



Report

INVESTING IN IMPACT IN INDONESIA

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Investing in Impact in Indonesia - 2020

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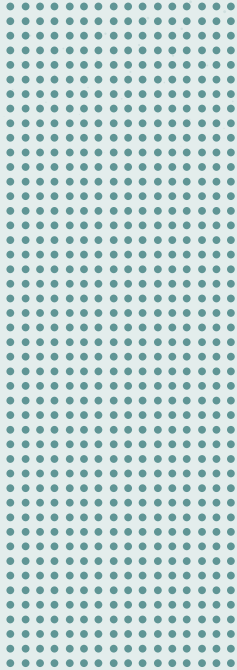
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Report Objectives

Section	Objectives for General Audience	Objectives for Capital Owners
Part 1: Supply-side (Investor)	<ul style="list-style-type: none"> Give an overview of what has happened on the supply-side since 2017 (date of last major research covering the impact investment industry in Indonesia by GIIN). Increase public awareness and understanding of impact investing to bridge the knowledge gap. Showcase the best practices from major investors in the impact investment field representative investors of the best practice investment landscape 	<ul style="list-style-type: none"> Review impact investing market progression and understand how capital owners could help develop the supply-side of the impact investing ecosystem. Identify potential recipients for Fund-of-Funds deployment
Part 2: Demand-side (Entrepreneur)	<ul style="list-style-type: none"> Understand social entrepreneurs' perception and expectation of impact investors and their challenges in raising capital for impact investing due to impact investors' value proposition. 	<ul style="list-style-type: none"> Review the condition of the impact investing market from the perspective of a social entrepreneur. Identify areas where support is needed to increase the deployment of impact capital.
Part 3: Opportunities	<ul style="list-style-type: none"> Identify areas of opportunity for impact and commercial (financial) return 	<ul style="list-style-type: none"> Identify areas of opportunity for impact and commercial (financial) return. Identify fund managers targeting key opportunity areas.
Part 4: Ecosystem	<ul style="list-style-type: none"> Highlight the roles of other key players beside impact investors in the "investing in impact" market and how they interact with each other. 	<ul style="list-style-type: none"> Identify potential entry points and support needs of key stakeholders to accelerate investing in impact ecosystem development.
Part 5: Policy and Regulations	<ul style="list-style-type: none"> Update on the influence and involvement of the Indonesian government in the "Investing in Impact" market. 	<ul style="list-style-type: none"> Build a communication channel with policy makers to implement supportive regulation that further enables impact investing.
Part 6: Covid-19	<ul style="list-style-type: none"> Give an overview on how COVID-19 has impacted the investing market in Indonesia and how investors are responding. 	<ul style="list-style-type: none"> Identify potential support that could be provided to reduce the severity of the pandemic.

Report Methodology

The following methods were used by the ANGIN research team to collect data and information covering the period from 2013 to 2020:

- Carrying out a **desktop research and literature review** that included industry reports (e.g. GIIN, Intellectap, BCG) and research publications, company reports, documents from key Indonesian policy leaders, and investor prospectuses.
- **Creating a database** of investing in impact stakeholders from ANGIN proprietary databases, company websites, news searches, and publications. The database covers 351 fund managers (impact and mainstream investors), 371 funded enterprises, and 80 ecosystem players (capital owners and other intermediaries).
- An **online survey** gathered responses from 89 entrepreneurs on their expectations and experience with impact investors during their fundraising process (November - December 2019).
- The team held **semi-structured interviews** between May and August 2020 with 25 fund managers to compile case studies based on their work, including on the impact of COVID-19. The team also conducted interviews with 35 entrepreneurs for feedback on fundraising and spoke to three ecosystem players to gain insights on impact areas they are working in.
- It is important to note that this report presents **data gathered on social enterprises that have received funding from (but not exclusively) impact investors**. Companies operating in impact areas but have only received funding from mainstream investors over the past 10 years are not the focus of this report.

Report Limitations

Below is a brief explanation of the main limitations of the research process.

Data accessibility and availability

Private investment and impact investment benchmarking can be a difficult exercise especially in less established private market segments combined with the restrictive nature of information flows within the industry.

Information disclosure

The most reliable source of information on impact investment performance since inception would likely be generated via unaudited quarterly and audited annual financial statements. This information is typically readily available for limited partners (LPs). However:

- Smaller institutional investors are not producing such reports.
- Most fund managers are unable to share data with any third-party aggregator, given data restrictions.

We mostly assessed the performance of the investors through the known performance of their portfolios.

Performance capture

Unlike public stock portfolios that often have significant overlap with both market indexes and peer strategies, private investments conducted by investors often have unique performance drivers that can differ to their peers. The performance cycles for private investors are dynamic, long and constrained by a defined period. For instance, research shows that private equity, impact investors and Venture Capital (VC) funds do not generally observe steady returns until 5 or 6 years after.

Remote collection of primary data

Due to COVID-19 restrictions and uncertainties, first-hand field visits and in-person interviews were not possible for all data collection. Interviews were mostly done over online calls.

Selection bias

A minor subset of operators managing non-active or sub-performing funds may have unknowingly provided assumptions and selective insights to corroborate with their experiences.

Glossary

Term	Definition
Ecosystem Stakeholders	
Supply-side (or Investor or capital owner)	Stakeholders that provide capital to enterprises. Based on their ownership of the capital, the supply-side is divided into two subcategories: capital owner (ultimate beneficial owner who controls the capital) and intermediaries (who facilitate capital disbursement).
Demand-side (or Enterprise)	Enterprises who need capital to carry out their impact entrepreneurial activities.
Private Sector	Activities and entities owned and controlled by individuals or entities who have an agenda to make a profit.
Public Sector	Activities and entities controlled by the government, whose agenda is to serve the public.
Investing in impact	
Impact Investing	Investment made into companies with the intention to generate a positive, measurable social and environmental impact alongside a financial return. The report draws the definition introduced by GIIN.
Investing in Impact	All supply-side stakeholders that channel capital to social enterprises and develop the impact investing industry. It includes both impact investors and mainstream investors.
Impact Areas (or Impact Premises)	Specific sectors and/or missions targeted by enterprises who contribute to the pursuit of creating social and environmental impact. The report draws impact boundaries using adapted IRIS impact taxonomy.
Impact Deal	Investment made into a social enterprise. See SE1 and SE2 below.
Impact Intention	Explicit motivation of an organization to create social and/or environmental impact. The intention is usually reflected in the organization's mission, strategy, and efforts to measure impact.
Pipeline	The availability of investible enterprises.
Funding availability	The availability of funds to be invested in enterprises.
Investor (Supply-side) Category	
Impact Investors	Investors with clearly defined impact mission and measurement, alongside generating a financial return. Some impact investors would be willing to trade off financial return for social impact (concessionary) or require a market return from their portfolios (non-concessionary).
Mainstream Investor in Impact Exposure Premises	Investors not defining themselves as impact investors, such as, private equity (PE) and/or venture capital (VC) firms who are actively investing in enterprises within impact areas. They do not yet have a clearly stated impact intention.

Enterprise (Demand-side) Category	
Social enterprise	An organization with a mission to address social problems in society and/or create positive impact for the welfare of society and the environment; this organization operates commercially to create profit (of which a significant amount will be reinvested to pursue stated social mission).
Social Enterprise 1 (SE 1)	“Social Enterprise 1” (SE 1) is a unique coding in this report that shows that the social enterprise has received funding from at least one Impact Investor.
Social Enterprise 2 (SE 2)	“Social Enterprise 2” (SE2) did not receive funding from Impact Investors but received funding from mainstream investors. These enterprises are operating within Impact Areas, and have a high level of confidence that these enterprises have an impact intention and level of impact measurement.
Enterprise in impact areas	A for-profit organization operating within impact areas (see below) without any explicit impact mission and measurement.
Investor Location	
Foreign investor	Used interchangeably with “foreign fund manager” and “foreign fund”. It refers to investors where the decision making is made overseas. Foreign investors are divided into foreign investors with local representatives (or “local presence”, see below) and foreign investors with no local representatives.
Local investor	Used interchangeably with “local fund manager” and “local fund”. It refers to investors where the decision-making is made inside Indonesia, unless otherwise stated.
Local presence	Local presence refers to any investors who have local representatives in Indonesia. They hire team members to work in Indonesia. However, it does not always mean that the decision-making is made in the country.
Investment Strategy	
Blended Finance	Blended finance is the use of catalytic capital (such as debt, equity, or guarantees) from public or philanthropic sources to increase private sector investment in sustainable development.
Co-investment	A situation where the social enterprise receives funding from both impact and mainstream investors. However, the investment from these sources does not necessarily need to be deployed at the same time. The mainstream investment can come before or after the impact deal.
Gender Lens Investing (GLI)	Investment with a specific intention to deliver value to women, whether as a direct recipient of the capital (women entrepreneurs), or as beneficiaries alongside the recipient enterprise’s value chain.
Enterprise Stage	
Pre-seed stage	The stage of the enterprise where an entrepreneur is focusing on building or testing the solution. When they raise capital, the typical amount is USD 5,000 - 50,000.
Seed stage	The stage of the enterprise where an entrepreneur needs to prove the concept and acquire their first clients. The entrepreneur may need capital for product development and market research as well as building a management team and developing a business plan. The typical fundraising ask is USD 50,000 - 500,000.
Growth stage	The stage of the enterprise where the business plan and the product is launched in the market and is validated by the customers. Now, they aim to acquire more clients and/or increase market share. The typical fundraising ask is USD 500,000 – 1,000,000.
Expansion stage	The stage of the enterprise where an entrepreneur aims to lead the market by expanding their operations. Sometimes, they also aim to acquire new customer segments. The typical fundraising ask is above USD 1,000,000.

List of Abbreviations

Abbreviation	Meaning
ANGIN	Angel Investment Network Indonesia
AVPN	Asian Venture Philanthropy Network
DFAT	The Department of Foreign Affairs and Trade (of Australia)
DFI	Development Finance Institution
EIA	Enterprise in impact areas
FC	Financial capital
GIIN	Global Impact Investing Network
GLI	Gender Lens Investing or Gender Lens Investment
GP	General Partner
IC	Intellectual capital
II	Impact investor
IRIS	Impact Reporting and Investment Standards
IRR	Internal rate of return
LP	Limited Partner
MIE	Mainstream investor in impact premises
MSME	Micro, small & medium enterprise
OJK	Otoritas Jasa Keuangan (Indonesian Financial Services Authority)
SC	Social capital
SDGs	Sustainable Development Goals
SE 1	Social Enterprise 1
SE 2	Social Enterprise 2
YCAB	Yayasan Cinta Anak Bangsa

Foreword

In the early days of ANGIN, back in 2013, impact investment was still seen as a niche industry, quite isolated from the crowd of other venture capitalists and fast growing entrepreneurs enabled by emerging technologies. Impact investment and social entrepreneurship were still perceived as a new approach to philanthropy as if the first part of their status: “Impact and Social” was the dominant connotation.

Fuel by impact and market opportunities that become obvious to various stakeholders, more and more leaders and the financial industry looked to funnel financial capital into investments that have a social and environmental impact while generating promising financial return.

It is encouraging now to see how the impact investment agenda has left the small circle of change makers to spread to more mainstream circles. Whatever defined as “impact investment”, the integration of “beyond financial return” analysis became a “must strategy” integrated by a large portion of the investors. It is not surprising now to see venture capitalists joining impact investment panel discussion or recruiting ESG specialists.

The organizations and individuals who are going to make the future of impact investment in Indonesia are the ones who fully understand the impact needs and turn their intentions into actions. Diverse stakeholders have their role to play in the development of impact investment in Indonesia, and our work also captures the dynamics of other key players beyond the impact investors and the entrepreneurs.

We believe this report will be a strong source of information for anyone interested in supporting entrepreneurs striving to create a long lasting impact for the country. It is a continuous effort of ANGIN to bring more transparency, insider insights and field experience to peer change makers.

ANGIN Team
September 2020

General Introduction

A) Common perception and new paradigm of impact investing

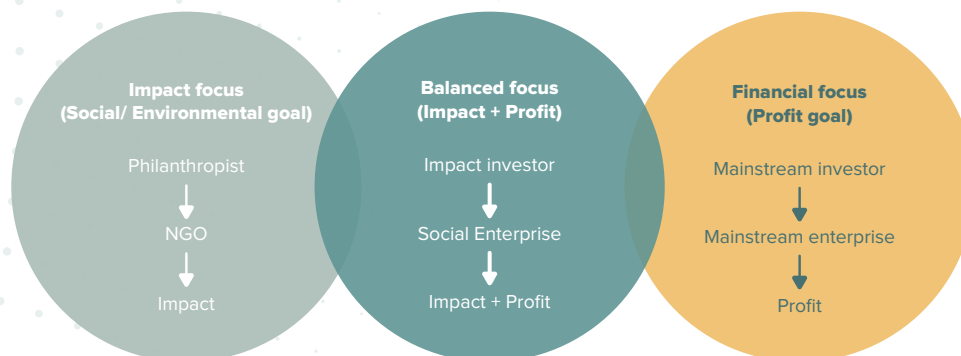
Figure A. Common perception



There is a common perception that social/environmental impact goals and commercial/profit-seeking goals are either mutually exclusive (see Figure A) or always contradict each other. In other words, the perception was that:

- **Mainstream investors** solely pursue financial goals (i.e. monetary return on investment) with a capitalist mentality and only **Philanthropists** exclusively aim for social and environmental goals.
- **Mainstream enterprises** exclusively pursue financial/commercial goals and only **NGO (Non-profit organizations)** aim to deliver social / environmental goals.

Figure B. A new paradigm



However, a new paradigm (Figure B) has emerged at the nexus of traditional capitalist and non-profit models. It is a hybrid model that seeks to balance both commercial and social/environmental goals, considering both goals are complementary and inclusive. The concepts of **Impact Investor** and **Social Enterprise** emerged in **Indonesia in the late 1990s**.

Some **characteristics of impact intention, financial return expectation, and impact measurement** illuminate how the industry stakeholders in this field differ.

Figure C. Supply-side stakeholders operating within impact areas

Characteristics	Philanthropy	Impact investor (II)	Mainstream investor (MI)
Clearly stated impact intention	Yes	Yes	No
Priority: Impact and/or Profit	Impact only	Both impact and profit are prioritised (Concessionary / non-concessionary)	Profit only
Impact Measurement	Yes	Yes	No
Financial Return Expectation	No (Negative to 0%)	Yes (0% and up)	Yes (8% and up)

Figure D. Demand-side stakeholders operating within impact areas

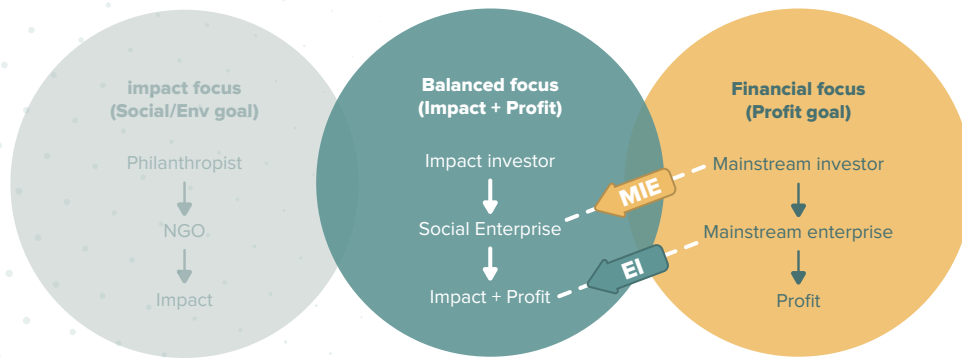
Characteristics	NGO/Non-profit (NP)	Social enterprises (SE)	Mainstream enterprises (ME)
Typical source of funding	Philanthropist	Impact Investor or/and Mainstream Investor	Mainstream Investor
Clearly stated impact intention	Yes	Yes	No or not stated
Priority: Impact and/or Profit	Impact only	Both are prioritised	Profit only
Impact measurement	Yes	Yes	No
Financial return expectation	No	Yes	Yes

B) Bringing new concepts: Enterprise in Impact Areas and Mainstream Investors with Impact Exposure

Another common perception was to **consider that only impact investors invest in social enterprises, and only social enterprises are delivering “impact” as a result of their business operation.** However, in practice, we observe in Indonesia that:

- **Not only impact investors are investing in social enterprises.** We see other investors playing an important role in financing social enterprises, and therefore, in the achievement of the UN Sustainable Development Goals (SDGs) in Indonesia. We identified an increased number of social enterprise being funded by mainstream investors and mainstream investors investing in Impact Areas¹.
- **Not only social enterprises deliver “impact”** (i.e. achieve positive social and environmental impact through the business). “Impact” can be a vague concept and while social enterprises intentionally state that they are pursuing “impact” and have the duty to measure it, Mainstream Enterprise working in Impact Areas also contribute to achieving “impact” without stating it openly or with a capacity to measure it.

¹ The report draws impact boundaries using adapted IRIS impact taxonomy. (Appendix A, Impact Areas).

Figure E. Extended scope of impact investment

Therefore, in this report we are introducing two new concepts that allow a more nuanced understanding and picture of the market in Indonesia:

- **“Enterprise in Impact Areas” (EI):** A mainstream enterprise who is not defined as a social enterprise (or perceived as so) but which is operating within impact areas.
- **“Mainstream Investor with Impact Exposure” (MIE):** Mainstream Investor who is not defined as an impact investor (or perceived as so) but that is actively investing in social enterprises and in Enterprise in Impact Areas.

Figure F presents a more detailed characteristics of the two new concepts

Figure F. New stakeholders operating within impact areas

Characteristics	Mainstream Investor with Impact Exposure (MIE)	Enterprises in Impact Areas (EI)
Clearly stated impact intention	No	No
Priority: Impact and/or Profit	Profit first (Impact secondary)	Profit first (Impact secondary)
Impact measurement	No	No
Financial return expectation	Yes (8% and up)	Yes

As a desire to identify clearly our target market for this research, we set certain boundaries as below:

- **“Impact Investor” (II):** We only consider investors structured as funds or holding companies. We did not include other investors such as angel investors, banks, public investors.
- **“Social enterprise” (SE):** As we could not verify the key characteristics that would defined a social enterprise, we made a distinction between categories of social enterprises as follows:
 - **“Social Enterprises 1” (SE1)** are the ones who received funding at least from one Impact Investor
 - **“Social Enterprises 2” (SE2)** did not receive funding from Impact Investors but received funding from mainstream investors. These enterprises are operating within Impact Areas, and have a high level of confidence that these enterprises have an impact intention and level of impact measurement.

It is important to note that this report presents **data gathered on social enterprises type SE1 (i.e those that have received funding from - but not exclusively - impact investors)**. Companies identified as type SE2 and EI who are operating in impact areas but have only received funding from mainstream investors over the past 10 years are **not** the focus of this report.



2020
Investing in Impact in
Indonesia



Part 1

Supply-side: A closer look at the
investors funding impact entrepreneurs

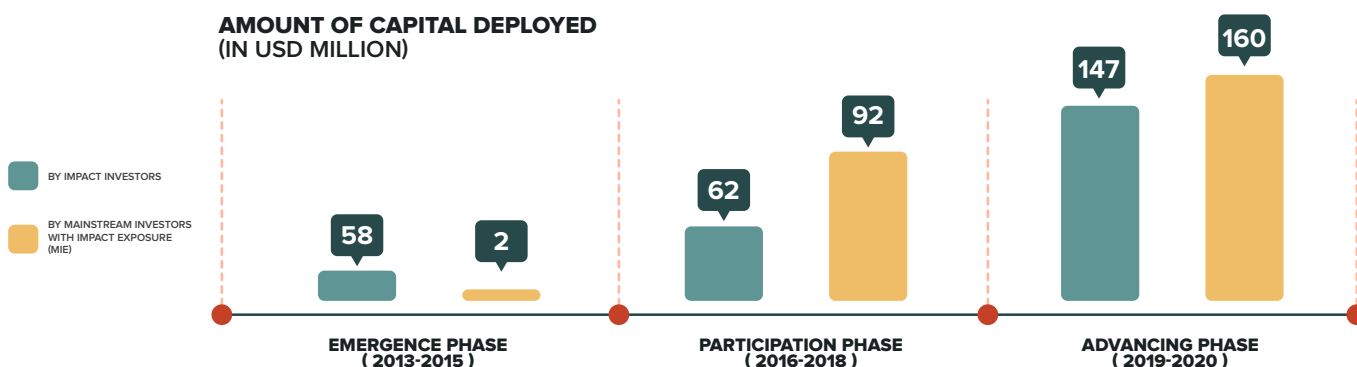
1.1 Introduction

As mentioned in the introduction, impact investors and philanthropists are not the only stakeholders providing financial capital to social enterprises and impact areas in Indonesia. Over the last five years, we have seen mainstream investors playing a critical role in channelling capital to social enterprises and developing the impact investing industry. Together, all these stakeholders are included under the umbrella of “Investing in Impact”. In this section we summarize their activities, characteristics and operations in Indonesia to identify how the industry is likely to develop in the future.

1.2 Timeline: Evolution of the investment activity in Indonesia

The impact investment scene in Indonesia has developed significantly since 2013. Overall, we can see that both impact investors and mainstream investors have been steadily increasing their investment activities in Indonesia during this period, as the number of social enterprises in Indonesia increases and these enterprises mature to absorb capital.² The evolution of the industry has been categorized into three phases (Figure 1.1).

Figure 1.1 Timeline-related data and indicators



	EMERGENCE PHASE (2013-2015)	PARTICIPATION PHASE (2016-2018)	ADVANCING PHASE (2019-2020)
Social enterprises funded by Impact Investors (SE1)	17	35	31
Social enterprises (SE1) funded by Mainstream investors	1	17	19
New entrant Impact Investors	16	17	8

Key observations	EMERGENCE PHASE (2013-2015)	PARTICIPATION PHASE (2016-2018)	ADVANCING PHASE (2019-2020)
	<ul style="list-style-type: none"> • First generation of Impact investors started to make investments • Large portion of the impact investors still in observation mode • Impact and mainstream investors worked in silo 	<ul style="list-style-type: none"> • Impact investors and mainstream investors activities started to “merge”: looking at similar dealflow (e.g. tech solution in agriculture, fintech etc), and co-investing • Some first generation investor exited Indonesia • Second wave of impact investors usually backed by multilateral organisations and development agencies 	<ul style="list-style-type: none"> • New more sophisticated fund structures and strategies: innovative instruments, localization development, thematic focus • More effort to leverage local capital • Funds from development agencies (typically grant scheme) are now exploring impact investment (e.g. ADB Indonesia) • Mainstream investors become more exposed to “impact”, e.g. initiated new impact arms or funds (e.g. Gayo Capital by Ideosource team), impact branding (e.g. Mandiri Capital, Alpha JWC)

²According to GIIN research, between 2007 and 2012 only three impact investment deals were made. Source: "THE LANDSCAPE FOR IMPACT INVESTING IN ... - The GIIN." https://thegiin.org/assets/Indonesia_GIIN_SEAL_report_webfile.pdf. Accessed 31 Jul. 2020.

1.3 Indonesia's Impact Investment Landscape in 2020

Below are the summary of key metrics related to the supply side of the impact investing industry in Indonesia. The data is based on ANGIN's research and estimate.

