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Fighting Inequality for Better Growth

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

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Prepared by



Setting the context

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



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

Research methodology:

- **Data collection:** Interview (primary) and desktop study (secondary)
- **Timeframe:** Nov 15, 2016 - Dec 12, 2016

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

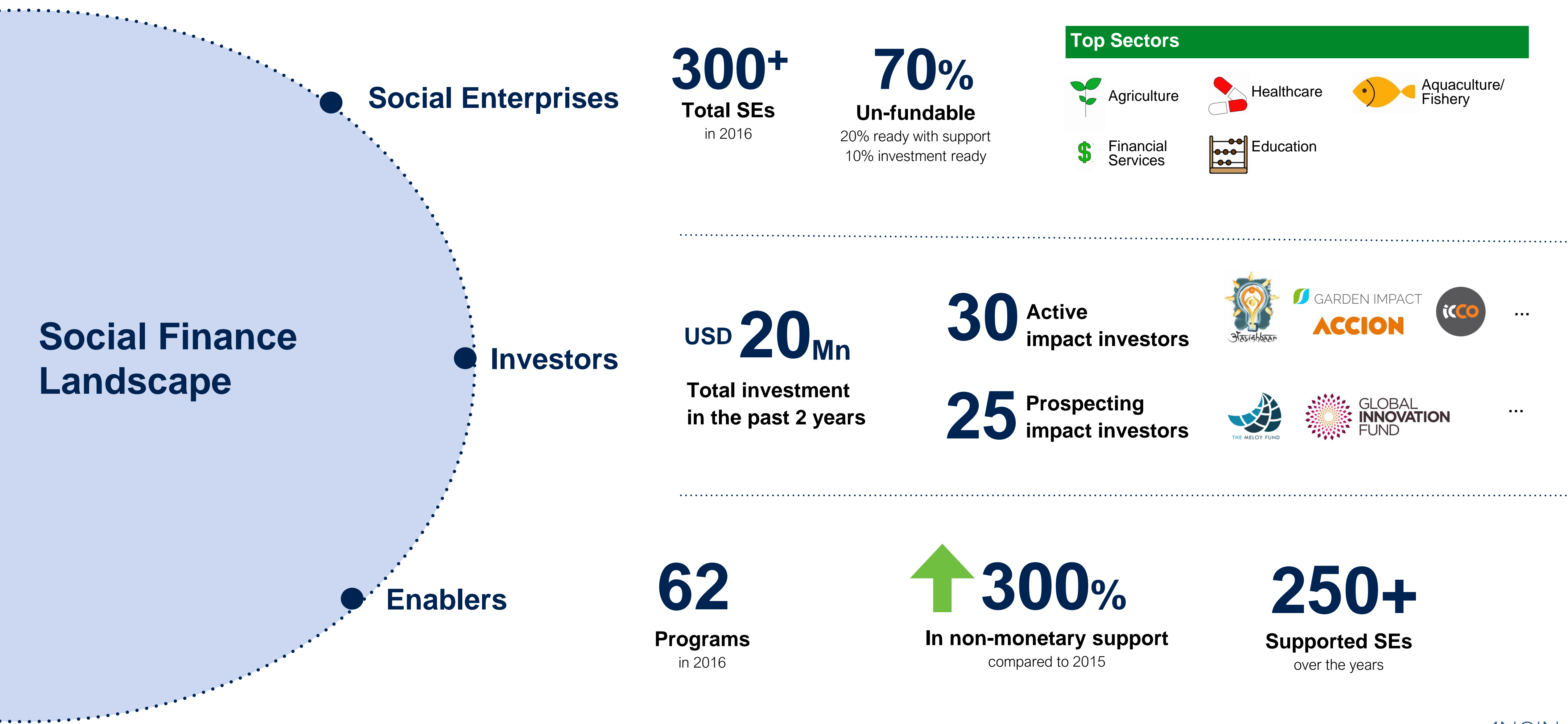
- intentionally mission to solve social or environmental problem
- aim to generate market-based revenue and profitability
- have commercial mindset to grow business and impact

