

REPORT
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TPSA | CANADA-INDONESIA TRADE AND
PRIVATE SECTOR ASSISTANCE PROJECT



Enhancing Access to Capital for Women-Owned SMEs

By **ANGIN**

Canada

Program undertaken with the financial support of the Government of Canada provided through Global Affairs Canada

IN PARTNERSHIP WITH



ANGIN
ANGEL INVESTMENT NETWORK INDONESIA



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About ANGIN

ANGIN (Angel Investment Network Indonesia) supports Indonesia's economic development by investing in the next generation of entrepreneurs and bringing best-in-class practices to Indonesian early-stage investment. More than an investment platform, ANGIN designs impactful services to build the entire entrepreneurial ecosystem and acts as a bridge to connect and facilitate investors and entrepreneurs along the entire investment process.

About the TPSA Project

The Canada–Indonesia Trade and Private Sector Assistance (TPSA) project is a five-year, \$12-million project funded by the Government of Canada through Global Affairs Canada. The project is executed by The Conference Board of Canada, and the primary implementation partner is the Directorate General for National Export Development, Indonesian Ministry of Trade.

TPSA is designed to provide training, research, and technical assistance to Indonesian government agencies, the private sector (particularly small and medium-sized enterprises (SMEs), academics, and civil-society organizations on trade-related information, trade policy analysis, regulatory reforms, and trade and investment promotion by Canadian, Indonesian, and other experts from public and private organizations.

The overall objective of TPSA is to support greater sustainable economic growth and reduce poverty in Indonesia through increased trade and trade-enabling investment between Indonesia and Canada. TPSA is intended to increase sustainable and gender-responsive trade and investment opportunities, particularly for Indonesian SMEs, and to increase the use of trade and investment analysis by Indonesian stakeholders for expanded trade and investment partnerships between Indonesia and Canada.

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Introduction

The TPSA report *Opening the World of Trade to Women: How Gender Affects Trade Benefits for Indonesian SMEs* revealed that access to capital is a major constraint faced by both women- and men-owned small and medium-sized enterprises (SMEs) in the three industries of TPSA focus: footwear, apparel, and coffee. SMEs need additional capital to purchase imported raw materials, hire additional labour, rent or buy a larger storage facility, or obtain new equipment. Those working in the footwear and apparel industries see an increased need for capital when demand for their products rises during major holidays, while SMEs and cooperatives in the coffee industry need extra capital during harvest season when demand for additional labour is highest, or to purchase raw coffee beans from farmers who must be paid in cash.

For women-led SMEs, these financial constraints are compounded by their double burden (dual responsibility for home and business) and the societal expectation for them to obtain spousal permission before undertaking activities (whether personal or business-related) outside of the home.

The report also noted that the supply side of capital in Indonesia contributes to SMEs' financial constraints. Stringent lending requirements by commercial banks (including high interest rates, huge collateral requirements, and inflexible repayment schemes) discourage women-led SMEs from borrowing. Consequently, they borrow from informal sources such as family, relatives, or friends, and such financing is often inadequate, especially for those exporting or planning to export.

Women-led SMEs need to know what financial service providers (FSPs) offer and how to access financial products and services that are responsive to their needs and compatible with their repayment capacity. TPSA aims to help women-led SMEs access information about financial products and services by facilitating connections with FSPs. For this purpose, TPSA partnered with the Angel Investment Network Indonesia (ANGIN) to hold a series of workshops on access to capital. At these workshops, FSPs introduced their financial products and services to women-led SMEs from the three industries and some of the SMEs pitched their businesses to the FSPs. Three workshops were held: the first in Bandung (West Java) on November 22, 2018; the second in Solo (East Java) on December 12, 2018; and the third in Takengon (Aceh) on January 16, 2019. The workshops in Bandung and Solo were aimed at SMEs in the apparel and footwear industries, while the workshop in Takengon was tailored to SMEs in the coffee industry.





Workshop Descriptions

Apparel and Footwear (Bandung and Solo)

The workshops held in Bandung and Solo included the following key elements:

- a discussion of the challenges faced by participating SMEs that want to export;
- a "talk show"-style panel discussion with invited representatives from FSPs providing information about the financing options they offer to SMEs. At each of the workshops, one SME that had received financing from an external investor was also invited to participate in the talk show to share their success story. These stories are interspersed throughout this report;
- a "role-play" session, where participants were broken into small groups, each with a facilitator, and asked to role-play as investors and design a new financial product aimed at women entrepreneurs. Participants voted for their favourite product and a winner was selected at each workshop;
- a "pitch" segment, where selected participating SMEs had the chance to pitch their businesses to the FSP representatives. The ANGIN team helped the SMEs prepare their pitches the day before the workshop using a PowerPoint template. Once the pitches were complete, the FSPs offered their feedback to the SMEs.

A total of 176 individuals participated in the two workshops (78 in Bandung and 98 in Solo). In attendance were representatives from 41 women-led SMEs (33 from apparel and eight from footwear), men-led SMEs, the Indonesian businesswomen's association (IWAPI), and national and local governments (Ministry of Trade, Ministry of Industry, Ministry of Cooperatives and SMEs, and each city's Office of the City Mayor and Office of Industry and Trade).

Coffee (Takengon)

The third workshop in Takengon followed a slightly different format that addressed participating SMEs' varying roles and locations within the coffee value chain. Participants were asked to identify where they are situated in the coffee value chain, determine their funding needs (how much and for what purpose), identify the most significant factors that prevent them from seeking external funding, and determine what type of financial product would best suit them and what features could address their identified preventive factors.

The value chain discussion was necessary because an SME's funding needs, funding cycle, and most-suitable funding instruments will differ based on where they are located in the chain. A coffee value chain framework was presented to participants to help them identify their roles and location in the chain. The value chain illustrated in Exhibit 1 served as a reference point for the discussion.