Figure 1.2 Overview of Impact Investors and Mainstream Investors with Impact Exposure

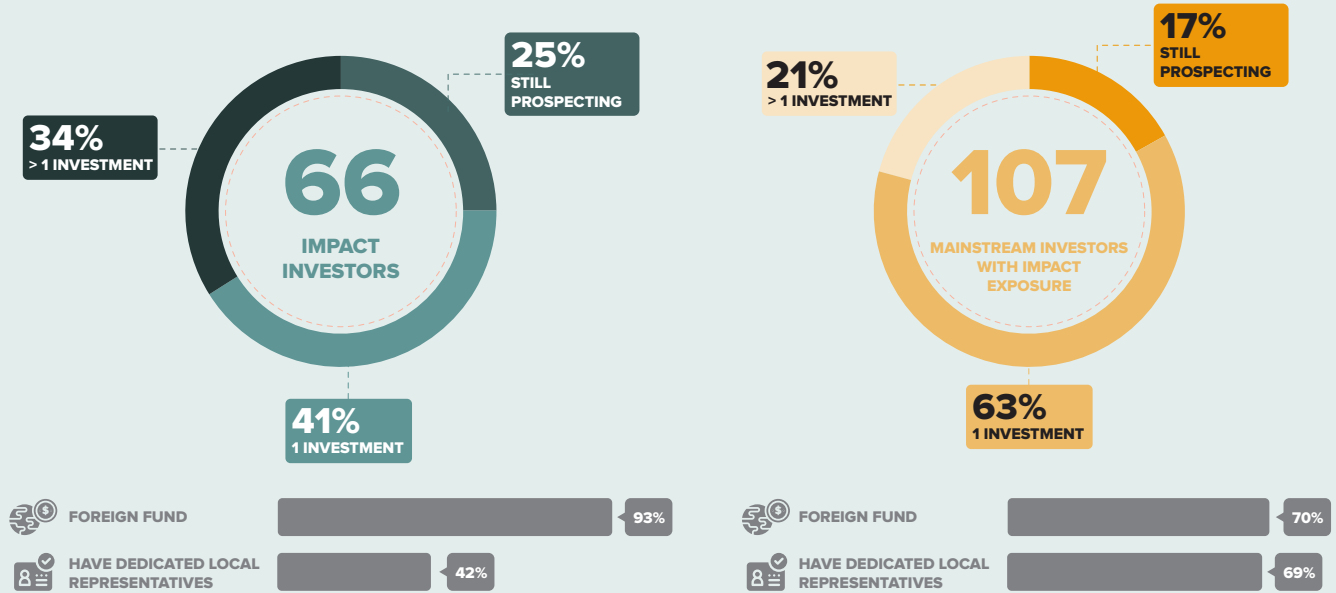


Figure 1.3 Social Enterprises (SE1) funded per year

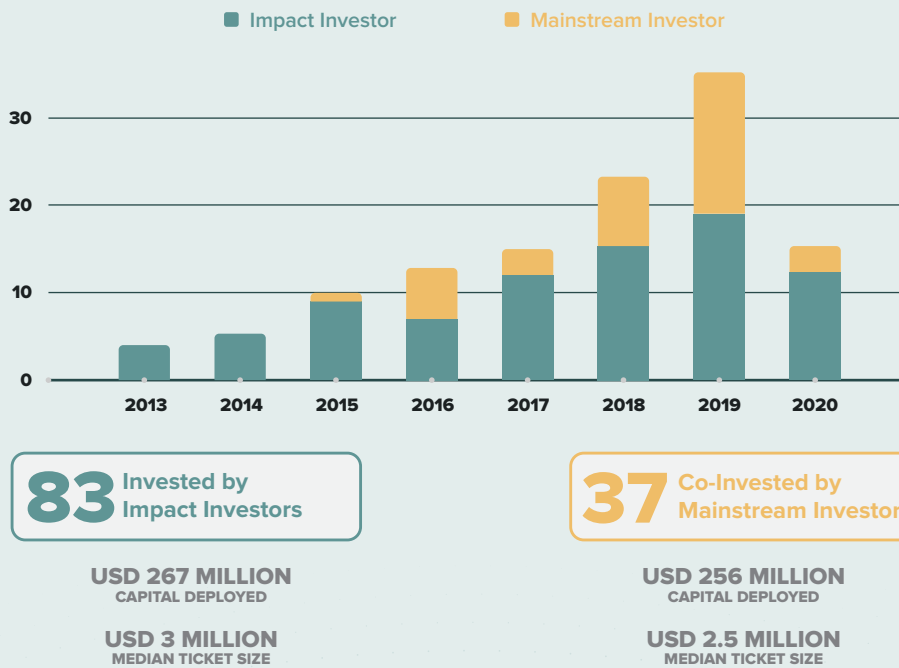












Figure 1.4 Number of investment (in SE1) by investment ticket size

Number of Investment	≤ USD 100k	USD 101k - USD 500k	USD 501k - USD 1 mil	USD 1 mil - USD 5 mil	>USD 5mil	Total
By Impact Investors	5	27	17	23	11	83
By Mainstream Investors	2	3	12	17	3	37

Number of deals refer to co-investment by multiple investors participating in the same round

Figure 1.5 Social enterprises funded and capital deployed (SE1)

IMPACT INVESTOR

Type of Industry	Number of investment	Total capital deployed (USD million)
 Education	2	11
 Energy	1	20
 Financial services	22	71
 Fishery	7	5
 Food & agribusiness	21	13
 Forestry & land	5	114
 Healthcare	2	16
 Sector agnostic	14	13
 Waste	5	4
 Water, sanitation & hygiene	4	1
	83	267











TECH MODEL

 **22%**
Tech-enabled

GENDER FRAME

 **19%**
Women-led or -owned

MAINSTREAM INVESTOR WITH IMPACT EXPOSURE

Type of Industry	Number of investment	Total capital deployed (USD million)
 Education	1	70
 Energy	-	-
 Financial services	15	74
 Fishery	3	4
 Food & agribusiness	1	0.85
 Forestry & land	-	-
 Healthcare	5	43
 Sector agnostic	12	64
 Waste	-	-
 Water, sanitation & hygiene	-	-
	37	256

TECH MODEL

 **89%**
Tech-enabled

GENDER FRAME

 **21%**
Women-led or -owned

1.4 Key insights

The key insights below represent the analysis based on our unique data collected over the last 7 years, the interviews with experts and in-depth targeted desktop research. For each insight we are including an educational background to include the insight into a framework and context. We then exposed the key data we will be using to support our reflection. Lately, we provide recommendations for action.

Figure 1.6 Summary of key insights

Concessionary vs. non-concessionary investment mindset	<ul style="list-style-type: none"> 11% are concessionary and 89% are non concessionary Misaligned priorities of impact investors and entrepreneurs Impact Investors desire to attract private capital in an emerging impact ecosystem
Team profile in impact investment	<ul style="list-style-type: none"> Typical investment team member and structure Lack of a complete team structure Gender imbalance in the impact investment team Potential issues with limited local talents
Gender lens investment (GLI) on the rise	<ul style="list-style-type: none"> The influence of development institutions and public funding Emerging interest in GLI from the mainstream investors Current GLI implementations are narrow in scope
The development of blended finance	<ul style="list-style-type: none"> Blended finance as gap-bridger Remaining barrier of required return Lack of information on blended finance in the market
Localization of impact investing	<ul style="list-style-type: none"> Different types of localization development Positive sentiment towards local entrepreneurs The national effort
Investor thematic focus	<ul style="list-style-type: none"> Focus on impact themes is driven by the demand-side of the investment Focus on certain instruments comes from factors on both supply-side and demand-side The lack of focus in Indonesia as a region represents the lack of local capital on the supply side and the nacency of Indonesia's social entrepreneurship
Investors facing new challenges	<ul style="list-style-type: none"> Investment funds are facing challenges in all stages of its lifecycle, not only during capital disbursement Foreign funds and local funds are facing different challenges
Capital owners behind the impact investors	<ul style="list-style-type: none"> Difference between capital owner composition in impact investing and mainstream investing Expected change in capital owners participation in the future

1.4.1 Concessionary vs. non-concessionary investment mindset

Introduction

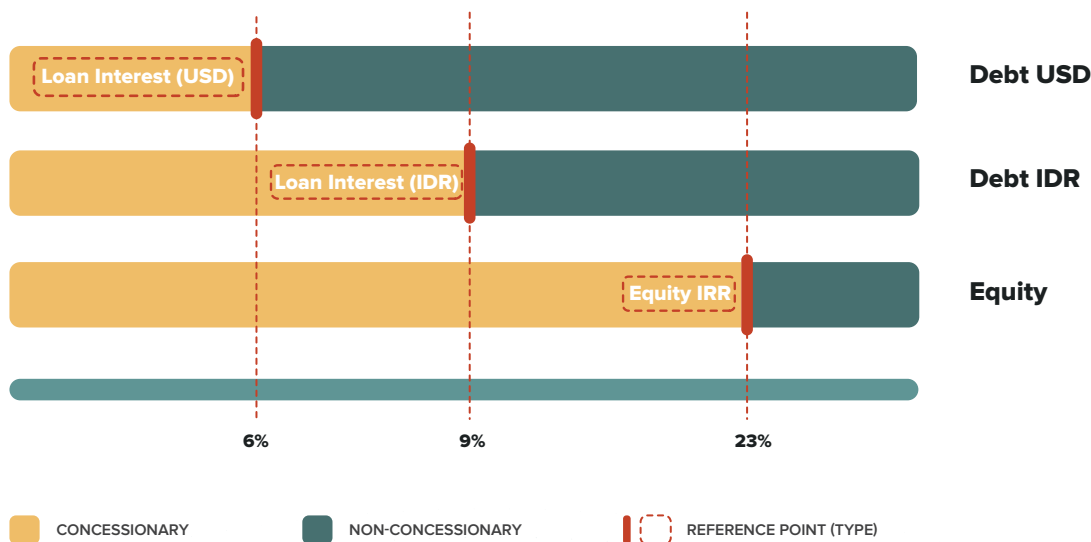
Impact investments are investments made into enterprises (and funds) with the intention to generate social and environmental impact alongside an **expected financial return**. This financial return expectation is typically defined by the fund managers and represents the financial return that the investors into these funds (called usually Limited Partners) will receive from their investments. Impact investing can have a **broad range of return expectations across the risk-return spectrum**.

A common framework to map impact investors is to divide them into two categories according to their return expectations:

- **Concessionary investments** recognize that a social enterprise investment is less likely to deliver the same financial result (in a similar time frame) as a mainstream enterprise. This trade-off is accepted on a risk-adjusted basis. The investor justifies a lower-than-market return so long as there is a greater “impact” return.
- **Non-concessionary investments** do not hold space for a trade-off between financial return and impact. The social enterprise investment should be as commercially viable as a mainstream enterprise. The investor is not willing to accept a lower-than-market financial return

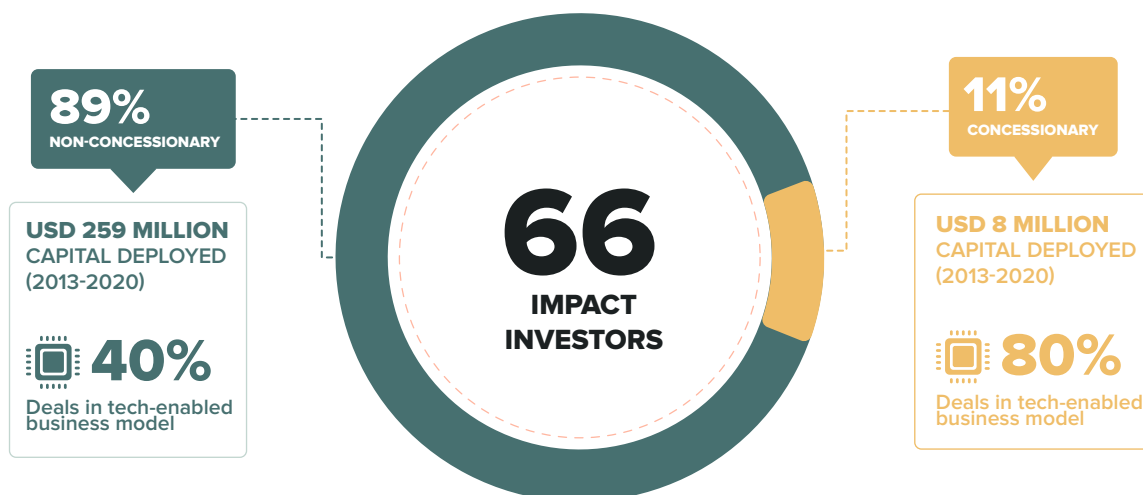
Please refer below for information on market financial return that we utilized as reference to categorize investors as either concessionary or non-concessionary. Our reference point is based on our general observation of the average IRR (for equity investment) and average interest rate (for debt investment) in private investment deals that are being conducted in Indonesia. The tipping point for USD loan is at 6% of interest (with the average rate being 6-8%), IDR loan is at 9% of interest (with the average being 9-12%), equity investment is at 23% of IRR (with the average rate being 23-25%).

Figure 1.7 Expected market rate of financial return based on instrument



From our data

Figure 1.8 Distribution of concessionary compared to non-concessionary investors



Reflections

General observations

Based on our observations of 66 Impact Investors, **11% are concessionary** and 89% are non concessionary. This is relatively **aligned to the global standard according to GIIN survey report (2018)** on 106 impact investors, where 81% were non-concessionary, targeting the market rate for their required financial return³.

Misaligned priorities of impact investors and entrepreneurs

Most social entrepreneurs surveyed perceive impact investors as concessionary, both in terms of return expectations and how they conduct their operations (more understanding due diligence, softer negotiation and nicer terms offered). There is a **misalignment between that belief and what is the expectation of the impact investors**. Entrepreneurs who have direct involvement with impact investors in Indonesia report that investors prioritize return on investment over impact and have onerous due diligence with very small room to bargain.

Impact Investors desire to attract private capital in an emerging impact ecosystem

Impact investors have grown their operation in Indonesia since 2013, however, there is still a very basic understanding of impact investment terminology among potential private capital owners such as families, individuals, corporates. These potential financial backers (Limited Partner or LP) also tend to perceive impact investing as less financially attractive than mainstream investing who are also competing for their capital. The non-concessionary nature of most fund managers is driven by their desire to attract funding from LP/capital owners who are non-concessionary and typically view impact investing as not commercially viable. In order to secure these investments, they need to produce a competitive financial return and thus prefer to be non-concessionary.

Recommendations

Educating capital owners that impact investment is not equal to lower financial return.

To help more capital flow from mainstream investment to the impact investing field, capital owners need to be educated that impact investment fund managers can produce attractive financial returns, in addition to creating long-lasting impact in the society. This could reduce the gap of capital available between mainstream investment and impact investing.

Develop dialogue between stakeholders (entrepreneurs and private capital owners) and impact investors to establish that impact investing does not always translate to concession. Resolving the return expectation mismatch is critical to ensuring a functioning impact investment market.

³Annual Impact Investor Survey 2018 - The GIIN" https://thegiin.org/assets/2018_GIIN_Annual_Impact_Investor_Survey_webfile.pdf. Accessed 8 July 2020.

1.4.2 Team profile in impact investment

Introduction

A typical institutional investment team (Impact Investor, PE, and VC) is usually structured around three levels of seniority, namely “Associate / analyst”, “Investment Manager”, and “Partner”. The level of professional and investment experience, along with the level of decision making within the fund usually determine the position. Please refer to below for further information on their general roles and responsibilities.

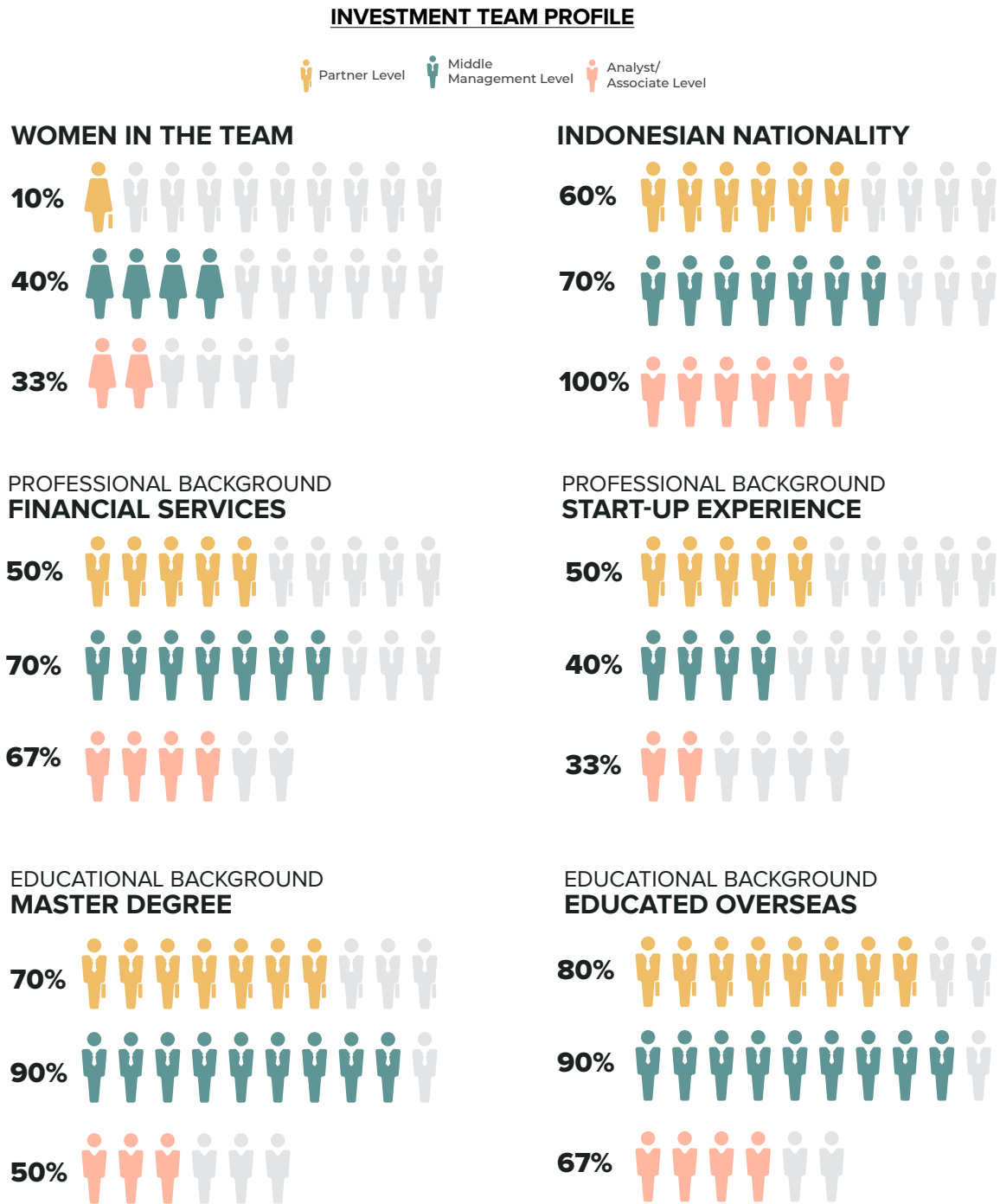
Figure 1.9 Team profile roles and responsibilities

Rank	Years of investment experience	Key responsibilities (example)
Associate /analyst	0-4 year(s)	<ul style="list-style-type: none"> ● Deal scouting/sourcing ● Meeting entrepreneurs for initial meeting ● Market analysis ● Assisting due diligence ● Portfolio reporting and monitoring
Middle management (also called vice presidents, principals, or investment managers)	4-10 years	<ul style="list-style-type: none"> ● Investment team (analyst/associate) management ● Secondary meeting with entrepreneurs ● Deal execution ● Portfolio support (strategy, follow on investments)
Partner (also called Managing Director, CEO)	10-15 years	<ul style="list-style-type: none"> ● Lead and execute fund strategy ● Investment committee decision ● Board position holder of portfolio companies ● Fundraising ● LP management

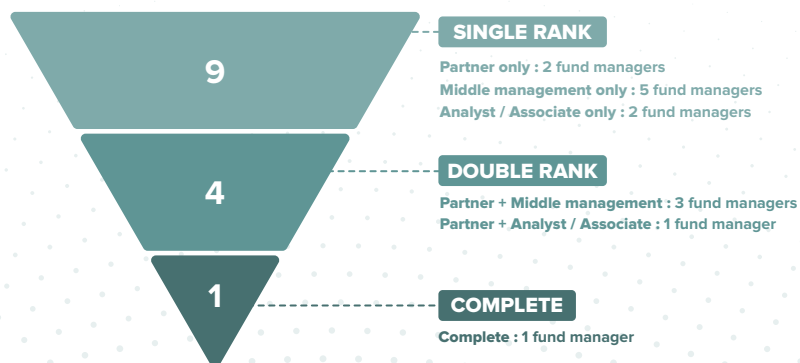
We reviewed the team composition of 14 impact investors that are currently active in Indonesia, consider Indonesia to be a “key market” and have local team presence. The profile of team members is summarized in Figure 1.9.

From our data

Figure 1.10 Investment team profiles in selected impact investors in Indonesia



INVESTMENT TEAM COMPOSITION



*Number of employees reviewed: 10 partner level, 10 middle management level, and 6 analyst/associate level from 14 fund managers.

Reflections

Typical investment team member and structure in Indonesia

A typical investment team consists of highly- and foreign-educated Indonesian male, with finance, entrepreneurship and/or startup backgrounds. Further, the industry is currently facing an inverse pyramid situation, where overall, there are more partner and middle management level employees compared to analyst/associate level employees.

Lack of a complete locally-based team structure

Out of 14 funds, nine employ only one type of rank of employee (e.g. partner(s) only, associate(s) only) and only one fund has a complete team composition. These one-employee rank investors typically co-invest with other larger investors and/or receive support from their global firm network and other intermediaries (e.g. ANGIN, AVPN, accelerator programs) when sourcing and executing deals.

Gender imbalance in the impact investment team

The gender imbalance is obvious across all levels, with women occupying just 27% of all roles in impact investors in Indonesia. Some funds have started setting women-specific investment mandates through gender lens investment funds, and this may prompt greater involvement from women employees (from both supply and demand-side). Industry training and talks about gender diversity and gender lens investing are becoming more commonplace, as well as giving visibility to women employees and establishing peer groups for women in VCs.

Potential issues with limited local talents

Foreigners tend to occupy the middle and upper level management of investment firms. This potential issue also reflects nationwide trends across other industries. As highlighted by the World Bank (2019), Indonesia continues to experience a lack of skilled human resources for managerial and other professional positions.⁴ Additionally, OJK (Indonesian Financial Services Authority) has historically tried to limit the number of expatriate workers in the financial service industry in Indonesia (e.g. limiting positions in the banking industry depending on the size of the institution).⁵ However, the majority of foreign-linked fund managers have set-up representative offices, which do not fall under OJK jurisdiction. If fund managers do establish a proper investment fund structured under applicable OJK regulation in Indonesia, they may find it difficult to fill managerial positions with local talent.

Recommendations

As the impact investing industry in Indonesia matures, we expect that most fund managers will try to reverse the current inverse pyramid structure (most employees at the lowest layer and least employees at the highest layer). Accordingly, in expectation of demand for impact investing talents growing in the future and to help solve current talent-related issues in Indonesia, we would recommend supply-side stakeholders to:

- **Provide career support to potential female leaders in the field**, including female-exclusive support programs such as training sessions and internship opportunities. Stakeholders can also encourage fund managers to create programs that promote both the hiring and also career progression of female employees within investment firms.
- Help **expand the locally-educated talent pool** by improving relevant technical skills and increasing their awareness of the industry through impact investing competitions, seminars and on-the-job training; especially for students in top local universities.

⁴What is behind labor mobility costs? Evidence from Indonesia." World Bank Group. <http://documents.worldbank.org/curated/en/266171569514810972/pdf/What-is-Behind-Labor-Mobility-Costs-Evidence-from-Indonesia.pdf>. Accessed 20 Jul. 2020.