Impact Investment

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

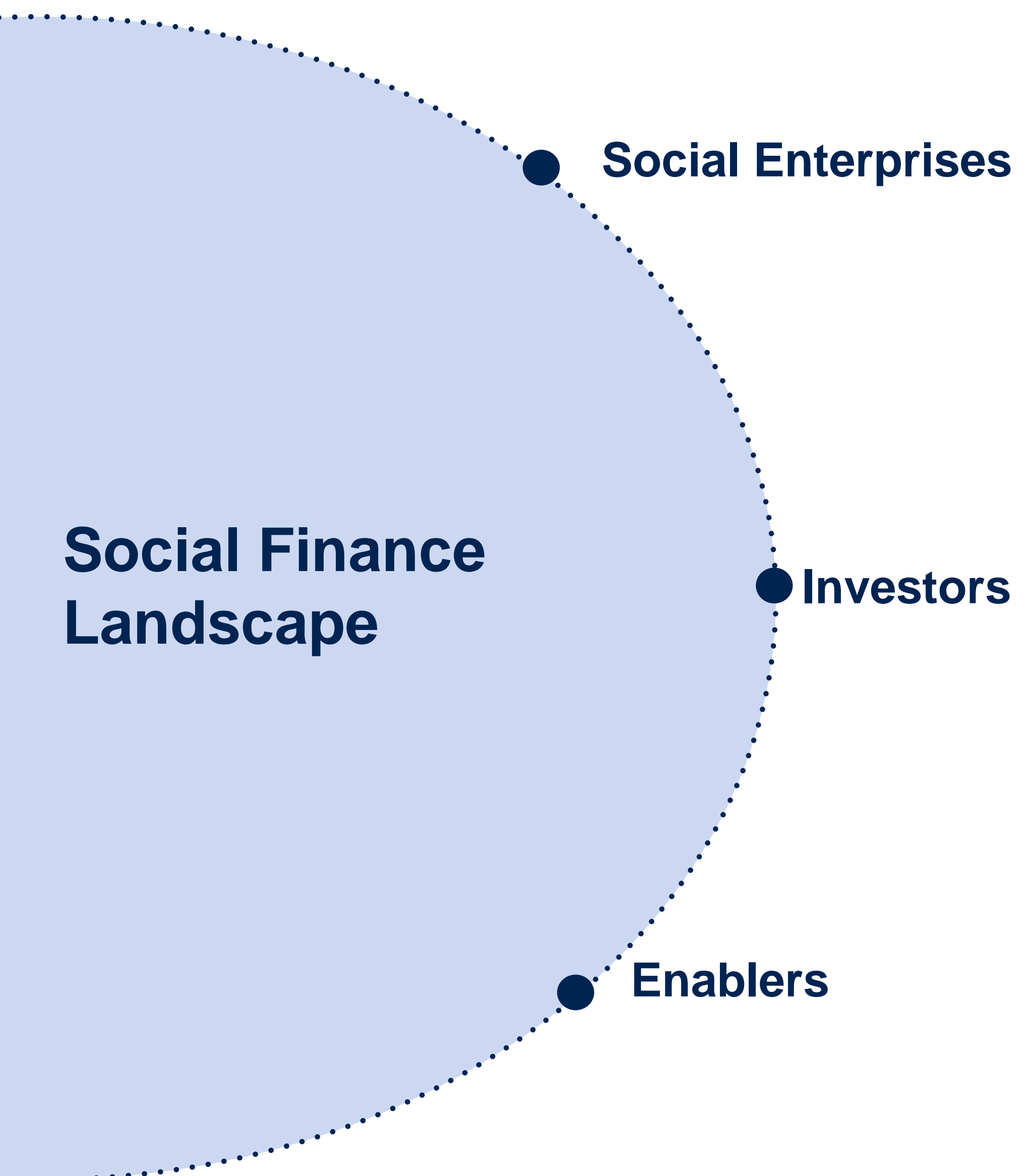
Introduction to the ecosystem

Three key actors in social finance landscape are social enterprises, investors, and enablers