**EXHIBIT 1:
COFFEE VALUE CHAIN**

VALUE CHAIN	ACTORS	KEY ACTIVITIES	SUPPORTING ACTIVITIES
Agricultural inputs	<ul style="list-style-type: none"> • Seeds • Fertilizer • Pesticide • Equipment 	<ul style="list-style-type: none"> • Supply 	TRANSPORTING, WAREHOUSING, MARKETING, R&D, ETC.
Production	<ul style="list-style-type: none"> • Small holder farmers • Plantation owners 	<ul style="list-style-type: none"> • First planting <i>3-4 years to bear fruit</i> • Harvesting <i>once every 6-11 months</i> 	
Intermediaries	<ul style="list-style-type: none"> • Village collectors • Traders 	<ul style="list-style-type: none"> • Collecting • Trading 	
Processing	<ul style="list-style-type: none"> • Cherry processor • Bean processor • Other value-added producers 	<ul style="list-style-type: none"> • Sorting • Hulling • Fermenting • Drying • Grinding • Roasting • Packaging • Other value-added activities 	
Marketplace	<ul style="list-style-type: none"> • Broker • Wholesaler • Green bean retailer • Exporter • Coffee shop • Retail store • Importer • International coffee company • Etc. 	<ul style="list-style-type: none"> • Market delivery 	

Source: Adapted from the Porter Value Chain Analysis model.

TPSA's gender advisor spoke about gender roles in the coffee value chain and the fact that women's roles are often overlooked and unrecognized, thus rendering their contributions to the coffee industry invisible. *Opening the World of Trade to Women: How Gender Affects Trade Benefits for Indonesian SMEs* showed that women are actively involved in all stages of the coffee value chain. Many women in Toraja, South Sulawesi who are in the coffee business, for example, are large coffee traders supplying green beans to exporters. Women coffee farmers occupy the first stage of the value chain as coffee producers, but as many of them do not own land (because land titles are in their husband/father/brother's name), they are disadvantaged and benefit less than men from their participation in the value chain. Most cooperatives use land ownership as a minimum requirement for membership, which automatically disqualifies many women from benefiting from cooperative membership.

Six women-led SMEs and two women-led coffee cooperatives were represented, with 54 total participants at the workshop.





Workshop Participants Identify Challenges to Exporting

During small group discussions and role-playing sessions, participating SMEs at the workshops were invited to share the challenges they face in securing capital and running and growing their business. Many of the same challenges came up repeatedly across all three workshops.

Apparel and Footwear (Bandung and Solo)

Among participants at the workshops for apparel and footwear SMEs in Bandung and Solo, the challenges cited included:

Lack of Capital/Access to Capital

This was by far the most-cited challenge by workshop participants, many of whom said they have limited funds to cover working capital and capital expenditures. Some SMEs noted that they had turned down large orders because they lacked adequate working capital to complete the order.

While external sources of capital (such as bank loans) are available, participants were generally reluctant to seek them out. Nearly all participants complained about the high interest rates offered by traditional lenders. Even a lower interest rate was off-putting to some participants, who were concerned that if their business experienced a period of difficulty, the bank would not negotiate on the terms of the loan and would fine the SME for non-payment.

Also cited were collateral requirements that would be difficult or impossible for SMEs to fulfill. However, some participants said that as long as a collateral requirement was reasonable, their business could tolerate it.

Repayment schedules that do not work with an SME's cash-flow situation were another common concern. Some FSPs require loan recipients to begin repayment immediately after receipt of funds, and the repayment cycle is incompatible with many SMEs' business cycles.

Some participants were concerned that taking a loan from a formal financial institution would constrain their business's growth, especially during the early years when they want to increase their market share as much as possible, rather than allocating their limited cash to repayment of principal and interest on a loan.

Many participants noted the cumbersome and time-consuming application processes that require many to travel long distances to banks, a particular problem for SMEs in rural areas.

Some SMEs believe it would be difficult for them to be approved for a bank loan because their business is too small. For these reasons, even if a bank loan seems feasible, many still prefer to rely on their own savings or seek loans from friends and family.

Participants were open to working with alternative financial products that do not require collateral or interest, such as angel investors and venture capital. However, many of the participants have not yet



pursued non-bank financing alternatives because they have limited knowledge and information about these options (an issue that these workshops were designed to alleviate).

Lack of Market and Business Information

This was the second most commonly cited challenge by participants. Many feel they do not have adequate information about available trade events and export opportunities and procedures. They lack business skills such as finance, management, and marketing, and are interested in accessing training or mentorship and finding business partners who can complement their skills.

While many participants felt knowledgeable about production, they believed their business growth could be optimized if they were equipped with the right marketing skills and training or had competent marketing staff. A lack of business connections was also mentioned as a challenge.

Human Resources/Labour Challenges

Participants said they have difficulty finding skilled and loyal workers. Some complained that after they had invested in training employees, some of them did not stay very long.

Government Bureaucracy

Some participants highlighted excessive bureaucracy when dealing with government (related to licensing or business registration requirements) as a challenge.

Access to Raw Materials

Participants noted that while the price of raw materials and inputs increases steadily, specific materials they need for their fashion and footwear business are difficult to find in their area. This may be a supply-chain issue.

Double Burden

Participants said they find it difficult to juggle running a business and taking care of their family. Time constraints made it challenging for them to handle certain business-related activities during daylight hours (e.g., going to a bank, joining an accelerator program).

Coffee (Takengon)

At the Takengon workshop, SMEs and cooperatives discussed their challenges more specifically in the context of what was limiting or deterring them from accessing capital from banks; however, some non-monetary challenges were also mentioned. The topics closely mirrored those discussed by participants at the Bandung and Solo workshops, including collateral requirements, high interest rates, and overly complex application procedures, as well as the prohibitions against interest under Islamic law (not mentioned in Bandung or Solo). As many of the participants had yet to actually approach banks seeking business credit, the challenges mentioned were sometimes based solely on their perception.

Some participants who have successfully received funding from an impact investor said that the time-consuming process is also a major obstacle to securing such funding.

A non-monetary challenge cited by participants was limited access to the market. Participants who had previously received external funding mentioned that even though they have sufficient capital to increase their production capacity, it was difficult for them to market their products and sell off their inventory, and they have only limited storage space and funds to secure unsold goods. A number of them are interested in the export market, but they do not have adequate production to fulfill exporters' needs.

Participants noted that encouraging women to seek out external capital would help to boost the coffee industry in Takengon, as most of the SMEs in the region are run by women.