⁵SAL POJK 37 - TKA di perbankkan.pdf. <https://www.ojk.go.id/id/kanal/perbankan/regulasi/peraturan-ojk/Documents/Pages/POJK-tentang-Pemanfaatan-Tenaga-Kerja-Asing-dan-Program-Alih-Pengetahuan-di-Sektor-Perbankan/SAL%20POJK%2037%20-%20TKA%20di%20perbankan.pdf>. Accessed 20 Jul. 2020.

1.4.3 Gender lens investment on the rise

Introduction

There is an increasing effort in Indonesia to achieve women economic empowerment, where women can have equal access to resources, quality work, and participation in decision-making. Gender Lens Investing is one alternative to contribute to this effort.

Figure 1.11 Gender lens investment conception and application

	Common application of GLI	Additional application of GLI	
Application	Choosing an investment lens	Implement gender lens in the investment process	Apply equality and diversity within the fund
Example	<ul style="list-style-type: none"> Women owned enterprises Women led enterprises Enterprises positively impacting women across the value chain Enterprises delivering product/services to underserved women 	<ul style="list-style-type: none"> Dedicated sourcing partnership to increase proportion of women entrepreneurs Training on gender bias Integration of gender measurement scheme during screening and due diligence 	<ul style="list-style-type: none"> Investment team gender diversity Women voices promoted in the investment committees Sexual harassment internal policies

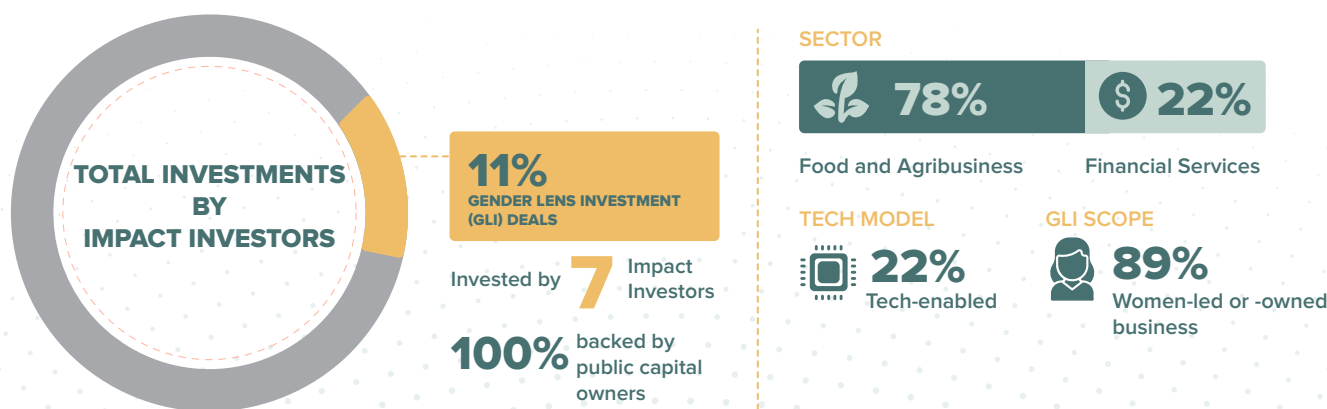
Gender Lens Investing (GLI) is defined as “the integration of gender analysis into financial analysis in order to make better investment decisions and get a better outcome”⁶. This theme has been discussed globally and is spearheaded in Indonesia by some development aid agencies, foundations, and DFIs such as: Investing in Women (Australia’s Department of Foreign Affairs and Trade), Sasakawa Peace Foundation, and U.S. International Development Finance Corporation (DFC) (formerly known as Overseas Private Investment Corporation /OPIC). However, the scope of GLI is viewed differently across investors. The common application is to define specific investment opportunities such as focusing on women-led and women-owned businesses only, while others include enterprises empowering women and/or improving women’s livelihood, whatever led by women or males.

Beyond the type of enterprises targeted, additional applications of GLI are getting momentum in Indonesia as funds are increasing their gender knowledge integrated into their investment process or because funds themselves tried to apply more gender diversity within their own investment team.

It is important to note that not every investment involving women entrepreneurs and the women market is GLI. GLI should be integrated into an investor’s impact intention and reflected across the investment dimensions including sourcing capital (through investors), processing capital (investment processing) and to deploying capital (through entrepreneurs). GLI can be made explicit in either the core mission or the investment strategy.

From our data

Figure 1.12 Gender lens investment deals by impact investors



⁶Verhart, N. (2018) "Gender lens impact investing: a catalyst for change in commodity value chains" http://www.common-fund.org/wp-content/uploads/2019/07/CFCAR-2018_Gender-lens-impact-investing.pdf

Reflections

The drive of development institutions

Current Impact Investor GLI activities in Indonesia are highly driven by development institutions who act as the “LPs”. DFAT and USAID have been leading the contribution, backing respectively 56% and 33% GLI investments done by impact investors. Since 2016, DFAT has been one of the key market builders in Indonesia through its “Investing in Women” program and has been supporting several foreign impact investors - namely C4D Partners, Patamar Capital, Root Capital, and SEAF - to implement GLI.

This push from development institutions affects how the GLI space is shaped in Indonesia. The scope of current GLI deals by impact investors reflects the agenda and definitions of the development institutions such as focusing on women-led businesses (89% of GLI deals), or supporting offline enterprises (78%) operating in the food and agribusiness sector (78%) where women represent a greater share of business leaders.

Emerging interest in GLI from the mainstream investors

Since 2019, there has been a global inflow of GLI capital in Asia amounting to USD 160 million of commitments (not exclusive to Indonesia) from both impact and mainstream investors.⁷ There is also a new generation of GLI funds that are raised from the private sector, unlike the previous GLI funds that were fully backed by development institutions. The emerging interest is coming from mainstream investors (in addition to impact investors) who view GLI not only as an impact opportunity but also as strong commercial opportunity yielding a higher return perspective. Although impact investors backed by development institutions still focus on women-led businesses, mainstream investors in Indonesia interpret GLI in broader terms - investing in enterprises that provide solutions to benefit women and empower women in the value chain.⁸

Current GLI implementation are narrow in scope

GLI is often used as a filter during the pre-investment stage when investors select which entrepreneurs they will deploy capital to. However, there are also other dimensions of GLI implementation, including implications for where funds are sourced from (e.g. increasing women participation as LPs, prioritizing LPs with women in leadership or decision makers roles) and processing capital (e.g. structuring deals to benefit women entrepreneurs). The ongoing heavy focus on the “pre-investment stage” risks creating an environment where women are tokenized or hired for purely symbolic reasons in order to attract investment and/or improve a brand. This is known as ‘impact washing’ - when a fund labels traditional practices or investments as impact investing to attempt to benefit from a particular impact trend - and it may hinder and filter out the real solutions for women.

Recommendations

- **Nurture the GLI intention.** The support for women entrepreneurs provided by both impact investors and mainstream investors is growing, although most of them are not doing it intentionally (gender-aware but not core GLI). Thus, we can help increase understanding around GLI among investors and capital owners. The current market views GLI not only as an “impact” thesis but also a “smart” effort to seize the market opportunity.
- **Implement GLI in capital sourcing and processing.** GLI should be applied to the whole investment process (not only during the deal stage). Impact investors need to do more to recruit and retain female talent at all levels, especially at senior leadership levels. Investors such as SEAF and Patamar have developed good practices that could be replicated - such as a proprietary scorecard and building diversity in their investment team.

⁷ Based on interview and desk research (Appendix: Table “Commitment on GLI”)

⁸ Example of expanding gender lens deals: Teja Ventures investing in Klikdaily (a groceries e-commerce startup founded by men) and Shox (a fashion startup leveraging artificial intelligence founded by men) and Gobi Ventures investing in Sorabel (a women fashion e-commerce founded by men) and Orami (a mother & baby marketplace founded by men).

1.4.4 The development of blended finance

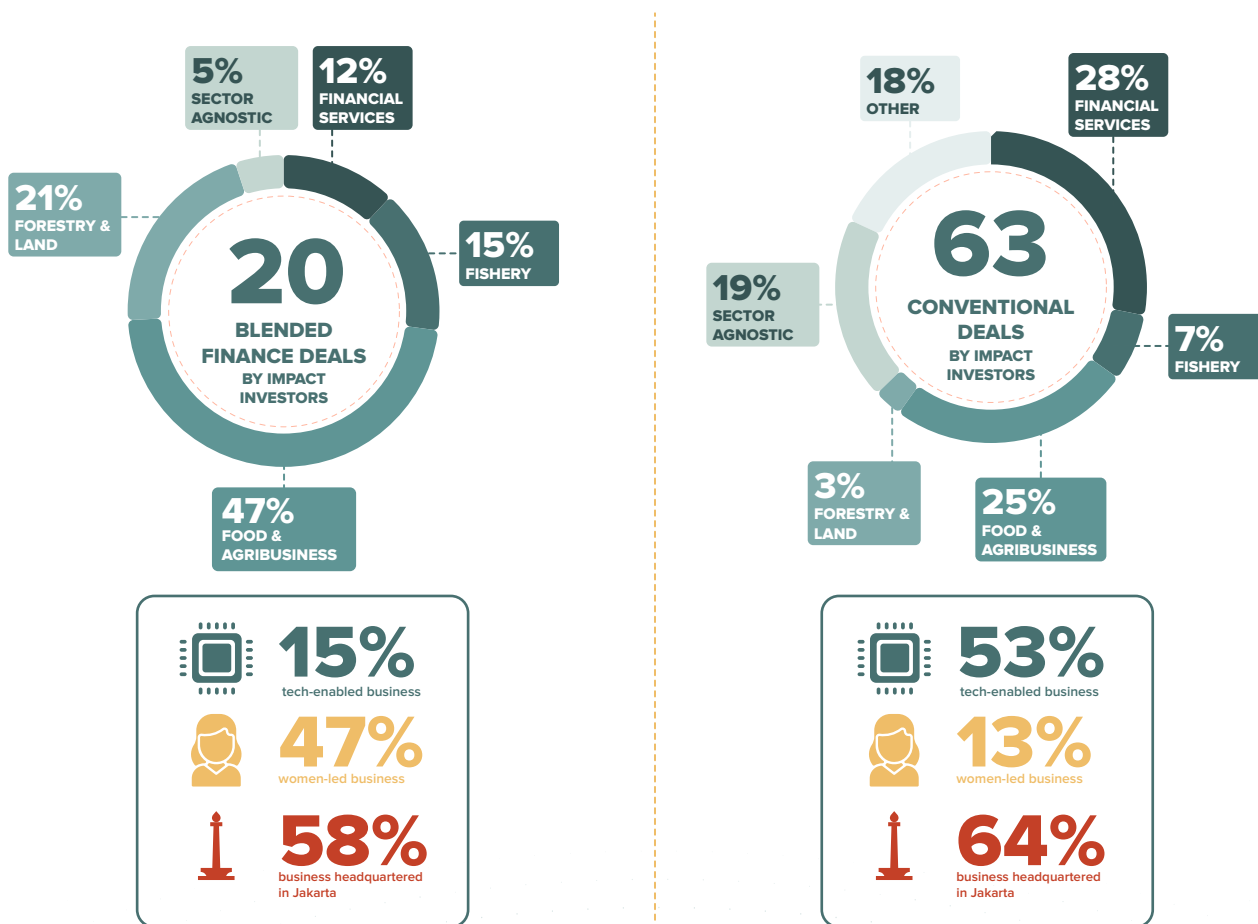
Introduction

Blended Finance started to get momentum in Indonesia in the “Participating Phase”, pushed by organizations such as the UNDP, ADB or DFAT, as a way to mix their public capital with the private sector capital. This new structured approach aims to have organizations with different objectives to invest alongside each other while achieving their own objectives (whether financial return, social impact, or a blend of both). Blended finance is seen as a powerful tool to attract private sector capital that can help bridge the funding gap in realising the SDGs, especially in low and middle income countries.

This section looks in detail at the data gathered in the research database (see Methodology) on the differences between conventional and blended-finance investments in social enterprises according to four dimensions: impact area, technology enablement, gender-frame and location (Figure 1.13).

From our data

Figure 1.13 Blended finance and conventional investment by selected categories



⁹ "Blended Finance - Convergence" <https://www.convergence.finance/blended-finance>. Accessed 8 July 2020

Reflections

Blended finance as gap-bridger

Our findings reinforce the value of blended finance as a “gap-bridger”, deploying capital in areas that are typically less popular with non-blended finance (“conventional”) impact investment.

Most blended finance investment deals (77%) in Indonesia are made with social enterprises in the natural resource sector (fishery, agribusiness, forestry) and 47% are with women-led businesses, as compared to “conventional” impact investments that tend to focus on financial services, and non-women-led businesses. The explanation for this is two fold. Firstly, six out of the 11 blended finance funds we identified have a gender-lens investment mandate and women-led enterprises tend to operate in the natural resources sector. Secondly, some of the blended funds identified also have a specific environmental mandate.

Just 15% of enterprises receiving blended finance are tech-enabled. Blended finance investment teams tend to select sectors with less complex business models, to compensate for the fact that blended investment schemes are more complex to manage. In addition, enterprises operating in the natural resources sector tend to be less tech-enabled.

Remaining barrier of required return

Currently the way that blended finance is structured helps remove some barriers for the entrepreneur to access funding. However, based on our interviews with fund managers (who tend to be non-concessionary) this does not always translate to a lower rate of return requirement to the portfolio company. As a result, companies that are already relatively more financially stable have a much higher chance to receive blended-finance funding, leaving smaller, less stable enterprises unfunded.

Lack of information on blended finance in the market

Lastly, based on our observation, the impact investment market stakeholders in Indonesia do not have enough information about blended finance. Most information sessions are conducted by third parties who are still new to the practice, rather than the foreign aid institutions who are directly involved

Recommendations

- **Private capital owners and impact investors should consider blended finance schemes as one of the main methods to diversify investments outside of the currently popular sector (e.g. financial inclusion sector or tech-enabled sector).** Collaborating with government entities and/or other foreign aid institutions in a blended finance scheme can be a more certain way of channeling funds to currently less-popular impact areas such as gender equality or climate change. This can also be done indirectly by providing capital to fund managers who have set-up blended finance funds targeting non-financial sectors.
- **Private capital owners and impact investors can become a concessionary capital that may direct funding to enterprises and sectors that are less stellar (but still a viable investment) in terms of financial performance.** By acting as concessionary private capital partners in blended finance schemes, private capital owners may create investment schemes that require less stringent financial return requirements, thus giving more capital access to the previously unfunded smaller enterprises.
- **Educating the market about blended finance.** In order to improve market players' knowledge and hopefully increase participation in the field, capital owners and intermediaries can plan educational events (such as panel discussion or seminar) with foreign aid institutions that are currently backing such schemes in Indonesia.

1.4.5 Mainstream investors: helpful allies in filling the gap and building the capital continuum

Introduction

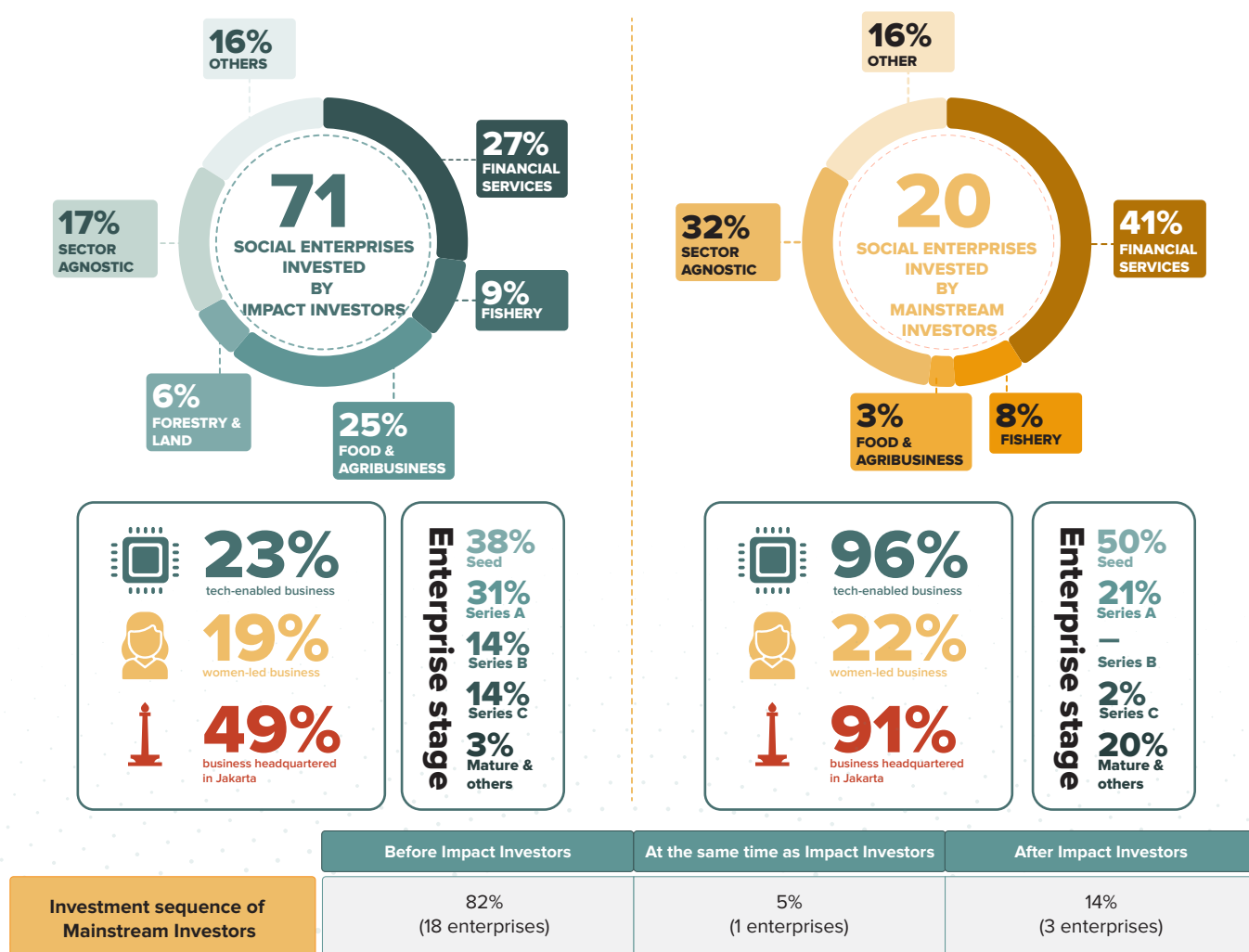
According to UNCTAD report,¹⁰ developing economies are facing significant funding gaps in fulfilling Sustainable Development Goals. Total capital needed for basic infrastructure, climate change mitigation, food security, and health & education in developing regions is estimated to be from USD 3 trillion to USD 4.5 trillion per year. On the other hand, with the recent level of c. USD 1.5 trillion investment in SDG-related sectors (both public and private), it is estimated that there is still an annual funding shortfall of c. USD 2.5 trillion in the same sectors.

Although growing quickly, the impact investing industry alone with global market size of USD 502 billion per GIIN data in 2019,¹¹ is having difficulty in filling in this gap. The private financial investment market (such as private equity and venture capital), which has a good affinity with the impact investing industry due to the majority of impact investments being private investments, can be a helpful supporter in bridging this gap, especially with USD 6.5 trillion AUM and USD 2.3 trillion of dry powder available globally in 2019.¹² The additional stream of capital brought by mainstream investors hopefully can also bring a more uniform spread of capital to an investment field that currently tends to favor certain archetypes of enterprises (refer to part 2.3.2 of this report).

This section looks in detail at the data gathered in our research (Figure 1.14) on the different investment patterns of mainstream investors (MIE) and impact investors in social enterprises, according to four dimensions: impact area, technology enablement, gender-frame and location.

From our data

Figure 1.14 Social enterprises invested in by impact investors and mainstream investors



Notes: "Invested by MIE" means enterprises that received investment from both MIE and II, while "Invested by II" means enterprises that only received investment from II.

¹⁰ "Developing countries face USD2.5 trillion annual ... - UNCTAD," 24 Jun. 2014, <https://unctad.org/en/pages/PressRelease.aspx?OriginalVersionID=194>. Accessed 21 Jul. 2020.

¹¹ "Sizing the Impact Investing Market | The GIIN," 1 Apr. 2019, <https://thegiin.org/research/publication/impinv-market-size>. Accessed 21 Jul. 2020.

¹² "McKinsey's Private Markets Annual Review | McKinsey," 19 Feb. 2020.

<https://www.mckinsey.com/industries/private-equity-and-principal-investors/our-insights/mckinseys-private-markets-annual-review>. Accessed 21 Jul. 2020.

Reflections

Sector focus of mainstream investors

Our findings indicate that more than a third of social enterprises have received funding from mainstream investors, demonstrating their increasingly active role in the industry.

- Mainstream investors in Indonesia have shown a preference for tech-enabled enterprises (96%) in the financial services industry (41%) that are headquartered in Jakarta (91%). The explanation for this is two fold. Firstly, there are still enormous opportunities for Indonesia's financial services sector given that around 44% of the adult population is unbanked (2018)¹³ and the household debt to GDP ratio remains low at 17%. Secondly, in a country with one of the largest populations in the world, mainstream investors focus on tech-enabled enterprises that can address large markets and scale quickly. With 95.2 million of internet users¹⁴ and 81.9 million of smartphone users,¹⁵ tech-enabled enterprises in Indonesia should have no problem reaching the mass-market.
- As a consequence of mainstream investors' preference for financial services and tech-enabled enterprises, their investments have been almost entirely focused in Jakarta. The infrastructure and resources available in the capital city allow enterprises to flourish and develop more sophisticated technology.

Improved balance on continuum of capital

Through our data, we have observed that Impact Investors are focusing on early stage enterprises (71% of enterprises invested are seed and series A enterprises) and also mature enterprises (26%). This is likely due to the mandate of most impact investors that require them to either support social enterprises that have just started their business or invest in matured enterprises with proven business solutions that can provide both valuable financial and impact return.

However, this often results in enterprises that have passed their early development stage but yet to fully mature (i.e. series B and series C enterprises) to lack funding from impact investors. Mainstream investors' involvement in impact premises, on the other hand, has helped fill in this void (with a total of 28% enterprises funded in series B and C stage). As majority of MIEs are venture capital funds that typically invest in all stages of enterprises (except for mature and later), they have helped bring investment into ventures that have developed their product offerings but needed more capital support in growing their operation and developing their market, through series B and series C funding.

Furthermore, contrary to common perception of MIE investing mostly in more developed social ventures only after II putting initial seed investment, we found that for enterprises that received funding from both MIE and II, MIE tends to invest before II (82% of the cases). If ventures can attest to a viable and profitable business model that can withstand the rigorous selection process of MIE investment team, then MIEs, with their non-concessionary nature and larger amount of available capital, are typically willing to invest without having to wait for investment from other investors.

Below are the examples of social enterprises that received funding from both MIE and II in different sequences:

- **MIE investing before II (Example: Amartha)**
In 2017, PT Mandiri Capital Indonesia (MIE), led a round of investment with other mainstream investors and invested up to USD 5 million in Amartha. Following this, Amartha has received series B funding initiated by LINE Ventures, in 2019. The funding, the value of which has not been disclosed, is also supported by other venture capital firms including Bamboo Capital Partners (II), which focuses on social impact (II), and Singaporean lender UOB's Venture Management (II).
- **MIE investing at the same time as II (Example: eFishery)**
Efisery received investment in 2015 in an undisclosed Pre-Series A funding from Holland-based Aqua-Spark (II) and Ideosource (MIE). The co-investment was one of the first institutional investors to support the social enterprise. In November 2018, the social enterprise raised USD 4 million from investors including Aqua-spark (II), Wavemaker Partners (MIE), 500 Startups (MIE), Social Capital (II), and others.