Key challenges and findings in the ecosystems

Social enterprises are experiencing clear funding and expertise gap



Findings

- 70% SEs are not fundable, primarily due to their low potential to scale
 - 70% are trapped in pre-seed and seed stage seeking USD 10k – USD 100k funding
 - Corporates play role in building early-stage SEs
 - **Growing number of female entrepreneurs (25%)**
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- **Growing number of prospective impact investors**
 - 60% transactions were done in USD 100k – 500k range 35% in USD 1Mn – 2Mn, 5% is above USD 2Mn
 - **Most investors are foreign and few Indonesian investors:** only three are locals (YCAB ventures, Kinara, ANGIN)
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- **Increasing number of impact focus incubator** from 2016
 - Enablers evolved beyond workshop and support groups and quality of programs evolved
 - **More grants (free money) coming to SEs become a distraction and make them less commercially ready**

Challenges

- **Limited access to early-stage risk capital**
 - Limited scalable business models
 - Missing expertise/ competence in multiple business skilss (e.g. financial management)
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- Presence of **funding gap**
 - Lack of quality pipeline
 - Legal environment as barrier to invest
 - Limited access to information and reliable services such as legal
 - **Low resources to support pipeline on technical works** (e.g. book-keeping)
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- Lack of sector-focus enablers
 - Lack of mentors with the right needed expertise
 - **Limited connection to social finance (investors)**
 - **Lack of impact metrics**
 - Lack of KPI as success indicator

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

Life Cycle	Pre-seedSeedSeed/GrowthGrowth			
Objective	Preparing	Pioneering	Facilitating	Anchoring
Issues	<ul style="list-style-type: none">• High upfront cost to start SE• High risk that a project will not be launched	<ul style="list-style-type: none">• High business model risk• High transaction cost• Lack of impact metrics	<ul style="list-style-type: none">• Sectoral or project risks; returns below commercial rates	<ul style="list-style-type: none">• Macro or sectorial risks; liquidity, refinancing, and inefficient market
Supporting Mechanisms	<ul style="list-style-type: none">• Replication model (sharing local and global market knowledge and experience)	<ul style="list-style-type: none">• Corporation involvement (incubation grant)• Domestic Impact Evaluation entity (building local capacity)	<ul style="list-style-type: none">• Domestic Impact Evaluation entity (building local capacity)• Financial literacy training for social enterripises (building local capacity)	<ul style="list-style-type: none">• Risk underwriting with hedging facilities (forex risk)• Advocacy/ training for local banks (building local capacity)
Direct Funding	<ul style="list-style-type: none">• First Loss Pioneer fund			

From research to implementation

Together with the UNDP, we are currently rolling out two initiatives to support financial inclusion



Indonesian based blended finance fund for the agricultural value chain

CONNECTOR.ID

Step 1

DISCOVER YOUR CAPITAL PROVIDERS

Let our Connector.ID find you the right capital provider; a bank, a venture capitalist, an angel investor, an impact investor, a government support or others. You are just few questions away from the right funding!

Your name:

Your e-mail address:

Gender:

Where is your main office located?:

How many years has your company been operating?:

Tech vs. non tech: What type of company are you?:

What is your mission orientation?:

What industry do you categorize yourself in?:

What stage is your company in?:

What type of funding are you looking for?:

How much funding are you looking for?:

What was your revenue over the last 12 months?:

Are you targeting one of the impact SDG(s) below? If yes, which one(s)?

1 NO POVERTY	2 ZERO HUNGER	3 GOOD HEALTH AND WELL-BEING	4 QUALITY EDUCATION	5 GENDER EQUALITY	6 CLEAN WATER AND SANITATION
7 AFFORDABLE AND CLEAN ENERGY	8 DECENT WORK AND ECONOMIC GROWTH	9 INDUSTRY, INNOVATION AND INFRASTRUCTURE	10 REDUCED INEQUALITIES	11 SUSTAINABLE CITIES AND COMMUNITIES	12 RESPONSIBLE CONSUMPTION AND PRODUCTION
13 CLIMATE ACTION	14 LIFE BELOW WATER	15 LIFE ON LAND	16 PEACE, JUSTICE AND STRONG INSTITUTIONS	17 PARTNERSHIPS FOR THE GOALS	

Find My Capital Provider

Online fundraising support platform for entrepreneurs (launched in June 2017)