Financial Service Providers Share Information About Their Products and Services

At each workshop, organizers sought out representation by a range of FSPs, including traditional and non-traditional lenders such as banks, peer-to-peer lenders, angel investors, and crowd-funders. Each FSP shared information about their services in a talk show-style panel discussion.

Apparel and Footwear (Bandung and Solo)

Pt Bank Pembangunan Daerah Jawa Barat dan Banten Tbk (Development Bank of West Java and Banten provinces, or BJB) has three lending portfolios:

- *Kredit Usaha Rakyat* (People's Business Credit, or KUR), which offers loans at 7 per cent per year;
- *Kredit Cinta Rakyat* (Love for People Credit, or KCR), which offers loans at 5 per cent per year;
- *Resi Gudang* (Warehouse Receipt System), which offers loans at 6 per cent for six months.¹

BJB also offers training and business coaching services through its *Pemberdayaan Ekonomi Masyarakat Terpadu* (Integrated Community Economic Development, or PESAT) program aimed at improving the business competency and capacity of entrepreneurs.

Modalku (My Capital) is a peer-to-peer lending online platform in Southeast Asia whose goal is to provide loans to micro, small, and medium-sized enterprises (MSMEs) using capital raised from small investors in a manner that benefits both lenders and borrowers. All transactions are done online, so borrowing can be done anytime, anywhere. Modalku lends out up to Rp2 billion to MSMEs.

Investree is another peer-to-peer lending online platform but, unlike Modalku, it includes institutional investors (such as banks) and independent investors. Investree offers both conventional interest-bearing loans and Shariah-compliant loans.² It has four products to meet the needs of various borrowers:

- Invoice Financing: short-term invoice financing with a brief repayment period of between 30 and 180 days;
- Buyer Financing: a loan for buyers, distributors, or resellers within a supply chain;

¹ In Indonesia, this system is regulated by *Law Number 9 of 2006* concerning warehouse receipt systems, where the definition of warehouse receipt according to the law is "a document of ownership of goods stored in warehouses as issued by the warehouse company."

² Shariah-compliant loans are those that comply with Islamic principles: no interest ("riba") on investment; loans should not be invested in businesses considered prejudicial to Muslims (alcohol, gambling, etc.); and the investment contract must contain clear guidelines to ensure that all terms and conditions are detailed in a manner in which no disputes can arise in the future. For more information, see <https://www.ublfunds.com.pk/individual/resources-tools/learning-center/shariah-compliant-investments/>.



- Online Seller Financing: open to businesses engaged in e-commerce that need a loan for working capital;
- Merchant Cash Advance: a working-capital loan for users of reputable payment gateways.

Badan Ekonomi Kreatif Indonesia (Creative Economy Agency, or BEKRAF) was established in 2015 by the Government of Indonesia as part of newly elected President Joko Widodo's agenda to develop industries that contribute to the creative economy, specifically fashion, art, handicrafts, culinary, digital applications, and gaming. BEKRAF offers loans (KUR with interest rates ranging from 7 to 10 per cent per year) and grants as well as an online platform where enterprises in these creative industries can showcase their business. Two programs through which footwear and apparel SMEs may apply to access BEKRAF assistance are *Bantuan Insentif Pemerintah* (Government Incentive Assistance, or BIP) and BEKRAF Information System Mobile Application (BISMA). SMEs can also apply to BEKRAF for grants to participate in fashion shows, trade fairs, and exhibitions.

ANGIN's angel investor Nuniek Tirta Sari presented a financing model that the women-led SMEs participating in the workshops did not know much about: equity investment, where the investor also acts as a mentor to the business owner. Ms. Sari explained that the guidance of a mentor is particularly beneficial to a business start-up or a young business about to expand. However, she pointed out that not all businesses are suitable for equity investment and that angel investors usually invest in businesses with high growth potential and substantive competitive advantage. In case of bankruptcy, angel investors normally do not force a business to return their investment, which explains why they are meticulous in assessing the risks involved. She noted that when angel investors assess a business proposal, they look at such factors as business strategy, financial projection, and market conditions. They also assess the business owner's personality and knowledge and the experience of the business.

Bank Tambunan Pensionan Nasional (National Pension Savings Bank or BTPN) introduced a digital mobile banking app, Jenius, to help entrepreneurs tackle the challenges they face in running their business. Its features include online banking (deposits, transfers, bill and loan payments, and online investing), expense tracking, stock inventory, point of sales (POS), and store management.

Patamar Capital is an American venture-capital firm that operates in several Asian countries, including Indonesia. Its Investing in Women Fund (IWF) supports businesses that are either owned or led by women, that impact the livelihood of women, or that target women consumers. The minimum investment amount is US\$500,000. In 2017, Patamar Capital partnered with Kinara Indonesia, an impact investing firm, to set up the Impact Accelerator Program for Women-Led Businesses.³ This program offers mentoring to women-led businesses that have high growth potential and are fundable but not yet ready for Patamar Capital's investments, which are in the form of convertible debt and equity. A select group of 12 companies goes through an intensive four-month program under the guidance of experienced mentors. At the end of the program, the top four companies, as determined by peer ranking, receive up to US\$25,000 in seed investment.

Koinworks is a peer-to-peer online lending system where individuals can lend or borrow. It offers non-collateralized loans for SMEs that range from Rp100 million to Rp2 billion. The interest rate is a minimum of 9 per cent per year for loans payable within two years. As all transactions are done online, the loan approval process can take just two or three working days. To be eligible, an SME must have been operating for at least one year.

³ An impact investment is one that generates a measurable, beneficial social or environmental impact alongside a financial return.



SUCCESS STORY: BRODO

BRODO is a men's footwear SME based in Bandung. Co-founder and Chief Operations Officer Putera Dwi Karunia shared the story of how he started the business and grew it, and how external funding has helped the company reach its current state as a successful e-retailer. BRODO secured initial investment from angel investors and received follow-on funding from 500 Startups, a Silicon Valley venture-capital firm. To boost their production and support their export activities, BRODO occasionally borrows from peer-to-peer lending platform Investree.