¹³ "Financial Inclusion Insights Indonesia 2018." [http://finclusion.org/uploads/file/fii-indonesia-2018-2019-final-report\(1\).pdf](http://finclusion.org/uploads/file/fii-indonesia-2018-2019-final-report(1).pdf). Accessed 21 Jul. 2020.

¹⁴ "Global Debt Database - International Monetary Fund." https://www.imf.org/external/datamapper/HH_LS@GDD/CAN/GBR/USA/DEU/ITA/FRA/JPN. Accessed 21 Jul. 2020.

¹⁵ "Internet usage in Indonesia - statistics & facts | Statista." 15 Jun. 2020, <https://www.statista.com/topics/2431/internet-usage-in-indonesia/>. Accessed 21 Jul. 2020.

¹⁶ "Indonesia smartphone users 2011-2022 | Statista." 26 May. 2020, <https://www.statista.com/statistics/266729/smartphone-users-in-indonesia/>. Accessed 21 Jul. 2020.

- **MIE investing after II (Example: Sayurbox)**

Sayurbox was founded in 2016 and participated in the Patamar Capital Accelerator program with Kinara Indonesia. Through the accelerator program, Sayurbox received their seed funding. After initial and follow-on investment from Patamar Capital (II), mainstream investors, such as East ventures (MIE) also invested in 2018 in a seed round however no information indicates they were co-investing. Tokopedia was reported to have also invested in Sayurbox in 2019

Recommendations

- **Private capital owners and impact investors can become a catalytic force in leading mainstream investors into underfunded sectors (beyond financial services).** The catalytic role (similar to the role of governmental aid institutions in blended finance schemes) can be executed **by providing guarantees and financial support that can incentivise more private investors to fund less popular industries** and underfunded social enterprises.
- **Supply-side stakeholders can also increase the visibility of social enterprises that often go unnoticed** but are in fact financially viable for mainstream investing. This can be done by conducting investor pitch events, competitions or creating investment networks that highlight social enterprises in less-known sectors. By doing this, capital owners can further help steer investments to the less popular-yet-viable investment sectors.

1.4.6 Localization of impact investing

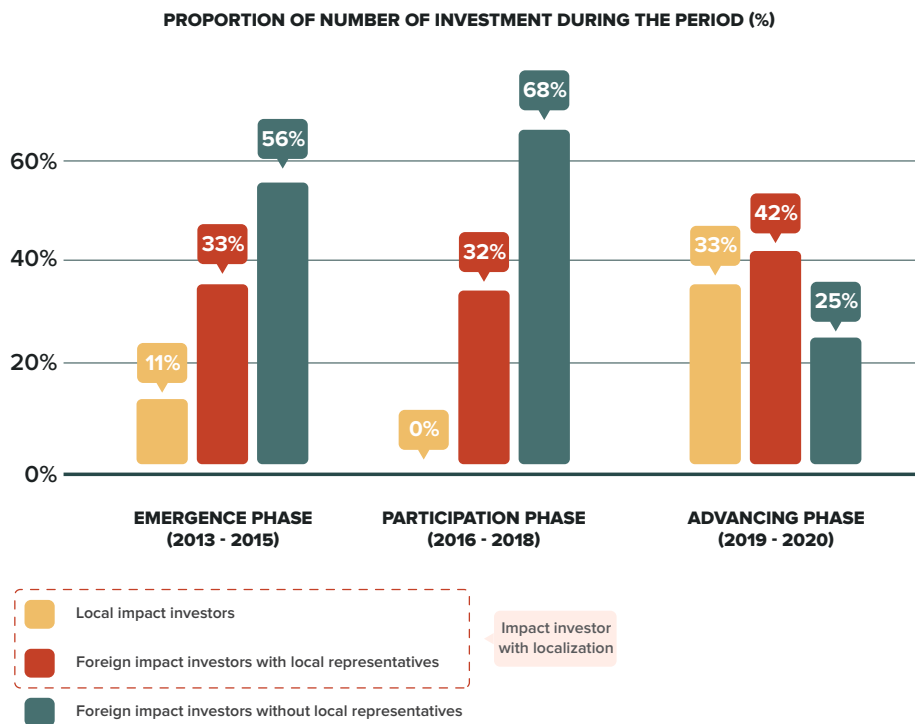
Introduction

In the last decade, foreign investors have dominated the development of the impact investment in Indonesia. They brought capital inflow (sourced from foreign investors), foreign staff (Partners and other team members), knowledge and best practices from the more developed impact investing markets in Europe, the U.S, and India. However, the high reliance on the foreign investors has not been entirely beneficial. Many do not have a full-time presence in Indonesia or lack knowledge of the local context, which drives up the cost of capital and complicates the investment process due to the geographical distance and currency risk. There is also a tendency for foreign investors to concentrate on a certain pool of entrepreneurs.

As the impact investment ecosystem in Indonesia is now maturing, we foresee more localization happening, where investors involve local stakeholders in deploying the capital, including local talents, investors, and structures. This is going to be crucial, particularly when it comes to providing targeted support to Indonesian entrepreneurs, and enabling collaboration among other stakeholders to develop the market.

From our data

Figure 1.15 Number of investment by impact investors with localization



LOCAL IMPACT INVESTORS



FOREIGN IMPACT INVESTORS WITH LOCAL REPRESENTATIVES



FOREIGN IMPACT INVESTORS WITHOUT LOCAL REPRESENTATIVES



Reflections

Different types of localization development

We identify deeper characteristics on how investors obtain “localization” effort across the Local and Foreign investor groups. Local investors mostly adopt localization as a “strategic effort”, where the local characteristics are enclosed around the structure, branding, capital source, decision making process, and fund deployment.¹⁷ While, foreign investors will mostly do it as an “operational” effort, related to the daily investing activities such as deal sourcing, negotiation, execution, and post-investment support.

Figure 1.16 Growing localization development and implication

	Localization development	Implication
STRATEGY	<ul style="list-style-type: none"> Established as a local structure Branded as a “national” fund/investment vehicle Raises local capital Single-strategy targeting Indonesian entrepreneurs Has a local investment committee 	<ul style="list-style-type: none"> Decision making process is done in Indonesia Builds sovereignty Attracts endorsement and/or support from government and other local stakeholders Unlocks more local capital Grooms local entrepreneurs and develops new market opportunity
OPERATION	<ul style="list-style-type: none"> Hires local team members Sets up representatives in Indonesia 	<ul style="list-style-type: none"> Better provision of post-investment support Provides tailored investment structure based on local needs (e.g. local currency investment) Better local context during investment decision-making (e.g. language, culture, market insight) Broader outreach to local pipeline

Positive sentiment towards local entrepreneurs

The growth of localization shifts the conversation around impact investment in Indonesia. It signals that there are sufficient pipelines of Indonesian entrepreneurs who need better local understanding. It is especially applied to entrepreneurs outside the urban areas and those targeting the grassroots communities. In tapping this specific pool of entrepreneurs, investors must gauge the nonverbal cues like culture, local language and the context to provide values. This skill set will improve the whole investment process, from sourcing the previously “hidden” deals, due diligence, execution, to the portfolio management support.

The national effort

The localization also indicates a broader agenda than the economic opportunities. It helps develop sovereignty regarding the higher authority on where and how the capital should be distributed. The ultimate goal is to build a community resilient, as the domestic capital may help push the internal development without relying on outside support. Localization emphasizes that the decision-making process needs to be done by and for local key players. It also leads to the build a stronger local ecosystem; starting from empowering local talents in the team, attracting local investors, and building a support system featuring local leaders and institutions.

Recommendations

- **Advocate a local-friendly structure to incentivize more localization.** Capital owners can play the advocacy role and work with strategic stakeholders to encourage more localization by impact investors. Beyond policy advocacy (e.g. tax incentives), capital owners can influence capital owners to increase more participation to local investors by providing catalytic capital into a local fund.
- **Develop more local talent pools on the supply-side.** With the higher localization activities in the space, the need of quality talent is increasing. It is important to nurture local talents in the supply-side as they are the one who own the knowledge and are expected to hold the decision making process. Investors could propose an employment policy enforcing local team establishment when investing in a fund and commission projects or capacity building programs to educate more local investment talents about the impact investment course.

¹⁷ For example, YCAB Ventures, Kinara, Gayo Capital (PT SDG), and some mainstream investors such as Mandiri Capital Indonesia with their Indonesia Impact Fund, BRI Ventures with their Sembrani Nusantara Fund).

1.4.7 Investor thematic focus

Introduction

Since impact investment originated from the desire to improve social and environmental outcomes, while generating profit at the same time, it is not uncommon for impact investment funds to have certain thematic or region focus. Based on Impact Assets 50 list,¹⁸ which showcases 50 global leading impact investors, all of the impact investors have one or more investment theme focus (as of Aug-2020). The thematic focus does not only help the fund managers solve certain societal or environmental problems more effectively, but it can also help them gain superior financial performance, as fund managers will be able to utilise their specialised understanding and knowledge in specific fields to find better opportunities.¹⁹

For this part of the report, we classified the 66 observed Impact Investors based on three distinct areas; impact themes, instruments used and geography (refer to figure 1.12).

From our data

Figure 1.17 Number of Impact Investors with certain focus category

Thematic focus		# of Impact Investors
Impact Themes	Financial Inclusion	6
	Forestry	4
	Clean Energy	3
	Poverty	3
	Gender Lens	2
	Circular Economy	2
	Fishery	2
	Climate	2
	Agriculture	1
	Media	1
Sub Total		26
Instrument	Debt	12
Geography	Indonesia only	5

¹⁸ "ImpactAssets 50." https://www.impactassets.org/ia50_new/. Accessed 26 Aug. 2020.

¹⁹ "Thematic investing enables private equity investors to ..." - Bain." 12 Jul. 2016, <https://www.bain.com/about/media-center/press-releases/2016/thematic-investing-in-private-equity/>. Accessed 26 Aug. 2020.

Reflections

General focus of impact investors

Based on our research, 26 Impact Investors have shown focus on certain impact themes with financial inclusion as the most popular theme, followed by forestry. We also noted the existence of 12 fund managers which specialize in debt instruments and 5 fund managers which focus in Indonesia as the main target region.

Key driver of thematic focus

Focus on certain impact themes is usually driven by the demand-side of the investment. Thematic focus investing, after all, cannot exist without the existence of specific issues and the enterprises that are generating impact and financial return by addressing these issues. The focus on financial inclusion theme, for example, can be linked to the financial inclusion problem in Indonesia (only 26% of Indonesian was financially included in 2016,²⁰ based on FII research) and how fintech ventures have been driving the improvement in this field.²¹ The focus on forestry is also an evidence of the ongoing forestry issues in Indonesia.²² As these issues get resolved and investment opportunities dwindle, however, in the long term we can also expect private impact investors to switch their focus themes based on the existence of latest and relevant issues, where they can find more investable opportunities.

Additionally, focus on certain themes can also come from the push of the capital owners. In impact investing, the capital owner may have their own agenda to invest their capital in certain themes in order to create CSR impact or synergy with their main business unit. For example, Circulate Capital's mission to combat ocean plastic aligns perfectly with private LPs (Coca Cola, Unilever, P&G, and Danone as capital owners). Thus, the private companies supported their mission and became the anchor investors for the fund.

Focus on certain instruments comes from factors on both supply-side and demand-side. Fund managers with an exclusive and in-depth skill set are trying to differentiate themselves from their peers by utilising the finance instruments that are most suitable to the area that they are targeting. A certain impact investment firm, for example, specializes in debt instruments since according to their experience, equity instruments are not suitable for enterprises that they target (Indonesian upstream agriculture enterprise).

The lack of focus in Indonesia as a region represents issues with both the supply-side and demand-side of the impact investing field. On the supply-side, more than 90% of the impact investors observed in this report are related to foreign capital and since their region focus is based on larger regions such as Southeast Asia, they may shift their investment activities freely between the countries in the region. On the demand side, Indonesia's social entrepreneurship is still quite nascent, with the country ranked 94 in the Global Entrepreneurship Index rankings,²³ thus limiting the investment pipeline for potential impact investors.

Recommendations

- **Support less-popular themes:** Capital owners can mobilize their capital to support fund managers with focus on impact themes that receive less attention but are still important to the development of the society / environment nonetheless, and also expected to become a more important field in the future. This will not only help to ensure that important impact issues are not being neglected, but may also provide competitive advantage for capital owners and the fund managers that they support, as the field will be less crowded with competing fund managers potentially looking at the same investment opportunities. Industry stakeholders can also improve the visibility of these themes by creating events such as theme focused pitch events and investment conferences etc.
- **Extracting collective learnings:** Supply-side participants could also extract the learnings and insight of theme-focused fund managers and compile them to further educate the industry (by publishing reports and holding educational events). Instead of each fund manager having to go through trial and error by themselves, the collective learnings could shorten the learning curve so impact could be delivered faster towards the beneficiaries.

²⁰ "Indonesia - Financial Inclusion Insights from Kantar." <http://inclusion.org/country/asia/indonesia.html>. Accessed 26 Aug. 2020.

²¹ "How e-payment systems promote financial inclusion in" <https://techwireasia.com/2020/01/how-e-payment-systems-promote-financial-inclusion-in-indonesia/>. Accessed 26 Aug. 2020.

²² "Indonesia Is Reducing Deforestation, but Problem Areas" 24 Jul. 2019, <https://www.wri.org/blog/2019/07/indonesia-reducing-deforestation-problem-areas-remain>. Accessed 26 Aug. 2020.

²³ "Global Entrepreneurship Index | Global Entrepreneurship" <https://thegedi.org/global-entrepreneurship-and-development-index/>. Accessed 26 Aug. 2020.

1.4.8 Investors facing new challenges

Introduction

In contrast to public view, impact investment funds are, as any entrepreneur, experiencing challenges in every step of their lifetime, not only the disbursement of the capital to investees. In this part of the report, we will discuss the general challenges experienced by most impact investment funds through its lifecycle and also Indonesia-specific challenges based on the fund lifecycle and other segmentation (e.g. local vs foreign fund).

	Past challenges (2013-2018)	Current challenges (2019 onwards)
Structuring funds	<ul style="list-style-type: none"> With most funds being first-time funds in the field, fund structure is pretty much unregulated and most fund managers would structure the fund in any possible way that enables them to earn funding from investors 	<ul style="list-style-type: none"> As commonality of fund structure are taking into shape and become more regulated, funds are looking into more innovative fund structures to accommodate investors' or investees' needs
Fundraising	<ul style="list-style-type: none"> Impact investing is still a nascent asset class and often associated with financial trade off. This eventually limits the type of LPs participating in impact funds (mainly global and public capital with higher sophistication, while local participation is still scarce). 	<ul style="list-style-type: none"> Attracting local capital is the next step. This should be done by reshaping & educating local investors' perception of impact investing; Impact investing does not always require a financial trade off.
Disbursing capital	<ul style="list-style-type: none"> Since a large part of fund managers are usually foreign funds with no dedicated representative in Indonesia (93% of Impact Investors), they usually partner with local intermediaries and other fund managers to build a pipeline specific to Indonesia. This limits the sourcing to only notable and exposed social enterprises, i.e. had received funding previously, or within the same network circle as the fund managers such as education or professional network. This leads to a minimum deployment of impact capital in Indonesia. 40% of observed II only invested in one enterprise. Few investors also left the country since they could not gather enough quality pipeline fitting their investment mandate. 	<ul style="list-style-type: none"> With more investors having a specific theme focus, the needs to build a thematic pipeline is increasing (e.g. women led or circular economy related enterprises), but the universe of investable companies are not necessarily matching this requirement Based on our interview with impact entrepreneurs, there is an expectation gap between entrepreneurs & impact investors, especially in terms of financial return and support, leading to social entrepreneurs leaving impact investors and choosing mainstream investors instead.
Managing investees	<ul style="list-style-type: none"> In terms of impact measurement, there are no standard metrics to measure impact yet in Indonesia, i.e. IRIS+. Social enterprises usually measure impact outcome based on their proprietary metrics. Only a few enterprises released their full fledged impact measurement for the public. The general practice is just to note the measurement on the company website. No direct incentives to do regular measurement, other than fundraising or marketing purpose. 	<ul style="list-style-type: none"> Although funds are becoming more sophisticated in measuring impact, most of the funds are lacking the specialist knowledge in actively managing and supporting the operation of their portfolio companies.
Exiting investment	<ul style="list-style-type: none"> Few successful exit stories in impact investing, even though there were many deployment highlights. This affects investors' perception of liquidity of the Impact Portfolio. 	<ul style="list-style-type: none"> Some exits are started to be made by first generation investors, but the pressure is mounting as some funds are nearing maturity.

Local fund (Fund with HQ in Indonesia)	International fund (Fund with HQ outside Indonesia)
<p>Difficulties are focused on the early, formation stage of the fund, such as:</p> <ul style="list-style-type: none"> ● Lack access to capital injection from large global players, in addition to difficulties in anchoring local Limited Partners on impact investment ● Lack access to global best practice in managing an impact investment fund ● Lack of local human resources to build a good investment team, especially for middle and senior level employee ● Lack of supporting local legal framework, especially in terms of legal status and fund structure 	<p>Difficulties are focused on post formation, later stage of the fund, such as:</p> <ul style="list-style-type: none"> ● Lack of local knowledge means lack of access to local investment opportunities other than the well-known social entrepreneurs that are already crowded by other investors, including mainstream investors ● Longer time to execute investment process due to process being conducted in English rather than local language

Recommendations

Based on the challenges above, in order to help fund managers in impact investment field in Indonesia, we would like to recommend capital owners to:

- Support first time managers (both local and non-local) by conducting branded anchor co-investment with them. Track record of investing together with capital owners with a household name will help them gather support from other investors as well.
- Utilise network to attract local capital (such as local High Net Worth Individuals, family offices) to participate in the impact investment field as limited partners. The involvement of local capital will increase the availability of funds that can be invested in the field.
- Provide support to local fund managers, especially in the early stage of their operation, by providing not only financial resources, but also non-financial resources such as sharing information on global best practice on impact measurement, or giving specialised training for the investment team based so that they can improve their investment skills.

Help fund managers find exit opportunities by leveraging business networks in looking for potential buyers or broadcasting the disposals of its investments.

1.4.9 Capital owners behind the Impact Investors

Introduction

Impact investors are usually structured as funds managed by fund managers, in other words the fund managers are acting as intermediaries between the capital owners and the enterprises invested. In exchange for administrative fees and a cut on the financial return being generated (if any), the fund managers will administer the capital (from selecting the enterprises, supporting the portfolio and providing exits). These capital owners may vary, from Government agencies to family offices.

In this section, we have compiled our unique observations on the capital owner (or LP) behind the impact investors to understand who are the key institutions driving the impact investing scene in Indonesia.

From our data

Figure 1.18 Overview of capital owners related to impact investment industry in Indonesia

Type	Unique Capital Owner	Participation in fund	Ticket size (USD million)	Average ticket size (USD million)	Estimated Investment* (USD million)	Example
Government agencies and development institutions (multilateral)	6	6	1 - 20	10	60	REEEP, International Finance Corporation, ADB
Government agencies and development institutions (bilateral)	14	24	1 - 20	10	240	USAID, DFAT Australia
Philanthropists and foundations	14	17	1 - 5	3	51	Rockefeller Foundation, Ford Foundation, YCAB
Private corporations (Corporation & Financial Institution)	26	30	1 - 10	5	150	Coca Cola, Unilever
Family office/HNWI	1	1	1 - 2	1.5	1.5	Undisclosed
Total	61	78			502.5	

Notes: Estimated investment represents the total amount deployed globally, not only for Indonesia

Reflections

Difference between capital owner composition in impact investing and mainstream investing

Based on our database, we observed a total of 61 capital owners providing an estimated USD 502.5 million to impact investors targeting the Indonesian market. Nearly half of this capital was provided by government agencies (bilateral agencies, i.e. USAID-USA, DFAT-Australia), followed by private corporations such as Coca-Cola or Unilever.²⁴

The larger share of involvement from bilateral development institutions, while expected, is also a testimony to the nascency of the impact investment field. In the more mature mainstream private equity scene, for example, conventional financial institutions contribute to a large portion of the capital owner. Public pension fund, asset manager and insurance company, makes up 43%, 13%, and 13%, respectively, of the top 100 Limited Partners of private equity globally in 2017, according to Preqin report.²⁵

We believe that this discrepancy is mainly based on the fact that conventional financial institutions historically perceived impact investment to possess lower financial return to their mainstream investment counterpart, thus limiting their participation in the field since they have specific mandate to achieve a certain minimum level of financial return.

Expected change in capital owner participation in the future

The situation mentioned in the first point above, however, is gradually changing globally. According to Rede Partners survey of US and European limited partners (LPs) in private equity and venture capital scene,²⁶ 98% of the LPs surveyed expect market-rate or better financial returns from impact investment, showing a changing mindset about the impact investment industry in general. Additionally, underlying stakeholder (e.g. family offices from millennials, university endowments from students) appetite for allocation to impact investment has also been cited by the surveyed limited partners as a major driving factor in their growing interest in the field. In addition to further educating capital owners regarding acceptable financial return of impact investment (refer to part 1.4.1), the increasing requirement for “impact” result from LPs stakeholder will **eventually push conventional financial institutions to increase their participation in the field as capital owners in the coming years.**

Recommendations

- **Capital owners who are already involved in the impact investing industry can act as a promoter and help attract non-participating conventional LPs** by becoming anchor co-investors in viable investment funds or provide detailed information regarding the leading investable funds in the field. This type of cooperation should give new LPs the assurance and confidence that they need in venturing into the new field of impact investing.
- Similarly, **capital owners can also educate impact investors / fund managers how to better raise funds from and work together with conventional financial institutions** by informing them about the typical fundraising process with financial institutions, the reporting requirement post fundraising period. Improving the readiness of the impact investors in engaging conventional financial institutions should also lead to further participation of conventional LPs in the field.

²⁴Based on publicly available data. List is non-exhaustive.

²⁵PREQIN SPECIAL REPORT: THE PRIVATE EQUITY TOP 100." <https://docs.preqin.com/reports/Preqin-Special-Report-The-Private-Equity-Top-100-February-2017.pdf>. Accessed 26 Aug. 2020.

²⁶"LP stakeholder pressure for PE, VC impact investing means ..." 21 May. 2019, <https://www.altassets.net/knowledge-bank/by-pe-focus/infrastructure-real-estate/lp-stakeholder-pressure-for-pe-vc-impact-investing-means-demand-is-outstripping-supply.html>. Accessed 26 Aug. 2020.

