms, and educational institutions should collaborate to improve public understanding of Islamic financial products and promote investor participation in Shariah-compliant ECF.

Conclusion

The implementation of Shariah-compliant Equity Crowdfunding (ECF) in Indonesia is heavily influenced by two main factors: adequate regulation and strong Islamic financial literacy. Although Indonesia has clear regulations through POJK No. 57/POJK.04/2020 and Fatwa DSN-MUI No. 107/2020, which ensure that Shariah-compliant ECF is free from riba, gharar, and maysir and is under the supervision of authorities, its implementation still faces challenges. The low level of Islamic financial literacy in society is a significant barrier, reducing investor participation in Shariah-compliant ECF.

In addition, weak regulatory oversight and several aspects of regulation that have not been optimized need to be addressed to ensure compliance with Shariah and protect all parties involved. Enhancing Islamic financial literacy and strengthening regulations must be pursued simultaneously to overcome this. More intensive public education will bolster public trust, while improvements in regulation and oversight will create a safe, transparent, and fair ECF ecosystem.

With these measures, Shariah-compliant ECF can rapidly develop, expanding funding access for Shariah-based businesses, enhancing Islamic financial inclusion, and supporting equitable economic growth by Islamic principles. This study emphasizes that strong regulations and adequate literacy will make Shariah-compliant ECF a key pillar in Indonesia's Islamic financial system, strengthening the Islamic capital market and contributing to the inclusive and sustainable well-being of the community.

This study has several limitations that should be considered. First, this study focuses primarily on analyzing regulations and Islamic financial literacy in the context of Shariah-compliant ECF in Indonesia, and it may not fully cover the more in-depth operational and technical aspects of ECF platforms. Second, due to its qualitative nature, this research heavily relies on existing literature and theoretical perspectives, which may not entirely reflect the actual market dynamics. Third, the limitations in time and access to data related to the direct experiences of investors and issuers in using Shariah-compliant ECF platforms may affect the depth of analysis regarding the challenges faced in practice. Therefore, further research involving collecting primary data through interviews or surveys with industry participants could provide a more comprehensive insight into the successes and barriers to implementing Sharia-compliant ECF.

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