Coffee (Takengon)

Crowde is a peer-to-peer lending company that raises capital for lending through crowdfunding. Crowde services farmers with the goal of helping them become agropreneurs by investing in one agricultural production cycle. Repayment is the full amount of principal and profit-sharing based on a 60:40 farmer-to-investor ratio.

Export-Import Bank (Eximbank) was established by the Government of Indonesia to service exporting and importing Indonesian companies. The bank's financing portfolio for SMEs is the *Kredit Usaha Rakyat Berorientasi Ekspor* (Credit for People's Exporting Business, or KURBE). The financial products offered by Eximbank vary based on the size of the enterprise. Micro enterprises can borrow up to Rp5 billion, small enterprises up to Rp25 billion, and medium-sized enterprises as much as Rp50 billion. The repayment duration also varies depending on the amount borrowed, with smaller loans payable within one to three years and larger loans payable within one to five years. All loans, regardless of amount, are charged an effective interest rate of 9 per cent per year.

Root Capital is an agriculture-focused lending company that prioritizes poor farmers in developing countries and offers capacity-building assistance. To be eligible for financing, an agricultural business must have been operating for at least three years and have an annual income of US\$250,000 or more. Along with its loan application, a business must submit financial statements for the three years prior to application and references from two other buyers. An agricultural business may borrow a minimum of US\$200,000.

ANGIN's angel investor Havid Han shared his views about what angel investors look for when investing in a business. He told participants that approaching angel investors is different from working with other types of investors. Since personal interests and passions affect angel investors' decision-making, SMEs should be able to present an appealing business story to make their business stand out. That might include why they started their company, what problems they have solved, and what they have become. SMEs should also emphasize their unique selling point (USP). Acknowledging that coffee is a commodity and that coffee industry players might not have unique coffee beans, Havid noted that a distribution network could be an example of a USP.

SUCCESS STORY: KOKOWAGAYO

Rizkani, founder and chairperson of Kokowagayo, spoke of her success in obtaining external buyers and funding. She credited the financing received from Café Femenino Foundation with helping the cooperative connect with markets in the United States and Europe. A grant from Café Femenino also helped to establish a child care centre managed by the co-op.

Participants Design New Financial Products



At each of the three workshops, after the talk show had provided participants with knowledge about various external sources of financing, they were split into small facilitated groups and invited to play the role of investor or financial service provider and design a new financial product for women entrepreneurs. Each group then presented their product in a plenary session.

The purpose of this exercise was to get participants to think from an investor's perspective. While entrepreneurs complain about interest rates, collateral, and complex financing terms, such conditions exist because financial institutions need to mitigate their risks and obtain a return on their investments. The ANGIN/TPSA team created the role-playing session as a way for SMEs to understand the needs of FSPs and place themselves in the shoes of lenders. As an added benefit, the exercise was a way to elicit fresh, out-of-the-box financial product ideas from potential borrowers.

The task was framed as a competition in order to boost participants' motivation, and a winner was selected at the Bandung and Solo workshops, based on peer votes.

Apparel and Footwear (Bandung and Solo)

The following financial product ideas were presented at the workshops in Bandung and Solo:

Pinjaman Perempuan (Women's Loan or JAMUAN)—Bandung's winning product

JAMUAN is a profit-sharing, non-collateralized loan product targeted at women-led and women-owned micro, small, and medium-sized businesses. It offers loans from Rp20 million to Rp150 million, with a focus on working capital and machinery investments to help companies increase their production capacity. JAMUAN provides a grace period of three years. In the final year, businesses pay back 5 per cent of their net profit to JAMUAN. To mitigate the risk of non-performing loans, JAMUAN will allocate its corporate social responsibility (CSR) fund to host trade fairs for its borrowers. By increasing companies' access to the market, JAMUAN lowers its risk of not being paid back. It also provides non-financial support such as capacity-building and business mentorship on financial management, bookkeeping, digital marketing, and other topics to help borrowers manage their business effectively.

SEKAR—Solo's winning product

SEKAR is a non-collateralized loan product targeted at production and marketing needs, the two most-mentioned needs during the session. It offers loans of between Rp100 million and Rp500 million, adopts a profit-sharing model, and offers a two-to-three-year grace period depending on the needs and the performance of the business. To minimize non-performing loans, only borrowers who are selected for and participate in SEKAR's one-year incubation program can access the financing product. The program runs for one year and provides mentors who assist borrowers in preparing to apply for a loan and during the loan period to maximize its positive effect on their business. Mentoring is set up with SEKAR's CSR fund. SEKAR also requires borrowers to use its POS system so that it can track real financial performance without burdening them with conventional financial reporting, which participants claimed to be cumbersome.



E-Kartini

An online platform that acts as a matchmaker between women entrepreneurs and capital providers. The platform contains information related to the footwear and apparel business, market opportunities, training events, and other information that can facilitate this connection. It will also provide an offline/online masterclass on business-related knowledge. E-Kartini will make money from commissions on every investment that occurs in the platform.

Head-to-Toe Finance

An interest-free and collateral-free working capital loan with a 20:80 profit-sharing scheme. The financing would be for working capital; repayment is due within six months. Head-to-Toe Finance also provides a financial consultant and mentor to borrowers.

Lembaga Perempuan Mandiri (LPM)

Lembaga Perempuan Mandiri or "Independent Women Institute" is an interest-free, non-collateral loan product targeted mainly at women-led and women-owned MSMEs that have been operating for more than a year. It offers loans in the range of Rp20 million to Rp150 million with a grace period of three years. In the final year, LPM will collect 5 per cent of the borrowers' net profit. LPM offers non-financial assistance such as business mentoring (on topics such as financial bookkeeping, human resources management, and marketing skills), information, and connections to investors and exporters. It also hosts the Women Entrepreneur Meeting, a regular platform for women MSMEs to exchange business information and experiences. To minimize non-performing loans, LPM requires borrowers to provide their national identification card, business registration certificates, and financial statements, and will also check their digital footprints. If firms are unable to pay back their loans, LPM will follow up with warning letters, pursuing legal proceedings as a last resort only.