1.5 Impact Investing Case Studies in Indonesia

1.5.1 Introduction

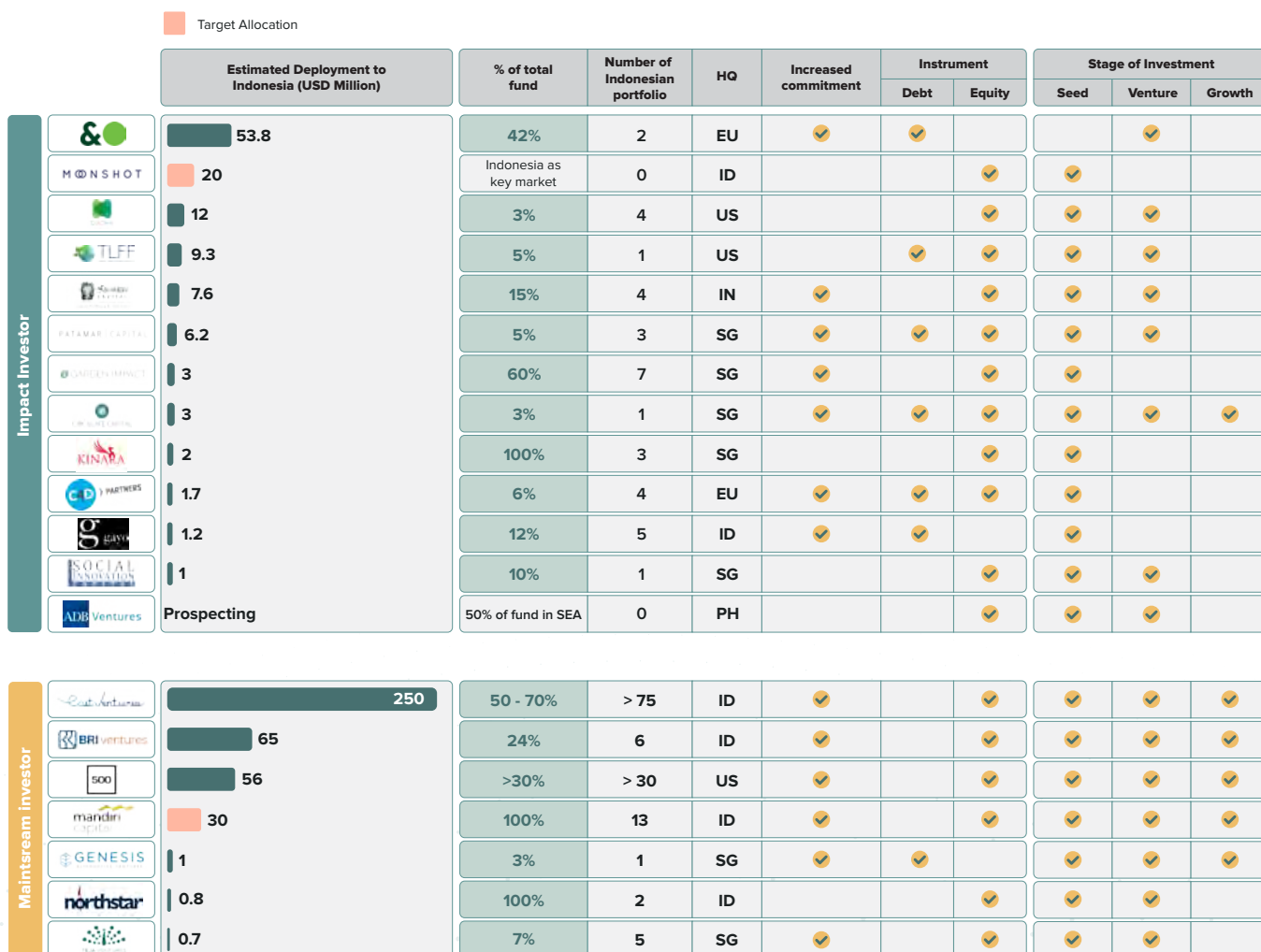
Having mapped the presence of impact investors' in Indonesia, this section uses case studies²⁷ to highlight common practices, funding activities, capital deployments and portfolios in Indonesia and their future funding commitments to the market. The case studies includes gauging deeper into emerging strategies of the investors or how impact is incorporated into the investment processes and strategies. By looking into these institutional investors' approaches to impact investing, we recognise the common and widely applicable practices of impact investing in Indonesia.

We have selected 20 impact and mainstream investors who have demonstrated unique characteristics of investment, operation and strategy for Indonesia. In addition, they are either:

- impact investors with significant presence or footprint in Indonesia, or
- impact investors who are currently and actively prospecting in Indonesia.

Figure 1.19 gives an overview of the identified impact and mainstream investors activities in Indonesia. We highlight the estimated deployment of the fund, their target allocation, their instruments and their investment stage appetite. We have also included the number of portfolios of enterprises that are operating in impact areas operating in Indonesia. The data we have collected is based on the collected information gathered from press research and interviews with representatives of the investors.

Figure 1.19 Impact and mainstream investors highlighted in the case studies



²⁷ The case studies are not made available publicly.

1.5.2 Key characteristics

We selected key factors and identified the distinctive characteristics to benchmark the selected investors included against each other.

Figure 1.20 Key Characteristic of Investors

Investor Name	Distinct characteristic
Patamar Capital	<ul style="list-style-type: none"> + First generation with notable success cases + Strong local presence & involvement in the ecosystem + Commitment to Gender Lens + Increased commitment to Indonesia
C4D Partners	<ul style="list-style-type: none"> + A spin-off of an NGO prior to investment activity + Blended finance approach to better tailor risk return appetite + Hybrid instrument in investment with less clear exit scenarios + Gender lens allocation target within the existing fund
Aavishkaar Capital	<ul style="list-style-type: none"> + First generation impact investors in Indonesia + Increased commitment to Indonesia + Senior local team based in Indonesia + Commitment to ecosystem building in the region
Garden Impact Investment	<ul style="list-style-type: none"> + Less spotlighted impact investor despite notable track record + Impact investor with a patient capital mindset + Registered Variable as Capital Company (VCC) to expand and manage more capital + Active involvement in the ecosystem
Kinara Indonesia	<ul style="list-style-type: none"> + First generation local impact investor + Refocused activity to ecosystem building through accelerator program + Theme focused accelerator program + Notable success of companies in the accelerator programs
Quona Capital	<ul style="list-style-type: none"> + Vertical focused in tech enabled financial inclusion + Prior engagement with Ford foundation
Circulate Capital	<ul style="list-style-type: none"> + Single theme focus with significant fund size + Blended finance as a de-risking investment mechanism + Impact measurement commitment + Post investment support and involvement in the ecosystem
Moonshot Ventures	<ul style="list-style-type: none"> + New impact investor prospecting Indonesia and developing innovative blended finance + Introducing a new business model: Platform for theme specific micro-funds + Commitment to gender lens + Designing Incentive model for impact generation
ADB Ventures	<ul style="list-style-type: none"> + A new investment arm of ADB + Beyond capital investment: a fund manager and provider of technical assistance program + Long term and financing partnership scheme
Gayo Capital	<ul style="list-style-type: none"> + Indonesia focus fund legally incorporated in Singapore + Venture debt vehicle + Full Indonesian VC experienced team (HQ in Jakarta)
Lonsdale Social Innovation Capital	<ul style="list-style-type: none"> + Family office backed impact investor + Involvement in impact ecosystem building
TLFF: PG Impact Investment	<ul style="list-style-type: none"> + Intensive impact approach: predetermined impact criteria, alignment to IFC impact operating principle, and integration of impact objective to SDGs + Funds on funds investment to leverage expertise and market know-how of target fund managers, resulting in diversified global funds
TLFF: &Green	<ul style="list-style-type: none"> + Single strategy focus and jurisdictional eligibility requirement + Provision of capped guarantee to attract mainstream investment + Senior team member with deep expertise in Indonesia

East Ventures	<ul style="list-style-type: none"> + First generation of tech VC in Indonesia + Most active VC with pivotal role in tech ecosystem building + Mainstream fund with high sensitivity to impact + Portfolio operating in impact premises and measuring impact + Relationship with Indonesian government
500 Startups	<ul style="list-style-type: none"> + Early player and most active VC in the Southeast Asia + Fundraising for the third Southeast Asia fund with Indonesia as key market + Notable portfolios and exits operating in impact premises + A mainstream fund with strong involvement in impact ecosystem
BRI Ventures	<ul style="list-style-type: none"> + Mainstream investor with impact area as investment thesis + Incorporated fund in Indonesia under the Venture Capital Company (PMV) structure
Mandiri Capital Indonesia	<ul style="list-style-type: none"> + Mainstream investor managing the ABAC Indonesia Impact Fund (AIF) + Plan to adopt blended finance structure + Incorporation in Indonesia and Singapore
Teja Ventures	<ul style="list-style-type: none"> + One of the only women founded and led VC firm + Commercial approach to gender lens investing + Integration of gender lens to investment process + Strong focus in Indonesia with speedy deployment
Genesis Alternative Ventures	<ul style="list-style-type: none"> + Southeast Asia's first private venture debt fund + Increasing commitment to Indonesia + Investors (LPs) including global impact investor + Interest in investment into impact areas
Northstar Foundation	<ul style="list-style-type: none"> + Interest in investment into impact areas + Early mainstream investor approach to impact investment

1.5.3 Recommendations

We have designed a set of **17 key factors** that will enable anyone to benchmark investors with each other. We have also highlighted the factors that are prioritized in comparing the fund managers. In benchmarking the funds, the key factors have different weight of significance. In prioritising the key factors, we have highlighted in blue have more weight compared to the key factors highlighted in yellow

Figure 1. 21 Key factors to benchmark

Factor	Definition	Ranking		
		High	Medium	Low
Commercial portfolio quality (reputation, growth, exit perspective)	Assessment of the investor portfolio in terms of commercial opportunity, exit perspective	<ul style="list-style-type: none"> Successful exits (matching Fund IRR objectives) Most portfolio with significance performance milestones (e.g. new markets, growth of HR, new fundraising) 	<ul style="list-style-type: none"> No successful exits (matching Fund IRR objectives) Some portfolio with significance performance milestones (e.g. new markets, growth of HR, new fundraising) 	<ul style="list-style-type: none"> Numerous failed investments (closed down) Stagnation of most portfolio companies
Strategic design of investment thesis	Quality of the design of the investment strategy and offering fitting the Indonesian market characteristics in general and the opportunities	<ul style="list-style-type: none"> Investment fit to most investment opportunities in Indonesia Understanding of market, impact, and deal availability in Indonesia 	<ul style="list-style-type: none"> Some investment fit to most investment opportunities in Indonesia leading to some difficulty to invest 	<ul style="list-style-type: none"> No investment fit to most investment opportunities in Indonesia leading to consistent difficulty to invest
Investment footprint in Indonesia and confidence	Experience and track record of investing specifically in Indonesia. Level of independence and confidence in conducting investments	<ul style="list-style-type: none"> More than 3 investments made in Indonesia Demonstrated capacity to lead investments 	<ul style="list-style-type: none"> Between 2-3 investments made in Indonesia Willingness to take lead on investments 	<ul style="list-style-type: none"> Only one investment in Indonesia No capacity to invest without co-investment
Impact portfolio quality (reputation, impact scale and depth)	Assessment of the investor portfolio in terms of impact opportunity, impact potential	<ul style="list-style-type: none"> Portfolio generating impact at scale and depth Impact of the portfolio is aligned with the Government priorities Portfolio is considered as best practitioners in the field 	<ul style="list-style-type: none"> Portfolio generating impact at scale or depth but rarely both Impact of the portfolio is sometimes aligned with the Government priorities Portfolio is sometimes considered as best practitioners in the field 	<ul style="list-style-type: none"> Unclear impact thesis of the portfolio Inability to articulate the impact of the portfolio
Financial instrument innovator	Development of new investment schemes/instrument beyond classic equity/debt to better fit local entrepreneur needs	<ul style="list-style-type: none"> Offer new investment schemes to address market needs Master the instruments and willing to educate the market 	<ul style="list-style-type: none"> Some initiative to offer new investment schemes to address market needs Engaged in reflection to provide more financial innovation to entrepreneur 	<ul style="list-style-type: none"> Low innovation offering Low understanding of the financial instruments available No reflection or intention to provide more financial innovation to entrepreneur
Supporting local talent (Indonesian)	Proportion of investment made into local Indonesian entrepreneurs (vs. foreign based or foreign led)	<ul style="list-style-type: none"> Significant investment to Indonesian founders Investment to SE outside of Jakarta or urban cities 	<ul style="list-style-type: none"> Investment to foreign led enterprise with strong Indonesian team 	<ul style="list-style-type: none"> No engagement with local Indonesian talents Depend highly on foreign talent network
Approach to impact thesis, measurement	Quality of the impact articulation, measurement and strategy	<ul style="list-style-type: none"> Thorough impact articulation Applying structured impact measurement framework Ability to educate over investors on their process (source of best practice) 	<ul style="list-style-type: none"> Applying ESG in their operations Conducting negative screening Conduct simple impact measurement based on their verticals and objective 	<ul style="list-style-type: none"> No clear impact framework No articulated impact thesis
Gender parity	Inclusion of women into the investment leadership	<ul style="list-style-type: none"> Presence of women partner Women part of the investment committee 	<ul style="list-style-type: none"> No women partner but women investment manager (senior role) Women part of the investment committee 	<ul style="list-style-type: none"> No women partner or women investment manager (senior role) No women part of the investment committee

Factor	Definition	Ranking		
		High	Medium	Low
Industry peer reputation in Indonesia	Reputation of the investor among other investors	<ul style="list-style-type: none"> Always solicited as knowledge center related to investing Trust in ability to lead investments Bring value in the deal syndication Always source of good deals 	<ul style="list-style-type: none"> Neutral opinion on the value on a coinvestment Co-invested with notable lead investor Sometimes source of good deals 	<ul style="list-style-type: none"> Non persona grata in coinvestment Call the latest as last resort option No deal share to the investor
Awareness among entrepreneurs in Indonesia	Reputation and awareness of the investors from the entrepreneurs	<ul style="list-style-type: none"> Mention first as leading investor Entrepreneurs have clear idea of the fund investment/impact thesis 	<ul style="list-style-type: none"> Secondary mention by entrepreneurs Entrepreneurs have a broad idea of the fund investment/impact thesis 	<ul style="list-style-type: none"> Unknown to local entrepreneurs and ecosystem players Entrepreneurs have no idea of the fund investment/impact thesis
Post investment support	Support provided to portfolio companies after the investment (mentoring, access to networks, follow-on investments)	<ul style="list-style-type: none"> Successful follow on investment Dedicated HR support for entrepreneurs Use monitoring to drive support 	<ul style="list-style-type: none"> Sporadique support to entrepreneur Focus on reporting and monitoring without systemic action Low access to follow on investment 	<ul style="list-style-type: none"> No dedicated support to entrepreneurs Focus on reporting and monitoring without action
Efficiency of capital deployment	Speed, fluidity of capital disbursement of the investors	<ul style="list-style-type: none"> Deployment in the first 6 months of fund Fast disbursement of fund to entrepreneurs (e.g 2 months after agreement) 	<ul style="list-style-type: none"> Industry standard to deploy the fund (2-3 years) Average process (50% above the average execution timing) 	<ul style="list-style-type: none"> Difficulty to deploy capital due to lack of pipeline or slow process Long process (50% above the average execution timing)
Investment gap filler investor	Investment in identified investment gaps where entrepreneurs classically have difficulty to raise capital (due to limited supply)	<ul style="list-style-type: none"> Mostly Investing in identified investment gaps Investing in gaps without the need of co-investor(s) or lead investor(s) 	<ul style="list-style-type: none"> Allocating funding in investment gaps or/and considering it 	<ul style="list-style-type: none"> Not investing or considering investing in investment gaps Mostly doing co-investment with impact investors or mainstream investors
Involvement in the Indonesia Impact ecosystem (e.g. activity, FGD, speaker)	Contribution of the investor to ecosystem building beyond investment footprint	<ul style="list-style-type: none"> Active contribution to building the ecosystem and the demand side Often called as expert/resource person Strong SEO 	<ul style="list-style-type: none"> Sporadique contribution to building the ecosystem and the demand side Sometimes called as expert/resource person 	<ul style="list-style-type: none"> Absence at key dialogues Low request from stakeholder to engage the investor as expert
Assets under Management (AUM)	Capital managed by the investor	<ul style="list-style-type: none"> Over USD 15 million under management 	<ul style="list-style-type: none"> Between USD 8 and 15 million under management 	<ul style="list-style-type: none"> Less than USD 8 million under management
Longest presence in Indonesia	Time spent in prospecting and investing in Indonesia	<ul style="list-style-type: none"> Over 5 years of experience in Indonesia 	<ul style="list-style-type: none"> 2-5 years of experience 	<ul style="list-style-type: none"> Less than 2 years of experience in Indonesia



2020
Investing in Impact in
Indonesia



Part 2

**Demand-side:
Hearing from the entrepreneurs**

2.1 Introduction

Despite the fact that social enterprises are the center of the impact investing industry, there is no definitive documentation of the actual number of social enterprises in Indonesia. Previous estimates by researchers estimated the number of social enterprises in Indonesia, ranging from 1,400²⁸ to 342,025²⁹. The large discrepancy between these estimations is likely due to differing definitions, differing methodologies and the fact that most social enterprises are also MSMEs, which are also generally not well documented (see Appendix). Based on the data collected through our methodology, **we estimate that there are 182,000 social enterprises in Indonesia (see Appendix for details on our methodology).**

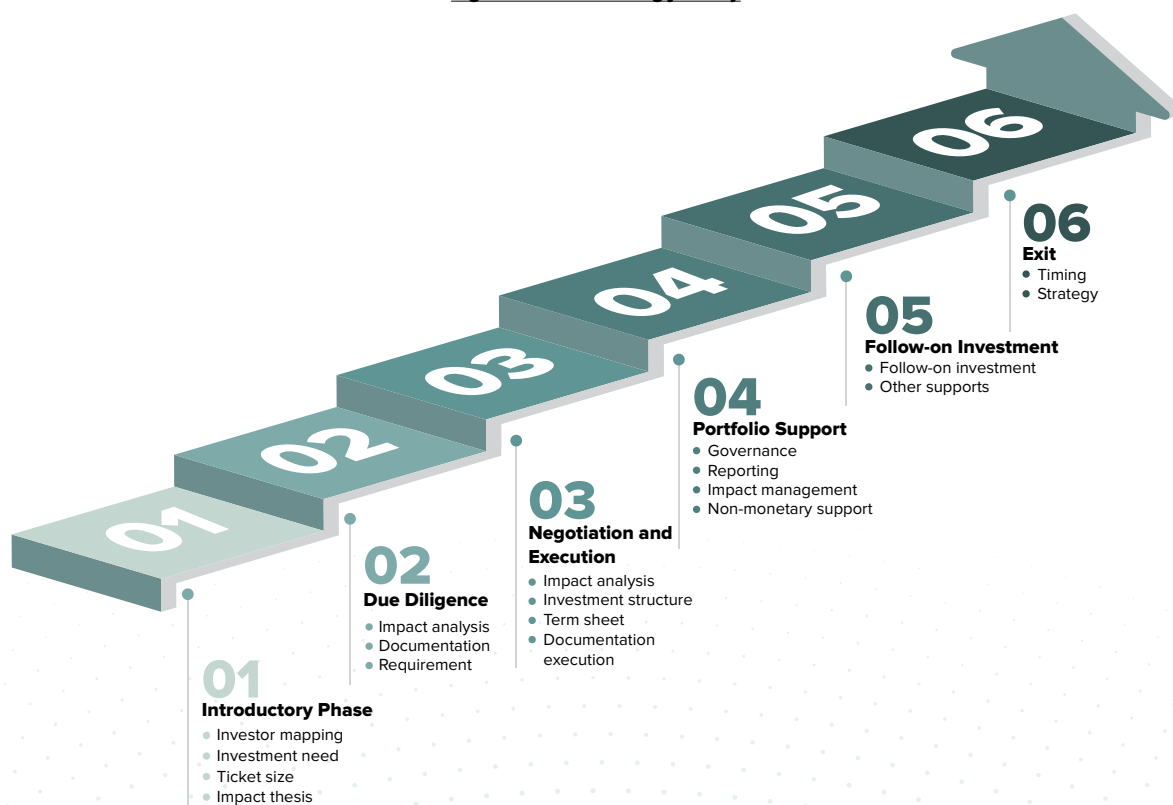
In November 2019, the ANGIN investment team conducted a focus group discussion (FGD) with 14 Indonesian social entrepreneurs and mainstream entrepreneurs to gather their feedback and insights on their previous and current engagement with impact investors³⁰. The discussions highlighted some interesting insights such as the clear disconnect between the expectations of impact investors and entrepreneurs.

Therefore, to contribute to the growth of impact investment in Indonesia, we have undertaken a further round of data collection sought to give more voice to the experiences, needs and expectations of entrepreneurs who have been through the fundraising process with impact investors. This section aims to showcase their personal experiences - bringing attention to the gaps between the perception and reality of impact investing and what can be done in Indonesia to address this.

2.2 Our approach: The fundraising journey

We leverage the fundraising journey of a typical entrepreneur searching for capital in Indonesia to better capture insights at each stage of the fundraising journey. Indeed, the various stages involve different interactions between entrepreneurs and investors.

Figure 2.1. Fundraising journey



²⁸ BCG, 2015. "The art of sustainable giving". https://image-src.bcg.com/The-Art-of-Sustainable-Giving-May-2015_tcm93-40480.pdf. Accessed 27 July 2020.

²⁹ British Council, 2018. "The state of social enterprise in Indonesia". https://www.unescap.org/sites/default/files/the_state_of_social_enterprise_in_indonesia_british_council_web_final.pdf. Accessed 27 July 2020.

³⁰ That FGD was commissioned by an Indonesian impact fund to better understand the market to shape a more impactful and tailored impact structure.

1. Introductory phase

Entrepreneurs and investors meet and explore potential engagement based on capital needs, ticket size and alignment of impact thesis. Usually at this stage, the entrepreneur is the one contacting the entrepreneur with a deck/presentation or the investors is reaching out to the entrepreneurs through referral.

2. Due diligence

After both parties validate the mutual interest to discuss the investment, investors assess the enterprise's various areas such as the business plan, financial and legal status, levels of governance, impact analysis, theory of change, documentation and administrative or legal requirements. This step aims to give confidence into the enterprise opportunity.

3. Execution

If the due diligence is positive, the investor and entrepreneur negotiate the investment terms and structure (usually summarized as a term sheet), complete the administrative requirements, and, finally, the capital is disbursed to the entrepreneur.

4. Portfolio management

This varies depending on how the relationship is governed between the entrepreneur and investor(s). It may include simple reporting (financial and impact), and/or non-monetary support like technical assistance or mentorship.

5. Follow-on investment

This stage may include additional investments to support the enterprise growth or making connections with other potential investors.

6. Exit

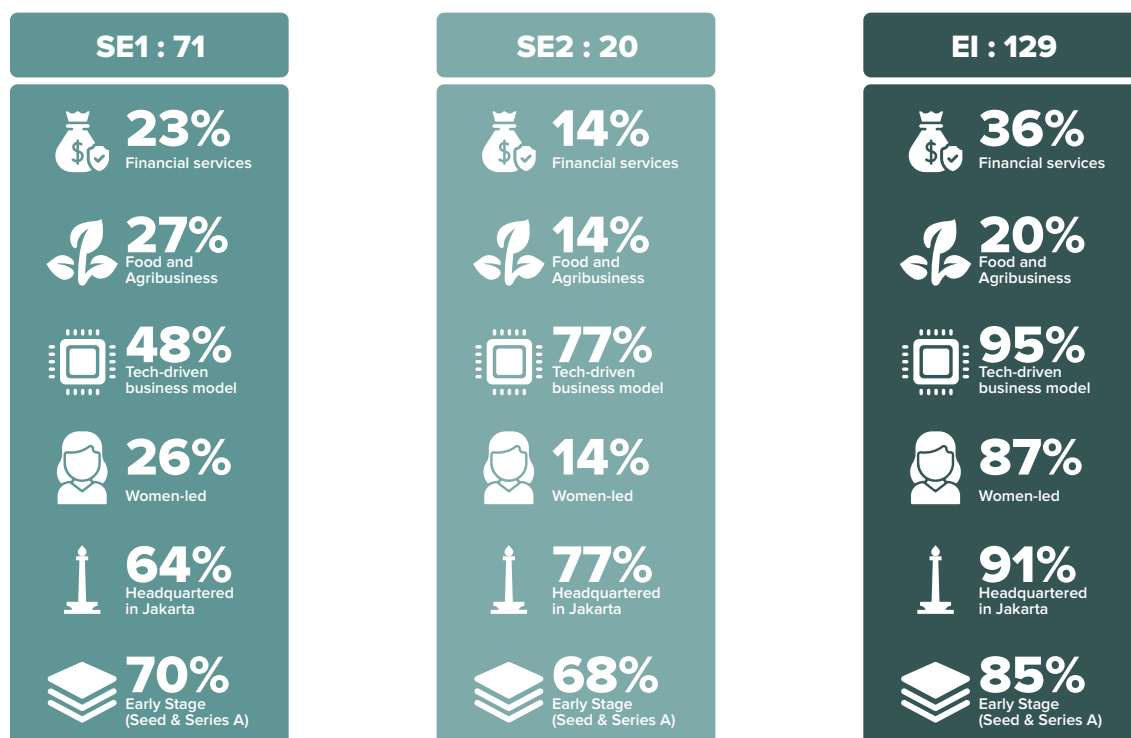
This represents the time where investors are selling their shares, getting repaid for their loan.

