Social Finance and Social Enterprises: A New Frontier for Development in Indonesia
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Prepared by UNDP

ANGIN
ANGEL INVESTMENT NETWORK INDONESIA


**Setting the context**

Understand the social finance landscape in Indonesia and design solutions to identified challenges

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**Study Background**
- Growing interest in social finance as development tool for Indonesia
- Lack of updated data
- UNDP has mission to support social finance development

**Research Objectives:**
- Understand the social finance ecosystem in Indonesia and its barriers
- Propose solutions to address current challenges

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**Key Terms**

- **Social Finance**: Action to finance social enterprises or initiatives with social and environmental benefits, but also as the sustainability of financing

- **Social Enterprise**: Financially sustainable businesses that
  - intentionally mission to solve social or environmental problem
  - aim to generate market-based revenue and profitability
  - have commercial mindset to grow business and impact

- **Impact Investment**: Investments made into companies, organizations, and funds with the intention to generate social and environmental impact alongside a compelling financial return

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**Research methodology:**
- **Data collection:** Interview (primary) and desktop study (secondary)
- **Timeframe:** Nov 15, 2016 - Dec 12, 2016
Introduction to the ecosystem
Three key actors in social finance landscape are social enterprises, investors, and enablers

- **Social Enterprises**:
  - 300+ Total SEs in 2016
  - 70% Un-fundable
    - 20% ready with support
    - 10% investment ready

- **Investors**:
  - USD 20 Mn Total investment in the past 2 years
  - 30 Active impact investors
  - 25 Prospecting impact investors

- **Enablers**:
  - 62 Programs in 2016
  - 300% In non-monetary support compared to 2015
  - 250+ Supported SEs over the years

**Top Sectors**:
- Agriculture
- Healthcare
- Aquaculture/Fishery
- Financial Services
- Education

*In non-monetary support compared to 2015*
## Key challenges and findings in the ecosystems

### Social enterprises are experiencing clear funding and expertise gap

<table>
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<th>Findings</th>
<th>Challenges</th>
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<td>- 70% SEs are not fundable, primarily due to their low potential to scale</td>
<td>- Limited access to early-stage risk capital</td>
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<td>- 70% are trapped in pre-seed and seed stage seeking USD 10k – USD 100k funding</td>
<td>- Limited scalable business models</td>
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<td>- Corporates play role in building early-stage SEs</td>
<td>- Missing expertise/competence in multiple business skills (e.g. financial management)</td>
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<td>- Growing number of female entrepreneurs (25%)</td>
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**Recommendation**
Exploring blended finance model to answer issues across SE’s life cycle

Blended finance is an initiative that combines public and private capital to finance social enterprises, achieve SDGs, increase the effects of international development agency funding. Different tools are available to implement blended finance approaches. We are exploring Supporting Mechanisms and Direct Funding Schemes.

<table>
<thead>
<tr>
<th>Life Cycle</th>
<th>Pre-seed</th>
<th>Seed</th>
<th>Seed/Growth</th>
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<td>Objective</td>
<td>Preparing</td>
<td>Pioneering</td>
<td>Facilitating</td>
<td>Anchoring</td>
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<td>Issues</td>
<td>• High upfront cost to start SE&lt;br&gt;• High risk that a project will not be launched</td>
<td>• High business model risk&lt;br&gt;• High transaction cost&lt;br&gt;• Lack of impact metrics</td>
<td>• Sectoral or project risks; returns below commercial rates</td>
<td>• Macro or sectorial risks; liquidity, refinancing, and inefficient market</td>
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<td>Supporting Mechanisms</td>
<td>• Replication model (sharing local and global market knowledge and experience)</td>
<td>• Corporation involvement (incubation grant)&lt;br&gt;• Domestic Impact Evaluation entity (building local capacity)</td>
<td>• Domestic Impact Evaluation entity (building local capacity)&lt;br&gt;• Financial literacy training for social enterprises (building local capacity)</td>
<td>• Risk underwriting with hedging facilities (forex risk)&lt;br&gt;• Advocacy/ training for local banks (building local capacity)</td>
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<td>Direct Funding</td>
<td>• First Loss Pioneer fund</td>
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**Anchoring**
- Risk underwriting with hedging facilities (forex risk)
- Advocacy/ training for local banks (building local capacity)

**Facilitating**
- Domestic Impact Evaluation entity (building local capacity)
- Financial literacy training for social enterprises (building local capacity)

**Pioneering**
- Corporation involvement (incubation grant)
- Domestic Impact Evaluation entity (building local capacity)

**Preparing**
- • High upfront cost to start SE
- • High risk that a project will not be launched

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**First Loss Pioneer fund**
From research to implementation
Together with the UNDP, we are currently rolling out two initiatives to support financial inclusion

**Agro Market-Linkages SDG Fund**
- Indonesian based blended finance fund for the agricultural value chain

**CONNECTOR.ID**
- Online fundraising support platform for entrepreneurs (launched in June 2017)