Nafas

Nafas is a co-manufacturing facility that operates with joint investments from MSMEs. The manufacturing site unites several MSMEs under the same roof. Entrepreneurs that join the program would invest a certain percentage of their income to maintain operations (i.e., training, labour, and rental machinery). To mitigate risk, each MSME is expected to meet a certain sales margin. Underperforming MSMEs would be granted six months of improvement time with a risk of contract termination if the expected target is not achieved. This model helps entrepreneurs to strategically meet their operational needs without sourcing external funding while also reaping non-financial benefits such as knowledge transfer, access to resources, and capacity-building.

PIL

PIL is a program developed by one group to address their personal challenge of obtaining the necessary production tools, equipment, and machinery for entrepreneurs to use on-site at affordable prices. This product helps alleviate SMEs' worries about not having enough money to buy costly assets, especially at the early stage of their business when the risk of failure is high.

Smart Investment Womenpreneur (SIW)

SIW offers two options for interest-free and collateral-free funding for start-ups and small-sized enterprises: a working capital loan directly from SIW (profit sharing, no collateral) or financing from their network of angel investors (profit sharing or equity). SIW bundled their credit product with financial literacy training.

Unnamed online technology platform

This online platform connects entrepreneurs with capital providers, potential partners, online financial literacy sources, and one another. By creating an account, uploading a photo, and writing a business description, entrepreneurs can create a digital record of their business, which capital providers can



then assess. This system can help businesses address bureaucracy concerns such as identification and credit history.

WEDOC (Women Entrepreneur Development of Capital)

WEDOC is a loan product with a profit-sharing scheme, offering funding in the range of Rp50 million and Rp500 million with a three-year grace period. Borrowers will submit 8 to 10 per cent of their net profit to WEDOC by the end of year three and pay installments of their principal every month for the following two years. WEDOC does not require collateral and does not charge interest. WEDOC will also provide a mentor to help with business growth in areas such as management, financial bookkeeping, and marketing. The mentor's commitment will be evaluated on a case-by-case basis according to the maturity of the business. It aims to provide the skills needed to run a successful business that is self-sufficient by the end of year five.

Coffee (Takengon)

Most participants in the coffee workshop were seeking financing primarily for working capital. The amounts needed varied widely, from Rp100 million to Rp5 billion, depending on the activities undertaken by the SME. Those conducting export activities required more funding.

All three groups chose to implement a profit-sharing scheme as part of their product, rather than an interest rate. While the groups agreed that collateral requirements are a challenge, one group decided to keep the requirement because they understood it serves as a risk-mitigation tool. However, they ensured their collateral requirement was not overly demanding. Echoing participants in Solo and Bandung, all three groups in Takengon bundled their financial product with non-monetary supports (e.g., field officer assistance, mentoring).

The participants in Takengon came up with the following innovative solutions to their challenges in accessing capital:

Datu Beru Investment (DBI)

DBI offers working capital using a *mudrabah*⁴ system as well as in-kind investments such as drying houses, which are in high demand by processors in Takengon. DBI would gain returns from their profit-sharing financing product and service fees from their real assets/in-kind investments. Loans would be in the range of Rp500 million to Rp1 billion with a six-month term. To minimize non-paying loans, DBI requires collateral in the form of sales contracts or invoices. The loan from DBI is bundled with training for women entrepreneurs on topics such as diversification, marketing, and best practices in coffee processing. DBI also offers a matchmaking service to bring together coffee traders and customers, especially foreign buyers, through an online database where SMEs can contact and offer their products to registered buyers.

Mahmud Finance

Mahmud Finance offers collateral and interest-free loans of Rp1 billion to Rp3 billion for SMEs, especially those in the processing and marketplace segments of the coffee value chain. The loan product is mainly for project-based financing (e.g., to fulfill export requests from foreign clients) with maturity ranging from two to three years. Mahmud Finance employs a 30:70 profit-sharing scheme in place of interest. SMEs in this segment of the value chain prefer loans over equity because they are mainly seeking funding for project-based activities (i.e., to export to foreign buyers) and most SMEs in Aceh do not have legal business status (PT designation) and are therefore not entitled to participate in equity investment.

⁴ Mudrabah is a profit-sharing contract in which one party provides the money and the other, who actually runs the business, provides the management expertise. Profits are shared between the two parties in a proportion agreed in advance. Losses are the liability of the former, and the latter loses their share in the expected profits.



The application process is done entirely online and processed quickly, with the first loan disbursement made within two weeks. To mitigate risk, Mahmud Finance requires government identification numbers, tax identification numbers, business registration documents, and one year of bank statements. A field officer will be assigned to conduct an initial assessment of the borrower, help them set key performance indicators (KPIs), and provide assistance until the loan is repaid. Funding will be disbursed in two or three instalments depending on KPIs. The cost of hiring the field officer will be offset by a one-time fee of Rp500,000 payable by the borrower, with one field officer assigned to a maximum of 12 borrowers.

S3TR (Suka-Sama-Suka-Tanpa-Riba)

S3TR is a women-friendly profit sharing, non-collateral loan product targeted at coffee SMEs led by women or men that are focused on processing, input supply, and the marketplace. It offers working capital loans of Rp10 million to Rp100 million with a grace period of five years for start-ups/new businesses, and Rp150 million to Rp1 billion with a grace period of three years for established businesses. S3TR employs a 70:30 profit-sharing scheme, which it collects in the maturity year.

S3TR requires a copy of government identification, business registration, and financial statements from potential borrowers. They also check SMEs' digital footprints. The loan application can be completed either online or in person. S3TR also offers non-financial assistance such as business mentoring, technical advice on coffee production, and support in accessing local and foreign markets.

SUCCESS STORY: DU'ANYAM

Du'Anyam is a social enterprise established by three women activist-entrepreneurs to promote the empowerment of women, improve their health and welfare, and promote culture. Currently, Du'Anyam assists in the marketing of wicker products made by women from Flores, East Nusa Tenggara. Samuel David, Head of Retail, told workshop participants in Solo that a business should explore various sources of funding, rather than relying on just one. Du'Anyam has received funding from an angel investor and an impact investor to grow the overall business, as well as grants for the social-development aspects of its work.