2.3 Key insights

Through an online survey (89 responses) and 35 semi-structured interviews with entrepreneurs who have been engaged with impact investors (see Methodology) we captured several unique insights and feedback on the fundraising process in the context of Indonesia.

2.3.1 Successfully funded social enterprises in Indonesia

2.2 Overview of successfully funded social enterprises



We identified **71 social enterprises funded by impact and mainstream investors (SE1)** and 20 social enterprises (28%) were funded by mainstream investors (**SE2**).

Our database also captures **129 mainstream enterprises that operate within impact areas (EI)**, but do not have both clearly stated impact intentions and clear impact measurement. Thus, we could not classify them as a SE1 or SE2 in our framework.

As SE2 and EI are both enterprises that received funding from mainstream investors, the data reflects mainstream investors preference for certain categories or types of enterprise when making investments. The focus on financial services and tech-based business is consistent with what we have observed in our comparison between MIE and Impact investors when investing in SE1 in the earlier part of this report (refer to part Figure 1.8 Distribution of concessionary compared to non-concessionary investors).

The **inclination on non-women led business**, signify the lack of gender-lens support in the social entrepreneurship scene, as the overall entrepreneurship scene in Indonesia is quite balanced in terms of gender equity (based on Global Entrepreneurship Monitor data as of 2018³¹)




The focus on the location in the capital city Jakarta is related to both (1) the abundance of various resources needed to establish an enterprise and (2) the proximity with the operation base of the investors who have representatives in Indonesia, majority of which have a team located in Jakarta.

The majority of the funded companies being early-stage is a testimony to the nascent social entrepreneurship in Indonesia and thus resulting in VC-type investors being more active in the scene and investing in the earlier stage of the social enterprises (Seed and Series A).

³¹ "Entrepreneurship in Indonesia - GEM Global ..." <https://www.gemconsortium.org/country-profile/70>. Accessed 28 Aug. 2020.

2.3.2 Bargaining power during fundraising

Figure 2.3. Bargaining power of social enterprises during fundraising

		WEAKER BARGAINING POWER			STRONGER BARGAINING POWER		
		 The misfit	 The in-between	 The trailblazer			
		Financial return expectation					
Primary	Business model	Non-tech/ offline	Mixed	Tech			
	Growth path	Conservative	Medium	Aggressive			
	Impact scale	Depth	Combined	Reach			
	Progress	Early	Validating	Proven			
	Sector/industry	Mature	Emerging	Hot			
Secondary	English proficiency	Low	Medium	High			
	Financial literacy	Low	Medium	High			
	Branding / Exposure	Low	Medium	High			
	Location	Outside large cities	Secondary cities	Jakarta			

In theory, entrepreneurs should be able to access the financial capital they need from various investors as they pass through the different stages of growth and maturity. In current research there is often a great emphasis on the so-called **"missing middle"**³² or **"funding gap"**, usually defined as the type of entrepreneurs who cannot access financial capital due to certain characteristics. Typically the "funding gap" will affect entrepreneurs in early growth stages who are struggling to fundraise what they need to scale their enterprises - with typical ticket sizes between USD 100,000 - 500,000³³ in Indonesia.

Proposed solutions to close the gap often focus on helping the entrepreneurs to become more investment-ready to get them closer to the investors' risk appetite and requirement for the due diligence.

However, in Indonesia the investment gap continues to prevail and is particularly apparent in certain groups of entrepreneurs (Figure 2.3). Therefore, for a more nuanced and context-specific analysis, we have **broken down characteristics that define an entrepreneur's ability to access capital**. We then identified three typical profiles of entrepreneurs based on their differing degrees of bargaining power during the fundraising: **misfits, inbetweeners and trailblazers**.

"The Trailblazers" are those who usually succeed in their fundraising. They are typically **seen as the "investment-ready" entrepreneurs** who are tech-driven to help them scale, pursuing aggressive growth paths, aiming to impact a large number of beneficiaries, and operating in the sectors perceived as promising by investors. English proficiency and being located in Jakarta or other major cities also strengthens their bargaining power; giving them exposure to networks of investors, many of whom are foreigners and English-speakers.

Meanwhile, **"misfits"** who are somewhat unpopular amongst mainstream and impact investors because they are perceived as being less investible or appealing. They typically hold characteristics that are the inverse of trailblazers and tend to lose out in this continuum of capital.

The **"in-betweeners"** are those who are more likely than misfits to receive funding, but the pool of capital they can tap may be niche or limited at a later maturity stage. Mostly, they are entrepreneurs with conservative growth paths compared to the trailblazers one. It is usually due to the limited role of technology on the business model or the specific sector that are only interesting for a particular group of investors, such as sustainable food and renewable energy.

³² AVPN. "The Continuum of Capital in Asia". <https://avpn.asia/insights/continuum-of-capital/>. Accessed 4 Aug. 2020.

³³ SEED, 2020. "Filling the missing middle... paper Indonesia". <https://seed.uno/articles/filling-the-missing-middle-financing-gap-scoping-paper-indonesia-2020>. Accessed 28 July 2020.

2.3.3 Different perceptions of “opportunity”

Social entrepreneurs in Indonesia and investors tend to view opportunity differently. Social entrepreneurs tend to look at **an opportunity from the impact perspective** - they see potential to address specific social and environmental problems. Some entrepreneurs are particularly focused on the depth of impact, emphasizing on how their solutions address very specific issues and serve the needs of the target audience or beneficiaries. This is particularly obvious during pitching sessions where social entrepreneurs tend to allocate a large amount of their time on the problem statement or inspirational story telling vs. the solution or market opportunities display³³.

Meanwhile, impact investors **see an opportunity from the market and commercial lens**. They tend to prioritize scalable solutions that also tap the wider market with the expectation that this will bring greater financial return.

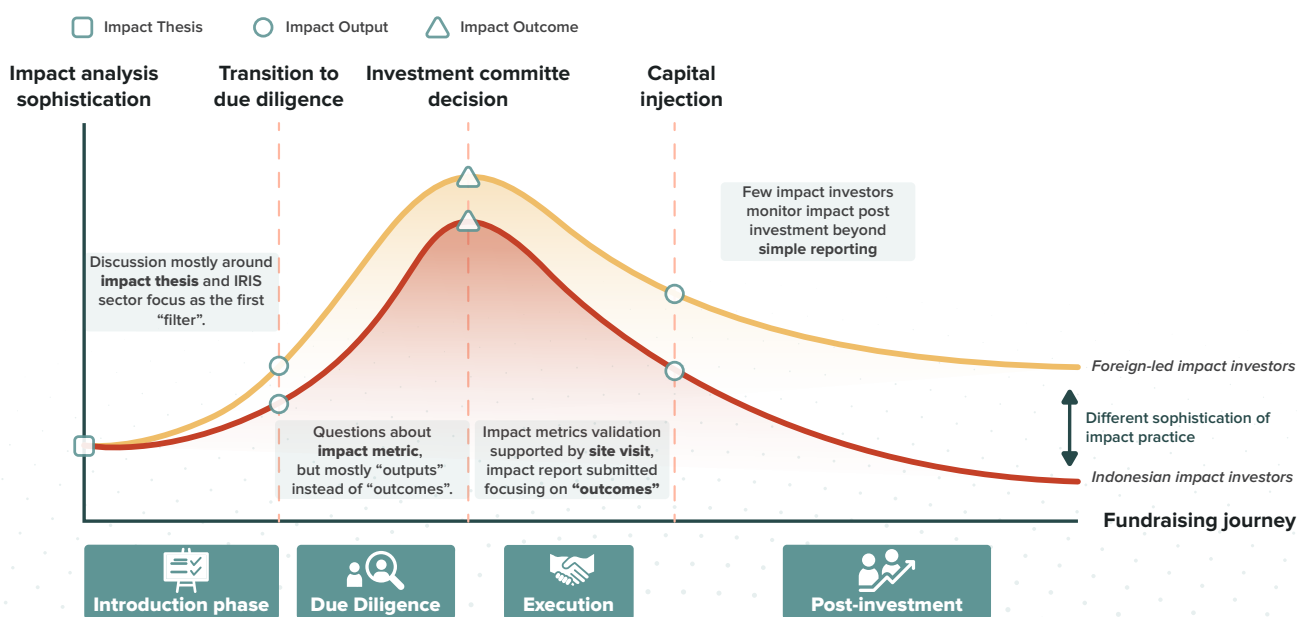
Due to this misalignment, **entrepreneurs interviewed expressed surprise that impact investors are not as “impact-oriented” as they initially thought**. Entrepreneurs, especially those who are focused on specific social and environmental issues, find it difficult to secure investment from the impact investors they encountered. Their solutions were seen less attractive from the investment point of view due to the lack of commercial cases and limited scalability of their solutions. This brings a certain confusion among entrepreneurs about the kind of “impact” intended from the view of the “impact investor”.

Entrepreneurs also highly associate impact investors as concessionary³⁴, where impact investors are expected to accept a lower financial return for the impact creation. It was translated into the expectation that impact investors shall provide friendlier investment terms than mainstream investors (e.g. lower interest rates for loans, better valuation for equity, etc), and shall discuss more on the impact target instead of financial growth. Facing the fact that 89% of the impact investors are actually non-concessionary, entrepreneurs expectations were not met when they engaged with the impact investors.

2.3.4 Attention to impact during the fundraising journey

During interviews with entrepreneurs, we explored where impact analysis (mostly referred to as impact measurement) is currently conducted during the fundraising journey.

Figure 2.4 Impact analysis during the fundraising journey



³⁴ ANGIN experience based on more than 2,500 decks from Indonesian entrepreneurs received since 2016

³⁵ See 1.4.1

In general, the entrepreneurs interviewed reported that **impact analysis by investors tends to be mostly conducted during the pre-investment stage**, where entrepreneurs are usually asked questions around the impact thesis, theory of change and basic impact metrics. Questions about impact usually continue into the due diligence phase, which mostly involve a site visit, before the decision to invest is being made. **Very few impact investors tend to monitor the impact achievement after the capital is injected.**

Local impact investors are less sophisticated in measuring the impact compared to the foreign counterparts. Most of the tools related to impact measurement are being developed and promoted by foreign impact investors such as SEAF or IIX.

Impact analysis done by impact investors is still heavily focused on the **immediate “outputs”** of the enterprises such as the number of beneficiaries, number of areas of operation, or number of products/services provided. In doing so, they fall short of measuring the **“outcomes”** - the changes occurring for the intended beneficiaries after the products or services are introduced by the enterprise. Impact investors have a tendency to only capture the surface of impact. Meanwhile entrepreneurs frequently care about their depth of impact and outcomes of their operations.

2.3.5 Bottom-up approaches of impact measurement and management

Impact measurement justifies the organizations' commitment of creating impact, where investors and entrepreneurs monitor and quantify the impact they envisioned. It has become a cornerstone of impact investing and social entrepreneurship. Previously, the urgency of conducting impact measurement was driven by top-down forces: entrepreneurs were expected to track their impact as part of the donor or investor monitoring and evaluation requirements.

Today, impact measurement is increasingly embedded into the entrepreneur's decision-making processes and has become a bottom-up tool for managing impact, instead of only “measuring”³⁶. With this nuance, impact becomes a strategic objective of the enterprise and encompasses the business activities.

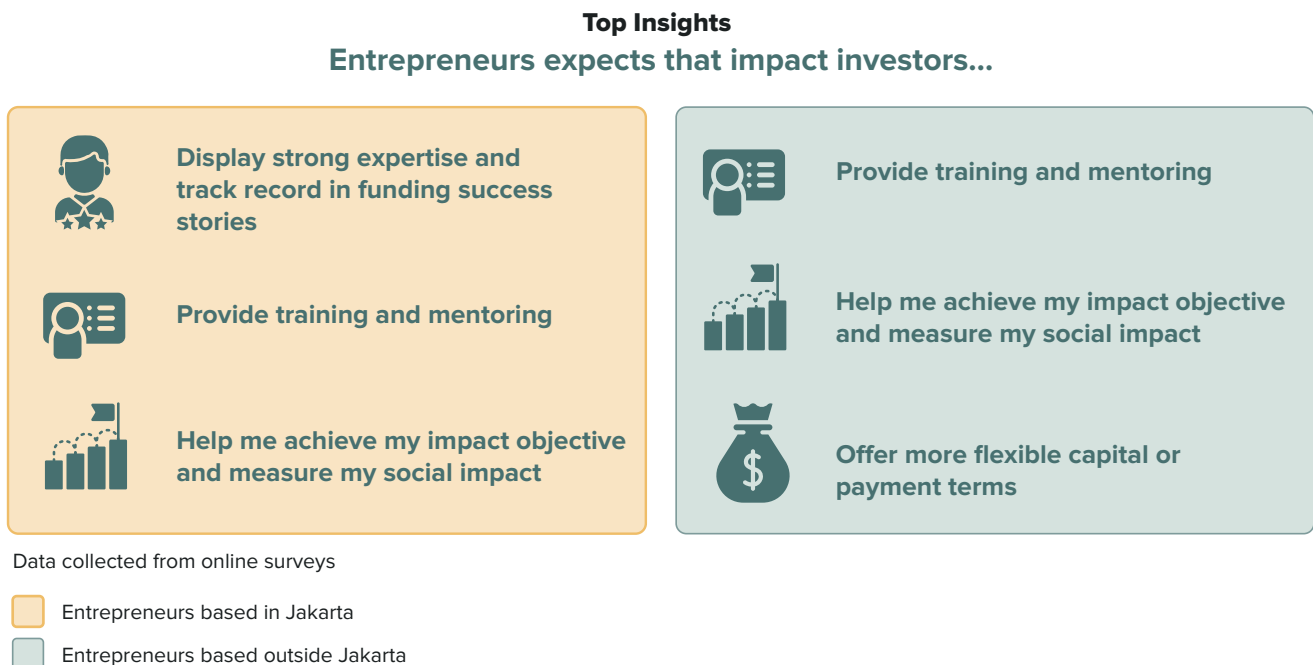
Capital owners have been supportive in this change of paradigm towards impact measurement, but there are **different views on who should bear the cost**. Moreover, most entrepreneurs still find it difficult to implement impact measurement or management due to limited resources and data gaps. Some accelerator programs offer impact management and measurement modules, even for the early-stage enterprises (e.g. SIAP, RISE inc, ImpactAim by UNDP). In addition, an increasing number of advisory service providers are specializing in impact measurement tools and services. Some of them target investors as their customers (e.g. SteerImpact), while others serve entrepreneurs (e.g. Artemis Impact and SIAP Impact Management service).

³⁶ Simon, M. 2015. “Managing vs. Measuring Impact Investment” https://ssir.org/articles/entry/managing_vs_measuring_impact_investment

2.3.6 Expectations of support

In addition to financial capital, **the social entrepreneurs expect non-financial support beyond the capital (intellectual and social capital)**. In particular, portfolio support and follow-on funding process support are top priorities of social entrepreneurs in Indonesia.

Figure 2.5 Entrepreneurs' expectation on impact investors



Portfolio support expectation includes growth enabler needs (access to market, network, knowledge, and talent), branding, advice on the corporate strategy, mentorship, and other capacity building provided by investors to the enterprises they invested in. However, **very few impact investors seem to assist in these areas**. They rarely spend much time providing entrepreneurs with in-depth support. There are several reasons explaining the situation:

- It is not the investors' value proposition to provide strategic support
- The impact investors are not the lead investor in the investment round (i.e. support is taken over by the main investor or lead investor)
- The impact investors do not have sufficient resources, team / contextual knowledge on the ground

Instead, some **third-parties are providing this support for an additional cost**. For example, a number of overseas intermediaries and consulting firms are aligning themselves with the impact space; offering Indonesia's entrepreneurs technical assistance as additional service with more affordable payment schemes (e.g. RISE program by Swisscontact).

On the other hand, impact investors **seem to be helping with follow-on phases**, such as topping up the investment or introducing entrepreneurs to a wider investor network. Being associated with prominent impact investors can also build the entrepreneur's credibility and bargaining power in the next fundraising round.

2.4 Recommendations

2.4.1 Impact investment skills for investors

The data indicates that early-stage entrepreneurs value impact investors from the support they can provide beyond the financial capital. To build this value proposition, particularly to better serve the pool of in-betweeners, impact investors need to develop a specific set of experience and skills including:

- **Expertise in developing and establishing basic operations, capital discipline and a viable impact business model that is workable in Indonesia.** For a country with a nascent social entrepreneur environment such as Indonesia, investors often need to develop the ability and risk appetite to provide early / seed investment in order to push an experimental, yet viable, business to the next stage of growth.
- **Know-how in balancing economic returns with social impact, as well as the stamina to commit to and measure the dual bottom line.** One way to create this balance is to address typical major shortcomings in the general business management of social enterprises such as financial modeling, business-plan preparation and management evaluation.

To be noted that data points to alignment shortcomings in areas like financial modeling, business-plan preparation, and the evaluation of management, which can be a major risk in impact-investment portfolios.

- **Expertise in systematic expansion and scaling up including experience in refining processes and developing talent.**

2.4.2 Tailor investment product development for the Indonesian impact market

The top concern of the entrepreneurs we spoke with is their **difficulty understanding and comparing investment schemes (e.g. instrument, terms, clauses) offered by various impact investors, and how to differentiate one scheme from another.** It is key for investors and fund managers to improve their marketing practices and investment product development to grow their investment portfolio in the Indonesian market. For example:

- **Investors need to be up-front with entrepreneurs about** the extent to which individual investment schemes balance or prioritise social or environmental impact and financial returns in their objectives. For example, can entrepreneurs negotiate better investment terms if they can show they are creating significant impact?
- **Create impact investment funds concentrating on specific sectors or issues,** in a similar way to how other funds focus on certain geographies, industries, or asset classes. Narrowing focus will better enable investors to set realistic expectations for financial returns and measure impact, as well as provide targeted offerings and relevant non-financial support.
- **Impact-oriented investment firms in Indonesia should integrate mainstream investment practices** into their financing mechanisms to appeal to a wider range of limited partners and increase the assets under their management.

2.4.3 Enable local partner assistance

Impact investors would benefit to work together with local partners - investors networks, local incubators and local fund managers - to gain **deeper, contextual insight** when evaluating an enterprise (including levels of risks, expected returns and potential impact).

Local partners can also **help find impact-driven enterprises** that are profitable but easily overlooked by overseas investors, and also help effective communication with entrepreneurs.

2.4.4 Use impact measurement to guide both profit and outcome

Impact measurement is a means of enabling continuous and sustainable impact, and yet entrepreneurs often consider it to be a burden, particularly during the pre-investment stages. However, impact measurement should be embraced as a set of management tools for building both business and impact capacities of early-stage entrepreneurs. The following actions can be considered by impact investment industry stakeholders to promote the effective uptake of impact measurement by entrepreneurs in Indonesia.

- As the scale of impact produced by an enterprise is often positively correlated to the financial performance of that enterprise (i.e. larger impact, better financial condition and vice versa), impact investors should consider monitoring more the relationship between these two factors, and also educate entrepreneurs how bigger impact can lead to better financial situation of their enterprise, and thus how important it is for entrepreneur to measure their impact meticulously.
- The provider of capital through blended finance schemes or philanthropic funding, which tend to be concessionary, can leverage their position to support the proper creation and measurement of impact, and also set higher requirements of impact return from the entrepreneurs, in order to instill the discipline of measuring and creating impact.

Further questions on this is (1) how willing are impact investors in translating impact analysis into financial return, and (2) how does the blended finance scheme takes part in addressing those needs of these entrepreneurs, e.g. (3) first loss capital or leverage philanthropic funding to pay the non-monetary support; for sustainability.



2020
Investing in Impact in
Indonesia



Part 3

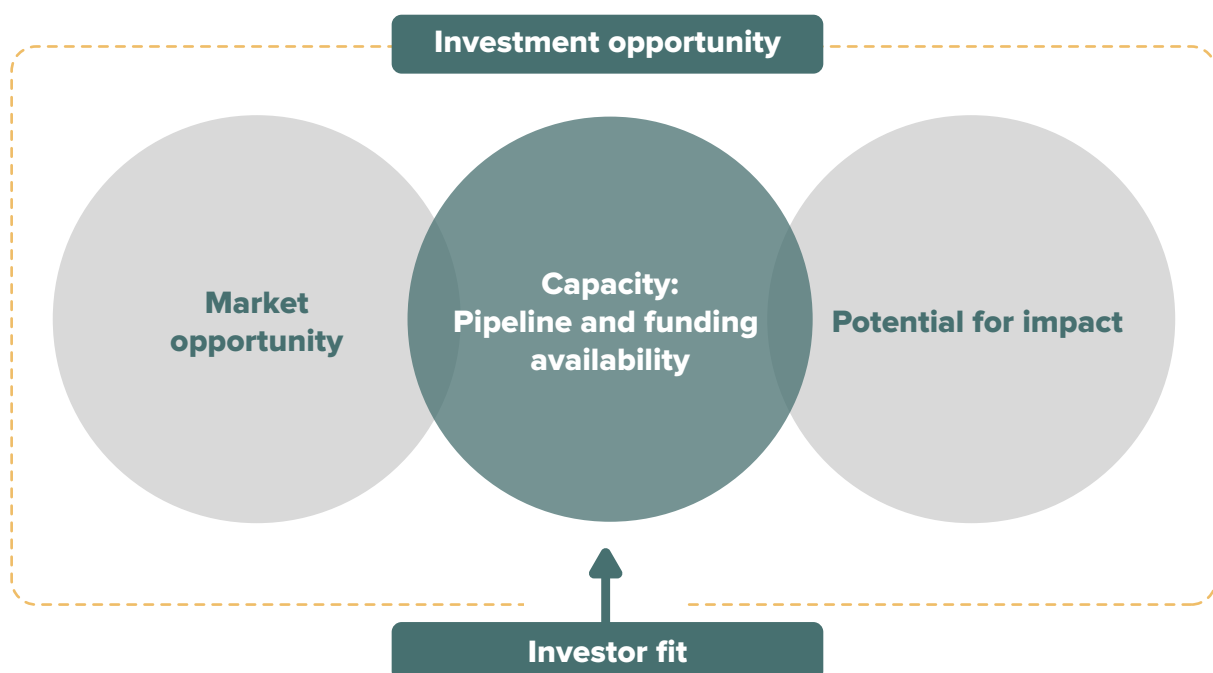
Impact investment opportunities in
Indonesia

3.1 Introduction

Impact investing in Indonesia is fueled by opportunities to generate impact while generating financial return. However, these opportunities are seldom well-defined due to the wide range of impact areas. Based on the data gathered, we highlight the areas of opportunity in Indonesia where impact investors can drive significant social or environmental impact, while at the same time attaining targeted financial return (concessionary and non-concessionary). We went beyond this analysis to define what are key factors that investors should consider to tap these opportunities in Indonesia.