Women-Led SMEs Pitch Their Businesses to FSPs

At all three workshops, the ANGIN/TPSA team selected SMEs to pitch their businesses to the FSPs/investors present. The day before the workshop, the ANGIN team helped the SMEs prepare their pitches using a template in Microsoft PowerPoint. The template included business product, business history (rationale or inspiration for going into business and initial capital), business performance in the last three years, as applicable (labour, assets, production volume, sales), future outlook, and financing request. The support provided by the ANGIN team was critical in preparing the SMEs, as most of them did not know what information the FSPs would want, nor did they know how to use PowerPoint.

Apparel and Footwear (Bandung and Solo)

Forty-one women-led SMEs were invited to pitch at the Bandung and Solo workshops (eight in footwear and 33 in apparel). The majority of SMEs making a business pitch in Bandung and Solo design, produce, and sell their own footwear and apparel products; only two of them subcontract production. A large number of them employ full-time workers for production, while a few use external vendors/suppliers' services. Most were small-sized businesses with annual incomes ranging from Rp20 million to Rp900 million. A few were medium-sized businesses with annual incomes of Rp1.5 billion to Rp4.5 billion. Overall, the SMEs presenting in Solo were comparatively smaller in size than those in Bandung.

After the SMEs completed their pitches, FSPs/investors were asked to provide feedback to the presenters and comment on the appropriateness of their funding requests.

Funding Requirements

In Bandung, as many of the presenters were small-sized enterprises, the amount of financing requested was mainly in the Rp100 million to Rp500 million range. In Solo, the funding needs were also relatively small, with most seeking financing in the range of Rp200–500 million. Both groups generally planned to use the funding for working capital, purchase of machinery and equipment, and marketing and promotion. At both workshops, the most requested funding instrument was a non-collateralized loan, followed by equity.

During discussions earlier in the day, participants placed heavy emphasis on high interest rates as a deterrent to accessing bank loans, but as the pitches unfolded it became clear that many SMEs can tolerate a rational and friendly interest rate, but would strongly prefer not to provide collateral. Only one SME explicitly demanded a loan with a profit-sharing scheme.

Although a number of presenters included loans in their business pitch slides, when the emcee of the workshop asked who the SME's ideal investor would be, most of them selected ANGIN angel investor Nuniek Tirta Sari. The switch from loan to equity might be because SMEs were not familiar with the concept of equity prior to the FSP presentations. However, more in-depth education on equity investment



is essential, as it appears many SMEs still do not understand the concept of valuation and could not answer questions about the number of shares they would offer to investors.

Feedback From Investors

A valuable piece of feedback from the investors/FSPs was that SMEs need to be more realistic about the financing amounts they are requesting. Some of them requested too little for their current stage of business, while others asked for too much. Investors/FSPs also suggested SMEs be more careful when setting their business goals, because increasing sales by three to four times in just one or two years is not as easy as they may think.

After the workshops concluded, the ANGIN/TPSA team checked in with participating FSPs/investors and found that they were interested in working with a number of SMEs and some are currently in the follow-up/discussion process:

- **BEKRAF** reported that all of the presenting SMEs from the Bandung and Solo workshops are suitable to become part of BEKRAF's ecosystem and encouraged them to sign up for the BEKRAF Information System on Mobile Application (BISMA), through which they can get the latest updates on BEKRAF's programs and potential funding opportunities.
- **Modalku** is following up with 11 SMEs: Alfa Rajawali Semesta, Ayunda Tenun, Cloth Inc, Hana San, IM&CO, Is.Yours, Madanara, PT Ethree Abadi, Sashee Socks, Syakira Socks, and Vonny & Ellen.
- **Investree** is interested in six SMEs: Ayunda Tenun, IM&CO, Madanara, Sashee Socks, Syakira Socks, and Tekav Paoman Art.
- **Koinworks** found that more than 90 per cent of presenting SMEs fit their funding criteria, although some adjustments to the requested funding amounts might be necessary. The Koinworks team is currently assessing each SME's profile and will follow up with them individually.
- **Nuniek Tirta Sari** is following up with Madanara (which is in the process of formalizing its PT business registration in preparation for investment), Lovely Zia, Cloth Inc., HWAN Eco Fashion, and Bule Bule Garment. She also agreed to act as mentor for Mekrok, HFSY, and An Attitude.
- **Patamar Capital** noted that all of the presenting SMEs are too early in their development for funding, but recommended that they come back when their businesses are more mature.

Coffee (Takengon)

All six participating SMEs and two cooperatives pitched their businesses to the FSPs. Seventy-five per cent of the SMEs are small-sized enterprises, with revenues ranging from Rp40 million to Rp510 million. The majority (60 per cent) are engaged in processing as well as retail activities: They collect coffee beans from farmers or cooperatives, process them into value-added products (e.g., green beans, coffee powder, coffee-based soap), package them, and sell them directly under their own brands.

Funding Requirements

All presenters were seeking a loan, with four explicitly requesting a loan with no collateral requirements and one asking for Shariah-compliant credit. The funding needs of the smaller-sized SMEs ranged from Rp80 million to Rp800 million, while the medium-sized businesses needed funding in the amount of Rp8 billion to Rp20 billion. They primarily planned to use the money for working capital and capital expenditures. With this external funding, they expected to at least double their production and sales.



Feedback From Investors

The FSPs at the Takengon workshop provided the following feedback about coffee SMEs' business pitches:

- **Eximbank** felt that 75 per cent of the SMEs were fundable, based on their business and current achievements, but needed more information in order to fully understand their business. The rest were not yet suitable for funding because they are still too small.
- **Crowde** said that while all presenters were eligible for funding, they could only provide the portion of their funding request that would be allocated for working capital. Crowde suggested that SMEs with substantial funding needs should divide their fundraising request into several phases, rather than one large lump sum.
- **Root Capital** would only be able to fund the two presenting cooperatives (Kokowagayo and Koperasi Arinagata) because it has a strict mandate to finance only coffee traders, not SMEs working in other parts of the value chain.
- **Havid Han** said three of the presenting SMEs showed appealing traction and unique business models: Asa Coffee, because it has several famous B2B clients, including JJ Royale and Anomali; CV Renah Rembune, because it has begun to implement blockchain with HARA; and Tiwilight, because it showcased a unique value proposition through its skincare products. Some SMEs, such as Kokowagayo, Koperasi Arinagata, and CV Nutrisi Aceh, were not suitable for angel investment because their funding needs are already too large. Other SMEs, such as Siwah Radja and No Label Coffee, show potential but their businesses need to be in better shape before funding can take place.



Conclusion



When the responses of the participants to the workshop content are examined, it is clear that Indonesian women-led SMEs in the coffee, apparel, and footwear industries are experiencing a knowledge vacuum when it comes to accessing both traditional and non-traditional forms of external funding. Many simply do not know what assistance is available to them; others lack the business skills or confidence to access it.

However, SMEs know what they do not want when it comes to funding: high interest rates and collateral requirements, onerous and bureaucratic application processes, and the need to travel long distances to meet with funders. These challenges are posed by the majority of traditional financial service providers in Indonesia, and SMEs prefer not to access funding at all than to place themselves in situations where they may be unable to repay their loans and enter into an unbreakable debt cycle, perhaps losing their business in the process.

What they do want, as expressed in the creative financing solutions they came up with during the role-playing sessions, are lenders who will provide no-interest loans with reasonable or non-existent collateral requirements, a realistic and manageable repayment plan, and non-financial capacity-building and business support in the form of education, mentorship, incubation, and training.

Though a number of alternative financial products already exist in Indonesia, as demonstrated by the range of FSPs represented at the workshops, many SMEs either do not know about them or do not understand the products they offer (as with equity lending and angel investors). They also recognize that financing alone is not enough to help build their business; they need non-financial help on an ongoing basis to increase their business acumen and confidence.

Connecting non-traditional FSPs with businesses in need of funding is essential to increasing the success of women-led SMEs in these three industries, many of whom are ripe for investment and growth. The demand may soon exceed the supply, which is why governments and the financial sector must also work to expand the range and availability of alternative lending products—perhaps using the solutions presented at these workshops as a starting point. SME-friendly policy measures and government incentives for FSPs to launch new and creative financial products are good places to start.

SMEs need external financial support in order to succeed, and their success can have a direct impact on Indonesia's economic growth and the alleviation of poverty.

Recommendations

Recommendations for Government

1. Establish policies and incentives that promote the creation of new alternative financial service products in Indonesia.
2. Create a marketing campaign targeted to SMEs, particularly women-led SMEs, to raise awareness of the alternative financial products and services that are already available.
3. Partner with the private sector to provide non-financial support in the form of education, training, and incubation as well as to create business mentoring programs for SMEs.



Recommendations for FSPs

4. Make it easier for SMEs to access traditional forms of capital, such as loans, by offering products with low or no interest and reasonable collateral requirements (such as proof of sales contracts or invoices) and by allowing the application process to be completed online.
5. Create and deliver outreach and education programs in conjunction with governments, business associations, and cooperatives to raise SMEs' awareness of alternative financing products.
6. Conduct market research among SMEs and design new lending products to meet their needs.



Appendices



Appendix A: List of SMEs That Presented a Business Pitch

Bandung

BUSINESS NAME	DESCRIPTION
Alfa Rajawali	A producer of leather footwear for men. Mainly targets the domestic market through their retail footwear brand (Gaffial) but is currently also supplying their product to South Africa for a brand named Ligzo Gaido.
Ayunda Tenun	Established in 2003, Ayunda Tenun partners with small craftspeople to produce and sell clothing made from <i>tenun</i> (hand-woven fabric).
Batik Kanawa	Batik Kanawa produces Pekalongan hand-painted batik. It mainly targets the domestic middle-class segment.
Batik Sakera	Batik Sakera produces apparel made from hand-painted batik cloth. It mainly targets the domestic middle- and upper-middle-class retail segment in urban areas.
Cloth Inc.	Cloth Inc. is an Indonesia-based contemporary ready-to-wear brand targeting early-to-late millennial women in the high-end market.
CV Indra Indri	Indra Indri produces Muslim fashion with hand-embroidered detailing.
Eramsis	Eramsis produces various types of shoes, including dokmar, flat shoes, wedges, sneakers, sandals, and high heels. It targets the domestic retail market, especially young fashionable customers.
Ethree Abadi	Ethree Abadi produces custom and handmade leather shoes made to order according to the anatomy of the client's foot.
Hana San	Hana San manufactures good-quality hotel slippers at low prices on demand for local, national, and international hotels.
HWAN Eco-Fashion	HWAN Eco-Fashion produces environmentally-friendly modern ethnic hijab and scarves for the retail market.
IM&CO (Up2date Plus)	A Bandung-based Muslim fashion apparel brand offering quality casual outfits with a bold mix-and-match concept. It is targeted at young Indonesian women from the middle class and higher.
Linean	Established in January 2017, Linean is a local fashion brand that uses linen as the base material for its collections.
Look at Hijab	Look at Hijab provides a variety of hijab models, such as khimar and pashmina, made from good-quality materials.
Lovely Zia	Lovely Zia offers high-quality batik contemporary clothing for women using unique designs.
Madanara	Madanara sells a variety of women's knitwear products, such as inner hijab, hand socks, and cardigans. While its main target is the domestic market, it has resellers in four countries.



BUSINESS NAME	DESCRIPTION
Myn Limited	Myn Limited offers clothing with unique, ethnic, and elegant styles. It offers robes, hoods, culottes, palazzo, outerwear, and tops.
Pravasa	Pravasa offers traditional, ethnic women's clutches and shoes that blend batik or weaving with feminine designs, mainly in gold and silver, made of leather and high-quality materials.
Sashee Socks	Established in 2016, Sashee Socks offers printed socks with unique patterns for women made from high-quality fabric. Sashee Socks has produced more than 540 sock designs in four different sizes and styles.
Syakira Socks	Syakira Socks offers printed socks designed specifically for Muslim women with unique patterns and high-quality fabric. Syakira socks has produced more than 90 patterns, with a new pattern released every month.
Tekav Paoman Art	Tekav is a line from Paoman Art, which has been producing hand-painted and stamped batik cloth with the mission of preserving indigenous patterns and empowering the wives of fishermen in coastal areas.
Vonny & Ellen	Vonny & Ellen produces comfortable handmade women's footwear from leather and vegan leather. Established in 2009, its main target is domestic retail buyers, but it also has customers outside the country.
Is.Yours	Is.Yours shoes offers a wide variety of women's flat shoes with simple, feminine designs. Yours Shoes was established in 2018 and has produced around 200 pairs of shoes in pastel colours.