3.2 Our approach to defining impact investing opportunities

Figure 3.1 Three aspects of investment opportunities



We consider that an investment opportunity should be analyzed with three **angles**:

1. **Potential for Impact**
How much impact could be generated according to the social and environmental challenges in that area (e.g. agriculture, waste, gender and MSME development).
2. **Market opportunity**
How is the potential to generate financial return. That is usually assessed through market sizing, competition structure, market dynamics
3. **Capacity (pipeline and funding availability)**
While the potential for impact and market opportunity are validated, the last angle to analyse is the availability of both investors and investible enterprises tapping into the impact and market opportunity. An investor would usually only be able to tap into an opportunity if there are existing solutions/entrepreneurs to invest in.

3.3 Four key investment opportunities

We have identified **four areas** that represent strong investment opportunities. For each area, we have identified the type of investors (**Investor Fit**) that would be well suited to that area.

3.3.1 Impact area one: Agriculture supply chain efficiency

<p>Potential for Impact</p>	<p>Indonesia's agriculture supply chain is dominated by smallholder farmers (93%) - each with less than a hectare of land to farm. With limited access to market and credit, millions of smallholder farmers in Indonesia are struggling to make ends meet and are living below the poverty line.</p> <p>With limited infrastructure - especially in more rural areas - agricultural products have to go through multiple layers of middlemen before reaching the end-consumer. As a result, farmers rarely obtain fair prices for their harvest and consumers experience price fluctuations.</p> <p>Faced with growing demand and the recent pandemic, the Government has made food security and food sustainability a priority agenda, which includes improving agriculture supply chain efficiency.</p>
<p>Market Opportunity</p>	<ul style="list-style-type: none"> ● Indonesia's agriculture sector contributes 14% of the nation's GDP³⁷ ● Agriculture is the country's second biggest source of employment. An estimated 33% of the labour force are employed by the sector³⁸.
<p>Capacity: Pipeline and Funding Availability</p>	<p>There are a number of tech-enabled emerging solutions such as:</p> <ul style="list-style-type: none"> ● Farm to table online groceries platforms that aim to connect farmers to end-consumers. ● Upstream solutions such as smart farming to increase the quantity and quality of products while optimizing the human labor required. ● Tech-enabled retail distribution and digital payment systems <p>There are also non-tech solutions such as establishing processing and production facilities in the outskirts of agriculture areas to increase the value of smallholder farmers' produce. In Agroforestry (a nascent area) the availability of pipelines are still scarce. Challenges may come when some of the enterprises are spin-off from donor programs operated by people with low business acumen.</p> <p>There are a number of maturing seed stage enterprises that are looking to unlock growth capital.</p> <p>Impact investors identified as considering the agriculture supply chain include: Patamar Capital, C4D, Aavishkar, Garden Impact, Lonsdale Capital, Gayo Capital, UOB Venture, Mirova, and Jupiter Impact. There are also co-investment and synergy opportunities with mainstream investors.</p>

Investor fit

- Investors with **tech or tech-enabled focus investment** because the primary opportunity lies in leveraging digital solutions to disrupt current supply chain inefficiencies.
- Investors with **local team members with decision making power and presence in Indonesia**, because these emerging solutions will benefit from capability building support.
- Investors **looking to finance larger ticket sizes for growth stage enterprises** (USD 10 million and above). We observe that maturing pipelines are looking to scale operations from limited city coverage to national coverage which will require significant initial investment.

³⁷ "Indonesia Country Fact Sheet - FAO" <http://www.fao.org/3/i8881en/i8881EN.pdf> Accessed 30 July,2020.

³⁸ "Indonesia Country Fact Sheet - FAO" <http://www.fao.org/3/i8881en/i8881EN.pdf> Accessed 30 July,2020.

3.3.2 Impact Area Two: Waste and Circular Economy

<p>Potential for Impact</p>	<p>A 2015 study by the Environment and Forestry Ministry reported that Indonesia produces an estimated 175,000 tons of waste daily or 64 million tons annually³⁹. Of this total volume, a staggering 11% (7.04 million tonnes) is plastic waste.</p> <p>81% of waste in Indonesia is unsorted and an estimated 9% of plastic waste ends up in the nation's waterways, a figure that is projected to grow by 30% between 2017 and 2025.⁴⁰ Plastic waste is also burned creating toxic air pollution and contributing to respiratory problems.⁴¹</p> <p>Indonesia's Government has made tackling the nation's waste a priority agenda, pledging to reduce marine plastic waste by 70% by 2025⁴² and requiring packaging producers to reduce plastic waste production by at least 30% in 10 years⁴³. Local governments in Banjarmasin, Balikpapan, Denpasar, Bogor and Jakarta now have bans on single-use plastic bags in place.⁴⁴</p>
<p>Market Opportunity</p>	<ul style="list-style-type: none"> • The plastic packaging industry in Indonesia is estimated at USD 9.6 Billion (2020) and is growing at 8% annually - primarily driven primarily by increased demand in domestic FMCG, agriculture, and automotive industries⁴⁵ • Increasing awareness on the use of recycled materials among industry players, complemented by establishing modern and large-scale recycling facilities to reduce dependency on imported raw material and to respond to pressing environmental challenges imposed by municipal waste.⁴⁶
<p>Capacity: Pipeline and funding availability</p>	<ul style="list-style-type: none"> • Emerging solutions include sustainable manufacturing of recycled material and 'green' packaging. There are 12 enterprises identified that were invested between 2014-2020. 6 out of 9 enterprise investments were made in 2019 and 2020, indicating an increase of interest from investors. <p>However, despite the emergence of new plastic-free alternatives, there has been increased concern of greenwashing due to research showing that these alternative materials may still be sent to landfill or pollute waterways if not recycled properly.</p> <ul style="list-style-type: none"> • Identified impact investors looking into the circular economy in their investment thesis include: Gayo Capital, Garden Impact, Circulate Capital, C4D, Jupiter Impact. Circulate Capital focuses solely on the circular economy (with Indonesia being a key market). • Most of the local recycling-focused enterprises have been operating for quite some time, but they have limited resources and business skills to grow and scale.

Investor fit

Investors **with a local presence** in order to access enterprises - 9 out of 12 enterprises identified are based outside of Jakarta.

Investors **with patient capital and mindset** as all enterprises identified are at pre-seed and seed stage and are non-tech focused. The investment horizon is likely to be longer compared to more tech-focused solutions.

Investors **with active post-investment support** as most enterprises are at an early stage and will require more proactive hand holding.

It is strongly advisable for investors to conduct their own **research on the actual product beyond market demand** to ensure its green credentials are backed by scientists and experts, given the high level of greenwashing in this sector and large number of new players interested in this area (often with good intentions but lacking in sector knowledge).

Investors have to **support data collection efforts** in order to have holistic understanding of the market because data on waste is scarce and mostly outdated.

³⁹ "Indonesia in state of waste emergency - Jakarta Post" <https://www.thejakartapost.com/news/2015/10/09/indonesia-state-waste-emergency.html> Accessed 30 July, 2020.

⁴⁰ "Radically Reducing Plastic Pollution in Indonesia: A Multistakeholder Action Plan - World Bank" https://globalplasticaction.org/wp-content/uploads/NPAP-Indonesia-Multistakeholder-Action-Plan_April-2020.pdf Accessed 30 July, 2020.

⁴¹ Plastic waste from Western countries is poisoning Indonesia <https://www.weforum.org/agenda/2019/12/plastic-waste-indonesia-pollution-health/#:~:text=Indonesia%20has%20become%20a%20dumping,have%20contaminated%20Indonesia's%20food%20chain.>

⁴² "Regions lag behind in waste management planning - Jakarta Post" <https://www.thejakartapost.com/news/2019/03/05/regions-lag-behind-in-waste-management-planning.html> Accessed 30 July, 2020

⁴³ Indonesia to reduce marine plastic waste 70% by 2025 <https://www.aa.com.tr/en/asia-pacific/indonesia-to-reduce-marine-plastic-waste-70-by-2025/1672349>. Accessed 30 July, 2020.

⁴⁴ "Jakarta begins new chapter in plastic waste reduction - Jakarta Post" <https://www.thejakartapost.com/news/2020/07/01/jakarta-begins-new-chapter-in-plastic-waste-reduction.html> Accessed 30 July, 2020.

⁴⁵ "Plastic Packaging Industry in Indonesia - Indonesia Packaging Federation" <https://packindo.org/2019/04/08/packaging-in-indonesia/> Accessed 30 July, 2020.

⁴⁶ "Plastic industry in Indonesia - British Plastic Federation" <http://www.bpf.co.uk/Media/Download.aspx?MediaId=2231> Accessed 30 July, 2020.

3.3.3 Impact Area Three: Gender Lens Investing

Potential for Impact	<p>Indonesia ranked 85th out of 153 countries in the World Economic Forum's Gender Gap Index 2020. Despite Indonesia boasting the world's largest share (55%) of senior and leadership roles held by women, overall women's participation in the labour force is just 54% compared to 83.2% for men.⁴⁷</p>
Market Opportunity	<ul style="list-style-type: none"> ● 50% of Indonesia SMEs are owned by women. Women also currently account for 80% of consumption and are more often the first adopters of digital solutions. ● Increasing women participation in the labour force and unlocking access to capital for women-owned businesses can be key drivers to furthering economic growth. ● Indonesia could potentially unlock an additional USD 135 billion of annual GDP (9% above business as usual) by 2025 through advancing women's equality⁴⁹.
Capacity: Pipeline and funding availability	<ul style="list-style-type: none"> ● Increasing number of prospectable women-led businesses, businesses targeting women consumers, and businesses aiming to increase women participation in the labour force that is ready to be invested. ● Identified impact investors looking into and/or focusing on gender lens investing include: Patamar Capital, C4D, Moonshot, ADB Ventures, Bamboo Capital Partners and SEAF. ● There are co-investment and synergy opportunities with mainstream investors such as Teja Ventures - the first Asian mainstream venture capital embedding the gender lens in its investment thesis.

Investor fit

Investors with gender balanced teams, especially with woman representation at senior levels. Indonesian women entrepreneurs tend to value this factor.

Investors who reflected on their **gender strategy beyond counting women entrepreneurs**. As the ecosystem is evolving, the investment opportunities become more demanding to capture and demand stronger reflection (such as defining new investment instruments more suited to women entrepreneurs needs)

Investors adopting also a **gender lens in their investment process**, including specific gender metrics and performance measurement at each step.

Investors with **strong capacity building support** pushed to their investees.

⁴⁷ "Global Gender Gap Report 2020 - World Economic Forum" http://www3.weforum.org/docs/WEF_GGGR_2020.pdf accessed 30 July, 2020.

⁴⁸ "Women's Entrepreneurship Facility: Establishment of Financial Intermediary Fund" <https://we-fi.org/wp-content/uploads/2018/04/We-Fi-June-7-2017-Board-paper.pdf> accessed 30 July, 2020.

⁴⁹ "The Power of Parity: Advancing Women's Equality in Asia Pacific." - McKinsey Global Institute" <https://www.mckinsey.com~/media/McKinsey/Featured%20Insights/Gender%20Equality/The%20power%20of%20parity%20Advancing%20womens%20equality%20in%20Asia%20Pacific/MGI-The-power-of-parity-Advancing-womens-equality-in-Asia-pacific-Executive-summary.pdf>. Accessed 30 July, 2020.

3.3.4 Impact Area Four: MSME development & digitalization

Potential for Impact	<p>98.6% of the all MSMEs in Indonesia are micro businesses⁵⁰ with a daily revenue of less than USD 60. The majority are self-employed and their businesses have no formal establishment, leading to specific challenges accessing finance and hindering their ability to grow.</p>
Market Opportunity	<ul style="list-style-type: none"> ● MSMEs play a vital part in Indonesia's economy, as of 2019, 64 million MSMEs in Indonesia contribute 60% of the country's GDP and 97% of employment. ● Only 13% or 8.3 million MSMEs have capitalized on digitization. The coordinating Ministry of Economic Affairs has set a target of 10 million by the end of 2020.⁵¹ ● A 2018 survey of entrepreneurs and MSME in Indonesia cited access to financing and marketing as the most common barrier to growth (70% and 46% of respondents respectively).⁵²
Capacity: Pipeline and funding availability	<ul style="list-style-type: none"> ● Tech and tech-enabled solutions that are affordable for MSMEs such as: <ul style="list-style-type: none"> ● Fintech lending and microloans ● Increasing market access through e-commerce and online marketplaces ● Mobile point of sale (POS) ● Digital bookkeeping and digital payments ● Logistics & warehousing platforms ● Some mature enterprises have reached national scale but the majority of pipelines are still operating with coverage limited to Jakarta and other first tier cities. ● Identified impact investors looking into MSMEs development include: Patamar Capital and Aavishkaar. There are also many co-investment & synergy opportunities with mainstream investors who have a tech-focus.

Investor fit

Investors **looking to finance growth capital and/or open to co-investment opportunities**, as scaling operations to achieve national coverage will require significant capital investment.

Investors **with tech or tech-enabled focus investment** given the nature of emerging solutions.

³⁹ "Over 300,000 MSMEs Go Digital amid COVID-19 Pandemic - Tempo" <https://en.tempo.co/read/1356016/over-300000-msmes-go-digital-amid-covid-19-pandemic> Accessed July 30, 2020.

⁴⁰ "Govt aims for 10 million MSMEs to go digital by year end - Jakarta Post" <https://www.thejakartapost.com/news/2020/07/01/govt-aims-for-10-million-msmes-to-go-digital-by-year-end.html>. Accessed July 30, 2020.

⁴¹ "2018 Survey of Entrepreneur and MSME in Indonesia - Asia Pacific Foundation of Canada" https://apfcandada-msme.ca/sites/default/files/2018-10/2018%20Survey%20of%20Entrepreneurs%20and%20MSMEs%20in%20Indonesia_0.pdf Accessed July 30, 2020.



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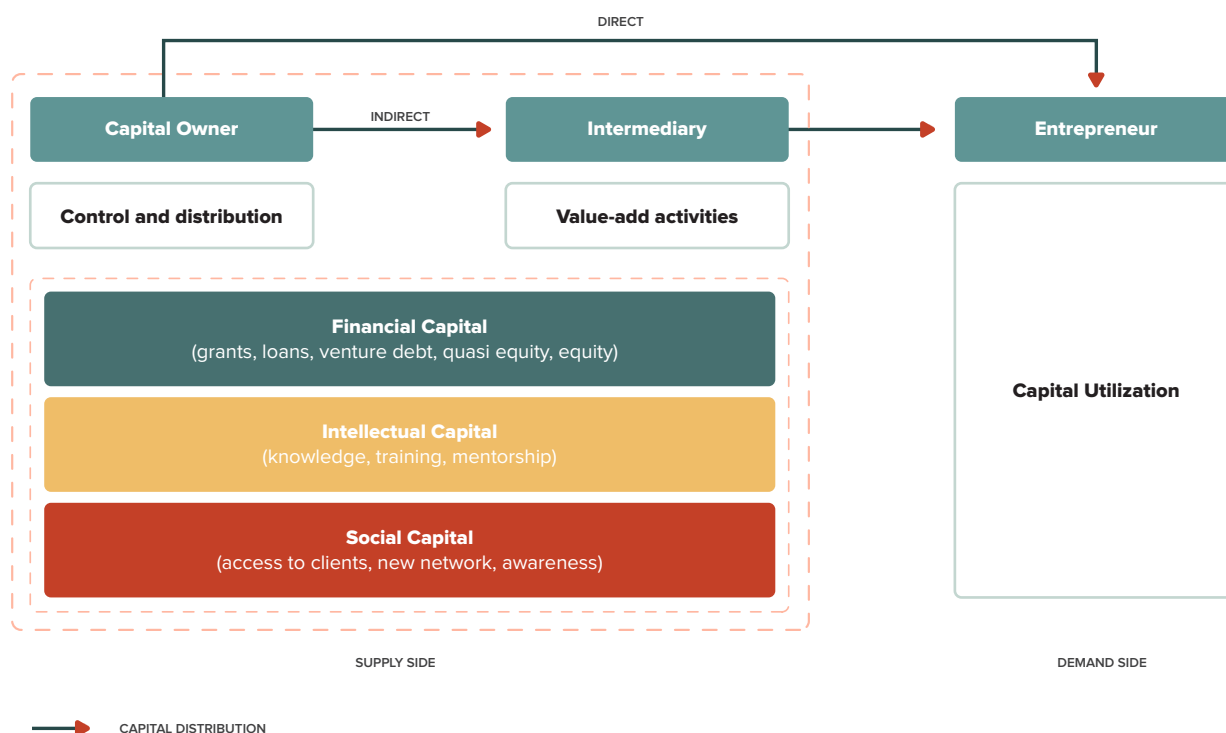
The Impact Investing Ecosystem

4.1 Introduction

In this section we explain the roles and contributions of the key stakeholders who support impact entrepreneurs in Indonesia, as well as mapping how they interact with one another. In addition to stakeholders providing financial or monetary capital, we pay particular attention to those who are providing intellectual capital or social capital.

4.2 Visualizing the ecosystem

Figure 4.1 Ecosystem mapping



We designed this more complex framework to identify all the dynamics operating in the impact investing ecosystem. The key players are categorized as those who distribute the capital (supply-side) - whether they are the capital owner or intermediary - and/or those who receive and benefit from the capital (demand-side). There are three key elements in the ecosystem mapping (Figure 4.1):

1. Types of Capital

- Financial Capital**
 Financial capital is easily measured in terms of monetary value and is disbursed using instruments that are often categorized according to asset classes. The common instruments found in the impact investing market are debts, equity, and innovative financing such as venture debt⁵³, mezzanine⁵⁴, and quasi-equity⁵⁵.
- Intellectual Capital**
 Intellectual capital includes any knowledge that is formally or informally transferred to entrepreneurs through training, workshops, seminars, mentorship or sharing sessions.
- Social Capital**
 Social capital is a non-monetary capital that relies predominantly on connections to access leaders, investors, new markets, clients or key resources. In other words: "who you know" and "how can you leverage these connections" to fuel your business.

⁵³ Venture debt is a type of debt financing for early-stage companies backed by venture capital. It requires warrants of the company stock instead of collateral to compensate the lenders.

⁵⁴ Mezzanine is a hybrid scheme of debt and equity, can be structured as subordinated debt or preferred equity instruments.

⁵⁵ Quasi-equity or revenue participation agreement is a type of debt financing with the characteristics of equity. It may include flexible payment options or risk-sharing scheme, depending on the future revenue stream.

2. Supply-side

The supply-side represents actors that channel the three types of capital to the entrepreneurs. Based on their ownership of the capital, we divide the supply-side into two subcategories:

- **Capital owners** include philanthropists and foundations, corporations, and individuals (HNWIs and retail investors). They are the ultimate beneficial owners who control the capital and decide how it is distributed. They usually have two options for distribution:
 - **Direct distribution:** Typically, direct capital distribution aims to build an impact investment ecosystem. Instead of helping a specific pool of entrepreneurs in the demand-side, the capital drives the activities in the ecosystem as a whole.
 - **Indirect distribution:** Capital owners distribute the capital via the intermediaries - usually to target a more segmented types of entrepreneur.
- **Intermediaries** source capital from capital owners, tailor the capital based on the needs of the entrepreneurs (as the value-added activities), then facilitate the capital distribution in exchange for fees or commission.

The idea of separating the capital owners from the intermediaries is bringing a new dimension in terms of understanding the agenda makers in the ecosystem. Usually intermediaries, not controlling the capitals, do not have full control over the scope of work, target market they could work with.

3. Demand-side

Demand-side represents enterprises who need capital to carry out their impact entrepreneurial activities. They deliver impact to society through their products and/or services. Based on our research scope (see Appendix), we recognise three groups of enterprises according to their level of involvement in delivering impact.

- Enterprises with stated impact mission and impact measurement
- Enterprises invested by impact investors (coded as Social Enterprise 1)
- Enterprises operating in IRIS impact categories (see appendix)
























4.3 Ecosystem who is who

In this part, we identify some key supply-side players according to the ecosystem mapping (Figure 4.2). We group them based on their organization types, highlight their main activities when deploying the capital, identify the typical types of capital they provide, and identify some key players based on our observation and prior interaction.

Figure 4.2 Summary of the supply-side



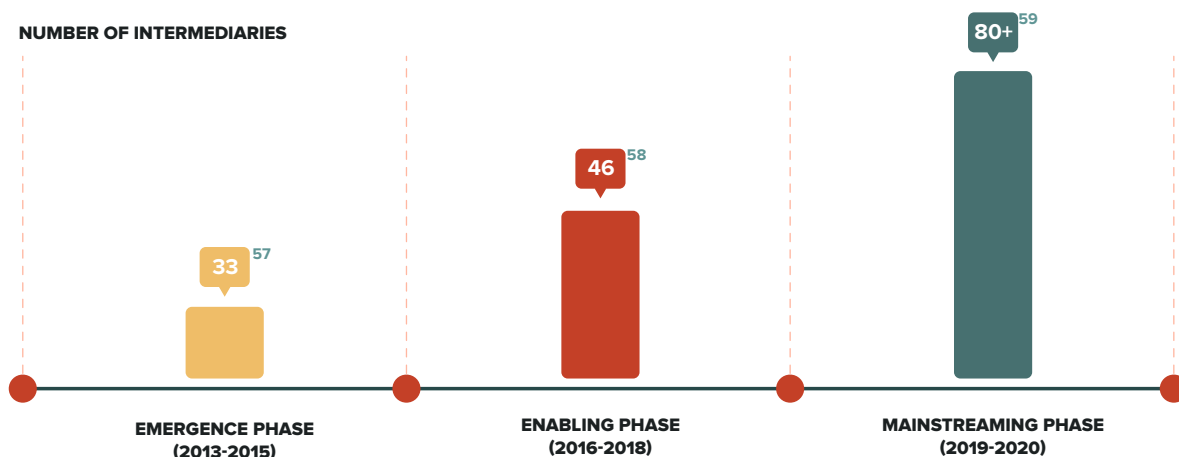
Stakeholder category	Key activities related to impact investing	Type of capital distributed	Examples of key player in Indonesia	
Capital owner	Indonesian Government	<ul style="list-style-type: none"> Designing and implementing policies 	<ul style="list-style-type: none"> FC: 60% IC: 20% SC: 10% 	Ministry of National Development Planning/Bappenas, Ministry of Finance, Ministry of Cooperatives and SMEs, OJK, Ministry of Industry, Ministry of Tourism and Creative Economy
	Development institutions	<ul style="list-style-type: none"> Commissioning projects and research Supporting the design and implementation of policies 	<ul style="list-style-type: none"> FC: 60% IC: 30% SC: 10% 	DFAT Australia, USAID, British Council, TPSA Canada, GIZ
	Philanthropists and foundations	<ul style="list-style-type: none"> Commissioning projects and research Participating in funds 	<ul style="list-style-type: none"> FC: 60% IC: 30% SC: 10% 	Ford Foundation, Sasakawa Peace Foundation, Tanoto Foundation, YCAB
	Private corporations and tech giants	<ul style="list-style-type: none"> Providing grants and investment Opening access to market Building talents 	<ul style="list-style-type: none"> FC: 40% IC: 20% SC: 40% 	Salim Group, Astra, P&G, BCG, McKinsey, AWS, Gojek, Tokopedia, Bukalapak
	Individuals	<ul style="list-style-type: none"> Providing investment Mentoring 	<ul style="list-style-type: none"> FC: 20% IC: 50% SC: 30% 	Angel Investors, business mentors
Intermediary	Impact investors, venture capital firms, and private equity firms	<ul style="list-style-type: none"> Providing investment (debt, equity, quasi equity) Providing portfolio support (operations, impact measurement) Opening access to market and potential investors Building credibility 	<ul style="list-style-type: none"> FC: 70% IC: 20% SC: 10% 	<p>The scope of this report</p> <p>e.g. Aavishkaar, Garden Impact, IIX, Moonshot Ventures, Teja Ventures</p>
	Angel investor networks	<ul style="list-style-type: none"> Providing access to funding in various instruments Providing capacity building (feedback session, pitching training) 	<ul style="list-style-type: none"> FC: 50% IC: 20% SC: 30% 	ANGIN, Investible, Angel Central
	P2P lending and crowdfunding platforms	<ul style="list-style-type: none"> Providing loans and equity (e.g. working capital loan, project financing, invoice financing) Helping validate the MVP Raising awareness 	<ul style="list-style-type: none"> FC: 60% IC: 0% SC: 40% 	Investree, Likuid, Kickstrater, Indogogo, Fundedhere