Solo

BUSINESS NAME	DESCRIPTION
An Attitude	An Attitude is a fashion apparel brand combining batik and lurik. It targets the domestic middle- and upper-middle class using online distribution channels.
Batik Ikat	Batik Ikat manufactures fashion apparel made from handwoven textiles (<i>tenun ikat</i>) and batik. It collaborates with craftsmen in Jepara and Lasem, small villages in Central Java.
Batik Syandana	Batik Syandana produces both fabric and ready-to-wear fashion. It targets the domestic middle-class market segment.
Bule -Bule	Bule Bule produces apparel using old textiles as raw materials (75 per cent old textiles, 25 per cent new fabric). Since 1995, it has targeted the export market including the Middle East and North America.
Cemanting Art	Cemanting Art manufactures ready-to-wear batik clothing. It targets the domestic middle-class market segment.
CV Pelangi Nusantara (Pelanusa)	Pelanusa is a producer of locally-made fashion accessories (clutches, reusable bags) and home decor (cushions). Its mission is to promote a zero-waste lifestyle through its products and to empower young women in Malang through job creation.
Erlene Handycraft	Erlene Handycraft manufactures hijab accessories (brooches, necklaces, and clutches). It offers both ready-to-wear and custom products.



BUSINESS NAME	DESCRIPTION
HFSY Batik	HFSY Batik is an in-house batik producer and designer. It targets the domestic middle-class market segment.
House of Distraw	House of Distraw offers unique fashion accessories (scarves, bags, and pouches) using natural-dyed shibori, eco-print, and batik textiles.
Mekrok	Mekrok is a fashion apparel manufacturer specializing in skirts. It adopts an approach that support health and education issues. It targets the domestic women's market.
Miracle Leaves	Under the Jumico Ecoprint brand, it produces fashion apparel that uses eco-print textiles as the main material. It targets both the domestic and export middle- and upper-middle-class market.
Naray.co	Naray.co manufactures handwoven textile (<i>tenun</i>)-based shoes by empowering local weavers. It also upcycles fabrics and leather materials into other products, such as mini wallets.
Oppu Label.co	Oppu is a fashion and craft brand that uses a handwoven textile (<i>Tenun Lurik Gedong Kayu</i>) as its main material to produce sling bags for women.
Plaza Busana Muslimah	Plaza Busana Muslimah/Plaza Preneur Mandiri (PPM) is a modest fashion brand producing gamis, mukena, hijab, and tunics. It targets the domestic women's hijab market.
PT Furni Smartinfo (HelSteen Collection)	HelSteen Collection currently offers fashion items including batik clothes, customized uniforms, women's accessories, and t-shirts. It plans to expand into tourism-themed apparel sold via vending machines.
Tenun Eboon	Tenun Eboon produces various fashion apparel using high-quality handwoven textiles (<i>tenun</i>) from local weavers. It targets the domestic premium market.
Trasty	Trasty hand-crafts souvenirs (tote bags, sandals, and clutches) from used batik fabrics. It mainly targets the domestic market, both to other businesses and direct to consumers.
VNT Project	VNT Project produces women's apparel and scarves. It targets the domestic middle-class market.
Waiki	Waiki is an all-natural-dyed textile producer specialising in resist dyeing techniques. It targets the domestic and export upper-middle-class markets.
Yasmin Butik and Batik	Yasmin Butik and Batik is a fashion boutique offering batik-based ready-to-wear apparel.





BUSINESS NAME	DESCRIPTION
Siwah Radja	Siwah Radja produces Areca nut coffee mainly for retail customers. Their product, Kopi Pinang plus, contains 13 spices they claim to be good for health. Siwah Radja sources its coffee beans from other parties.
No Label Coffee	No Label Coffee produces Arabica and Robusta coffee powder from Gayo coffee. They also recently introduced a new product, coffee fragrances (both for the body and to scent a car).
Koperasi Arinagata	Koperasi Arinagata produces semi-washed coffee, coffee that uses special processing techniques (such as wine coffee, luwak coffee, peaberry coffee, and long berry coffee), and fully washed coffee for B2B importers and domestic buyers.
Kokowagayo	Kokowagayo is a women-only coffee cooperative with 386 members. It processes coffee beans into semi-washed, fully washed, Grade One, and honey coffee mainly for export.
CV Renah Rembune	CV Renah Rembune is a producer and distributor of Arabica Gayo coffee. They offer both Grade 1 Arabica Gayo coffee and specialty coffee (i.e. natural, wine, fully washed, and honey). To support its operations, it currently partners with HARA to use blockchain technology to improve traceability.
Tiwilight Care	Established in 2017, Tiwilight Care produces coffee-based natural and organic body care products, such as soap, body wash, and scrubs. It targets domestic women customers aged 17 years and up.
CV Nutrisi Aceh (Sada Coffee Medan)	Sada Coffee Medan produces nine types of coffee, including peaberry, yellow honey, red honey, natural wine, etc. Their market is B2B export and domestic as well as retail clients.
Asa Coffee	Asa Coffee processes coffee beans into green beans, roasted beans, coffee powders, and coffee in cups. It offers five types of coffee: wine, peaberry, luwak, longberry, and specialty.





Appendix B: List of Financial Service Providers

NAME	WEBSITE
ANGIN's Angel Investor	https://angin.id/
Badan Ekonomi Kreatif Indonesia	http://www.bekraf.go.id/
Bank Tabungan Pensiunan Nasional	https://www.btpn.com/en
Crowde	https://www.crowde.co/
Export-Import Bank	http://www.indonesiaeximbank.go.id/
Havid Han	N/A
Investree	https://www.investree.id/
Koinworks	https://koinworks.com
Modalku	https://modalku.co.id/
Patamar Capital	http://patamar.com/
Pt Bank Pembangunan Daerah Jawa Barat dan Banten Tbk	http://www.bankbjb.co.id/
Root Capital	https://rootcapital.org/





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