Category	Key activities	Type of capital (FC, IC, SC)	Examples	
Intermediary	Cooperatives and microfinance institutions	<ul style="list-style-type: none"> Providing loans Opening access to supply through bulk buying Opening access to market Knowledge sharing with peers 	FC  60% IC  10% SC  30%	Bina Artha Ventura, MBK Ventura, KIVA, BIDUK
	Banks	<ul style="list-style-type: none"> Providing loans Increasing credibility (e.g. through credit scoring) 	FC  90% IC 0% SC  10%	Mandiri, DBS, BCA, UOB
	Incubators and accelerators	<ul style="list-style-type: none"> Developing and delivering capacity building programs Opening access to potential investors, market, and partners 	FC  10% IC  50% SC  40%	Endeavor, Instellar, Kinara, SIAP, SEED, UnLTD Indonesia, "Nextdev ImpactAim", Plug and Play, Digitaraya, SKALA, Inotek, Enviu
	Awards and competitions	<ul style="list-style-type: none"> Increasing credibility Branding and raising awareness through publications Providing grants Providing mentorship and/or access to mentors 	FC  40% IC  10% SC  50%	B Corp, EY Entrepreneur of the year, Asia Social Innovation Award, Forbes 30 under 30, DBS Foundation Grant Programme
	Aggregators, networks, and multilateral organizations	<ul style="list-style-type: none"> Convening and developing industry knowledge Building awareness and advocacy 	FC 0% IC  30% SC  70%	GIIN, ANDE, AVPN UNDP, UNCDF Indonesian venture capital and startups association (AMVESINDO), Impact Hub, Indonesia Social Entrepreneurship Network (ISEN), HIPMI
	Impact-themed consulting firms and advisory service providers, impact management services, think tanks	<ul style="list-style-type: none"> Developing best-practice Conducting studies and research Providing impact management services 	FC  10% IC  70% SC  20%	Palladium, Dalberg, SecondMuse, Systemiq, Social Investment Indonesia, PLUS, Tinkerspace, SIAP, SteerImpact, Artemis Impact
	Universities	<ul style="list-style-type: none"> Conducting studies and research Building talents 	FC  10% IC  70% SC  20%	ITB, UI, Universitas Prasetya Mulya, Binus University, UGM
	NGOs, communities, coworking, creative and maker spaces	<ul style="list-style-type: none"> Opening access to market, partners, and talents Raising awareness 	FC 0% IC  30% SC  70%	Greenhouse, Kumpul, BLOCK71, Campaign.com, KIBAR, Coworkinc, SatuTampa, Gowork, Wework, Substitute Makerspace
	Media, event organizes, and key opinion leaders	<ul style="list-style-type: none"> Raising awareness Convening 	FC 0% IC  30% SC  70%	Tech in Asia, Deal Street Asia, Daily Social, Impact Alpha, E27, IDF, Ideafest, Kick Andy

4.4 Ecosystem evolution and key trends

Along the changes that operated for Investors (See Part 1), the overall ecosystem has seen several changes and developments. Below is an overview of the evolution we have seen in Indonesia since 2013.

Figure 4.3 Ecosystem evolution timeline



	EMERGENCE PHASE (2013-2015)	ENABLING PHASE (2016-2018)	MAINSTREAMING PHASE (2019-2020)
Description	The discussion on social entrepreneurship and impact investing (also discussed as social finance) emerged, but it was still a niche topic among development sector players and entrepreneurs.	The ecosystem enablers were growing. Impact investing and social entrepreneurship got more attention from the industry players.	Impact investing and social entrepreneurship are no longer a niche topic - people are more aware of SDGs, entrepreneurs and investors are more aware of sustainability and impact. Growing interest from the general public to understand this topic.
Key Insights	<ul style="list-style-type: none"> ● Building awareness of social entrepreneurship model, mostly for nonprofits to become more sustainable ● High tendency of talents in social entrepreneurship coming from development sector, required more support on business acumen ● High reliance of intermediaries and entrepreneurs on grants from capital owners 	<ul style="list-style-type: none"> ● Growing business support from incubators and accelerators for early-stage entrepreneurs, but they are mostly sector-agnostic and not exclusive for social enterprises ● Increasing network and community support to connect entrepreneurs and investors ● Few research and public data available on impact investing and social entrepreneurship ● Emerging role of “orchestrator”⁵⁶ - those who mainly become a network builder and a capacity builder 	<ul style="list-style-type: none"> ● Evolution of business model ● Predominant role of DFIs and development agencies ● Rising number of intermediaries ● Increasing theme-specific support for entrepreneurs ● Higher involvement of private corporation ● Decentralized support ● Higher awareness of impact measurement
Example of key players who played in role in the specific phase	BCG, British Council, Ashoka, Intellectap, AVPN, GEPI, UnLTD Indonesia	DFAT Australia, Instellar, ANGIN, UNDP, PLUS, OJK, Impact Hub, ANDE	Bappenas, USAID, SIAP, Sasakawa Peace Foundation, Ford Foundation

⁵⁶ BCG 2015 “The Art of Sustainable Giving” https://image-src.bcg.com/The-Art-of-Sustainable-Giving-May-2015_tcm93-40480.pdf

⁵⁷ Intermediaries discussed in this section exclude impact investors, venture capitals, and private equity firms

⁵⁸ “Start-up Assistance Organizations in Indonesia: Taxonomy ...” <https://www.spf.org/en/gender/publications/24911.html>. Accessed 27 Jul. 2020.

⁵⁹ Ibid.

4.5 Key insights

As we did for the previous parts, we are here covering several key insights and trends we identified through our research

4.5.1 From “beneficiary” to “customer”

To develop the Indonesian impact ecosystem, the capital owners initially worked with intermediaries to bring financial, intellectual and social capital to entrepreneurs. In other words intermediaries were highly dependent on capital owners, such as, donors and development institutions to operate. This capital was mostly provided free of charge as entrepreneurs were not charged for the services they were benefiting from.

In the mainstreaming phase of the ecosystem, we have seen the emergence of two new dynamics :

- Entrepreneurs are not considered as beneficiaries anymore but intermediaries are starting to charge entrepreneurs and consider them as consumers or customers of advisory services. Products are provided for a charge.
- There is also a shifting mindset of intermediaries, related to the evolution of the business model as capital from development institutions is becoming harder to access. Intermediaries previously determined success according to their ability to answer grant proposals to get funded for their activities in supporting entrepreneurs. Whereas nowadays, intermediaries act as capital owners who have more control on the capital. As they are no longer relying on grants, these intermediaries are driven by the ability to sell services and gain customers, in this case the entrepreneurs.

Figure 4.4 Evolution of the capital owners’ business model

	“Free capital” (before 2018)	Monetization (2018 onwards)
Drivers	<ul style="list-style-type: none"> ● Increased flows of aid and development capital ● Desire of capital owners to develop ecosystem ● Aid/development legal constraints ● Lack of entrepreneurs’ capacity to pay for support services ● Lack of entrepreneurs’ capacity to increase the value of their capital assets (valorisation) 	<ul style="list-style-type: none"> ● Decrease of development aid capital ● Avoid market distortion ● Fierce intermediary competition for capital ● Desire of intermediaries to be self sustaining and diversify revenue streams ● Educate entrepreneurs on value of support

4.5.2 The role of DFIs and development aid agencies

Development Financial Institutions (DFI) and development aid agencies **have been historically very active in supporting Indonesia and provided the original source of impact investment capital** in the country. Based on our data (see 1.4.9), public funding has deployed approximately USD 100 million to back impact investing in Indonesia.⁶⁰

Development aid agencies have also **played a significant role in shaping the impact investing ecosystem in Indonesia through commissioning research projects and conducting capacity building programs**, such as DFAT's "Investing in women" initiative, British Council's "Developing Inclusive and Creative Economies (DICE)" programme and USAID's "Kunci" initiative in supporting entrepreneurship in marginalized youth. These actions **enabled the growth of various intermediaries** by highlighting certain important topics, inviting and/or supporting new parties to join the field, and enabling collaboration within the field.

Although Indonesia is now classified as an upper-middle income country, we believe **that DFIs and development aid agencies will remain a key player** due to both (a) the scale and significance of Indonesia as the largest country in Southeast Asia, and the (b) the challenge the country faces in achieving certain SDGs. However, due to increasing activity from impact investors the DFIs and development aid agencies will **no longer be the sole major driving force** in the impact investing field in Indonesia.⁶²

Additionally, as signaled by the initiation of the DFI Working Group on Blended Finance in 2017 that is chaired by IFC - the largest DFI player in Indonesia in terms of capital deployed - we expect that the DFIs and development aid agencies **will take more action to promote collaboration and cooperation** between development institutions, private investors, and social entrepreneurs (e.g. DFAT is backing several gender lens investment funds and USAID has launched "Green Invest Asia" initiative).

⁶⁰ Capital deployed by government agencies and development institutions were approximately USD 300 million in total, with the estimation of 30% allocation to Indonesia.

⁶¹ Indonesia is ranked 100th out of 166 countries in terms of SDG Index scores in 2020. (2020, July 1). New World Bank country classifications by income level: 2020 Retrieved July 25, 2020, from <https://blogs.worldbank.org/opendata/new-world-bank-country-classifications-income-level-2020-2021>

⁶² "The Sustainable Development Report 2020 - Amazon S3." https://s3.amazonaws.com/sustainabledevelopmentreport/2020/2020_sustainable_development_report.pdf. Accessed 25 Jul. 2020.

4.5.3 The rise of intermediaries

The increasing emergence of social enterprises and capacity needs in Indonesia has allowed intermediaries to thrive. As an example, incubators and accelerators have increased in number from three in 2010 to 46 in 2018⁶³.

We identified **more than 80 active non-fund manager intermediaries focused on social enterprises** as of 2020 (Refer to Figure 4.3).

Figure 4.5 Example of different types of intermediaries

Name	Type	Activities
ANGIN Advisory	Advisory	Designed and implement capacity building services to entrepreneurs and connect them to capital
SIAP	Social business incubator	Has mentored 450 impact-driven founders and incubated 173 social enterprises since its inception. (as of Aug. 2020)
Tinkerspace for Social Enterprise	Advisory	Specializes in providing brand and management consulting services to social enterprises in Bali

The growth of intermediaries have brought both opportunities and challenges to the impact investing scene in Indonesia as below.

Opportunities	Details
New value propositions	The last generation of intermediaries in the impact investing ecosystem has brought new value-adding activities . Together, they accommodate a greater transfer of various types of capital between the capital owners and the entrepreneurs.
Learning curve building	Local intermediaries matured and gained experience from executing projects, the pioneering intermediaries built track records that serve as pathways to an accelerated learning curve for the new joining intermediaries. This allows new intermediaries to improve their service at a faster rate initially.
Movement towards sustainability	Acknowledging the various social and environmental challenges that exist in Indonesia, the emerging intermediaries in the field have shown their support by incorporating the consideration for these issues to the service that they provide to their clients / beneficiaries.
Prolonged value chains	Capital owners outside of Indonesia often have to go through a lengthened supply chain involving various intermediaries to obtain a good level of local information in their pre-investment research. For example: <ul style="list-style-type: none"> Capital owner → Development aid agencies (or other intermediaries) headquarter in their respective countries → Agencies (or intermediaries) branch in Indonesia → Research Institution in Jakarta or other big cities → Various local intermediaries that will support the main research institution in collecting local data.
Over-dependence by capital owners	Capital owners who have worked with certain intermediaries and valued their service tend to retain their service, often without considering the service of other potential intermediaries. This led to overdependence on certain intermediaries which might lead to operation issues, in case those intermediaries do not have enough capacity to accommodate all of the capital owners' requests.
Foreign competition	The growing environment of impact investment in Indonesia has attracted the presence of larger, global intermediaries to build their footprint in Indonesia. While this situation in itself is not necessarily an issue, their dominance in the field might hinder the development of smaller local intermediaries.
Increase cost	The value added-activities provided by the intermediaries come with their own costs, whether in terms of time, manpower, or financial resources. As talents are still quite scarce within the talent pool of the intermediaries, the personnel costs can be driven to unsustainable levels, especially when foreign capital owners are involved. Often dubbed as "aid inflation", foreign capital owners from developed countries sometimes pay for the service of intermediaries and their personnel based on the rate of their own countries which is much higher than the normal Indonesian market rate. This results on a skewed expectation of average market rate for the services that the intermediaries are providing.

⁶³ "Start-up Assistance Organizations in Indonesia: Taxonomy ..." <https://www.spf.org/en/gender/publications/24911.html>. Accessed 27 Jul. 2020.

4.5.4 The rise of support on emerging themes: Gender and climate

During the emergence phase of impact investing in Indonesia (2013-15) the number of intermediaries were lower but the types of entrepreneurs they served were greater. For example, incubator programs were sector agnostic, meaning they were open for any entrepreneurs operating in any sector and focusing on any theme. Over time, capital owners and intermediaries have begun to focus on specific areas of impact, particularly recently around gender issues and climate (See Figure 4.6).

The growth of theme-specific support from intermediaries is both **demand-driven** (indicating a sufficient pool of investible entrepreneurs for capital owners) and **supply-driven** (pushed by capital owners).

Figure 4.6 Summary of support on the emerging themes

Emerging themes	Intermediary category	Theme-specific support	Examples in Indonesia
Gender, mostly focusing on women empowerment	P2P lending and crowdfunding platforms	Financial capital for women-owned and -led SMEs	Amartha Kokowa Gayo BIDUK
	Cooperatives and microfinance institutions		
	Incubators and accelerators	Capacity building for women-owned and -led SMEs	Womenwill Indonesia Simona Ventures by Digitalaya
	Competition and awards	Initiatives for increasing women's participation in tech entrepreneurship	She Loves Tech
	Communities, network	Mentorship from women, for women	WomenWorks, Femme in STEM
Climate (including circular economy, waste management, sustainable farming and forestry)	Incubators and accelerators	Capacity building and incubation program for climate-related SMEs	Ocean Plastic Prevention Accelerator (OPPA) SEED
	Communities, network	Resources centre and training for climate-related SMEs	PUPUK

4.5.5 Involvement of private corporations

Historically, corporations' social responsibility (CSR) activities have mostly involved through grants, donations or other philanthropic activities. Nowadays, sustainability and social responsibility are increasingly recognised as being core to their business and bottom line. As a result, corporate strategies are evolving as part of the "Creating Shared Value" movement⁶⁴, defined as: "corporate policies and practices that enhance the competitive advantage and profitability of the company while simultaneously advancing social and economic conditions".

One way of creating shared value is for corporations to engage with social entrepreneurs. **We identify four types of partnerships between corporations and social enterprises**⁶⁵(see Figure 4.7).

Figure 4.7 Partnerships between corporations and social enterprises

Type of partnership	Support offered to social enterprises and entrepreneurs	Corporate objectives	Examples in Indonesia
Skill sharing	Corporate employees provide pro-bono mentoring, coaching and informal advice	Help develop leadership skills and entrepreneurial mindset in the participating employees, whilst increasing job satisfaction and staff retention	<ul style="list-style-type: none"> ● BCG Give Back ● EY Entrepreneurial Winning Women Indonesia
Incubation, investment and corporate social venturing	Early-stage investment, training, technical expertise, and access to networks to help new enterprises manage their risks and scale up their businesses	<ul style="list-style-type: none"> ● Invest capital to get both social and financial return ● Improving business performance through developing and integrating innovations by the enterprises into the core business of the corporation 	<ul style="list-style-type: none"> ● Gojek partnership with Digitalaya to create startup accelerator program ● Corporate LPs investing in Circulate Capital funds
Supply chain collaboration	Entering a business relationship with social enterprises (as suppliers/buyers/intermediaries) to build sustainable and responsible supply chains and value chains	<ul style="list-style-type: none"> ● Reduce risk and improve sustainability of the supply chain ● Develop distribution networks to access new markets or improve access to current markets 	<ul style="list-style-type: none"> ● Barito Pacific and Michelin joint venture in PT RLU to supply sustainable rubber for tire production ● Vasham supplies corn from local farmers to Japfa in an integrated, end-to-end cycle
Strategic sponsorship	Sponsoring programs of research/innovation, often through intermediary, to support the development of social entrepreneurship	Convert resources into quantifiable social impact through a portfolio of 'lighter' strategic partnerships with social enterprises	<ul style="list-style-type: none"> ● DBS Foundation Social Enterprise Grant ● Astra Digital, a subsidiary of Astra Group, sponsoring Plug & Play

As the number and activities of social enterprises in Indonesia increase and bring new business opportunities and innovations, we expect that corporations will gradually shift from older philanthropic mindsets towards that practice of creating shared value. We will see more advanced types of partnerships with social enterprises such as corporate social venturing and supply chain collaborations. This will not only help develop the social entrepreneurship scene but will also, ultimately, improve the performance and sustainability of main-stream corporations.

⁶⁴ "Creating Shared Value - Institute For Strategy And ..." 11 Dec. 2015, <https://www.isc.hbs.edu/creating-shared-value/Pages/default.aspx>. Accessed 25 Jul. 2020.

⁶⁵ "how corporates can engage with social entrepreneurs." <https://static1.squarespace.com/static/56d2eebbb654f9329ddbq20e/t/58cef9cd17bffc09bcdd777/1489959379700/Corporates+engaging+with+social+ventures+UnLtd.pdf>. Accessed 25 Jul. 2020.

4.5.6 Decentralized support: going outside Jakarta and Java

The ecosystem is starting to decentralize as entrepreneurial support systems develop beyond Jakarta and Java's largest cities. This should strengthen community resilience through developing innovation and local solutions in response to local needs. Notably, this trend of decentralized support is mostly focused on providing intellectual and social capital in order to build the pipeline for investors and prepare local entrepreneurs to tap the capital available. Below are some examples of decentralization:

Figure 4.8 Example of decentralized support

Organization	Activity	Some target areas
Platform Usaha Sosial (PLUS)	Initiating community-led local chapters to provide support to local entrepreneurs	Outside Jakarta
Satu Tamba	Providing digital startup community hub	Eastern Indonesia
Tinkerspace for Social Enterprise	Running accelerator programs for early-stage social entrepreneurs that is funded by the British Council initiative known as Developing Inclusive and Creative Economies (DICE)	Jakarta, Solo, Malang, and Makassar
Tinkerspace	Providing advisory support and acting as a community network for women and social entrepreneurs	Bali
Koperasi Kopi Wanita Gayo (Kokowa Gayo)	Facilitating women coffee farmers	Aceh
ANGIN	Providing capacity building for women entrepreneurs	Lombok and Maluku
Startup Weekend	Conducting series of program as part of a global initiative to develop the digital entrepreneurship ecosystem	11 cities across Indonesia including Lombok, Makassar, Pontianak

The urge to bring entrepreneurial support to these areas is increasing due to the COVID-19 pandemic. For example, the Bank of Indonesia in Maluku and ANGIN are currently collaborating to provide capacity building in digitizing SMEs in Ambon.



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Part 5

Policy and regulation

5.1 Government intervention evolution since 2013

The Indonesian Government has shown signs of initiatives to recognize the potential of social enterprises in building solutions to address some of the country's key social and environmental challenges. This also indicates that the Government is progressively shifting from relying only on charitable or international contributions to create systemic solutions. Below is how the involvement of the Indonesian government has followed the different phases of the ecosystem development.

Figure 4.1 Evolution of government intervention

	Emergence Phase (2013-2015)	Enabling Phase (2016-2018)	Mainstreaming Phase (2019-2020)
Description	<ul style="list-style-type: none"> Government initiating awareness and early dialogue Development of “lobbying” institutions to push the agenda of social entrepreneurship 	<ul style="list-style-type: none"> Increased number of consultations led by Government with private sectors Involvement of INGO and multilaterals to develop policies 	<ul style="list-style-type: none"> Specific topics being discussed (e.g. blended finance, fintech for impact, gender lens investment) Increased number of direct interventions
Key events	<ul style="list-style-type: none"> Launch of OJK regulation on Venture Capital Series of OJK programs on financial inclusion (Laku Pandai, microfinance) 	<ul style="list-style-type: none"> 1000 Digital Startups, Bekraf for Pre-Startup (BEKUP), Nexticorn Annual Islamic Finance Conference Launch of sovereign green bonds Launch of OJK regulation on fintech 	<ul style="list-style-type: none"> Indonesia Development Forum (IDF) SDGs Annual Conference Startup 4 Industry Archipelagic Island States (AIS) Forum
Example of key public leaders	<ul style="list-style-type: none"> OJK 	<ul style="list-style-type: none"> BEKRAF Ministry of Finance Ministry of Communication and Informatics 	<ul style="list-style-type: none"> Ministry of National Development Planning/Bappenas OJK Ministry of Finance Ministry of Cooperatives and SMEs Ministry of Industry Coordinating Ministry for Maritime and Investment Affairs
Example of key supporters	<ul style="list-style-type: none"> ADB USAID 	<ul style="list-style-type: none"> UNDP UNCDF 	<ul style="list-style-type: none"> UNESCAP DFAT AVPN

5.2 Locating policies and recommendations in impact investment market

Formulating national Impact Investment and social entrepreneurship strategy

Type	Supply-side/capital development	Ecosystem	Demand-side/entrepreneur development
Government influence and direct involvement	<ul style="list-style-type: none"> Improving access to early stage and growth capital in impact Optimizing the regulatory environment 	<ul style="list-style-type: none"> Promoting impact investment and social entrepreneurship ecosystem, awareness and networking 	<ul style="list-style-type: none"> Creating social entrepreneurship education, mindset and skills development to develop more impact entrepreneurs Optimizing the regulatory environment

5.3 Key policy leaders

Leader	Supply-side/capital development	Ecosystem	Demand-side/entrepreneur development
OJK	<ul style="list-style-type: none"> Development of the PMV (PT Modal Ventura) license for fund managers to set up local fund structure Supporting the plan to issue “social finance investment funds” and “social impact bonds”⁶⁶ 	<ul style="list-style-type: none"> Set up National Strategy of Financial Inclusion (SNKI) which has a target to include 75% Indonesian adult population to financial services from formal institutions. This strategic initiative will include all stakeholders including public and private sectors 	<ul style="list-style-type: none"> Laku Pandai Program: (Branchless banking under financial inclusion framework) - 275k registered agents and 3.8 million customers Jaring Program: Initiatives to support the maritime industry
The Ministry of National Development Planning (BAPPENAS)	<ul style="list-style-type: none"> Pioneering capital deployment from private sectors, while ensuring adequate return, to SDG financing through various measures. Bappenas plan to attract up to 38% private participation during 2020-2024⁶⁸ 	<ul style="list-style-type: none"> Create an SDG financing hub to coordinate and match SDG related financing projects outside of the national budget. (i.e. Philanthropy, Zakat, CSR)⁶⁹ 	<ul style="list-style-type: none"> In Indonesia Development Forum 2019, an international conference by Bappenas, social enterprise was one of the topics discussed and passed to policy makers⁷⁰ Bappenas also included a strategy for social enterprise development in their medium term development plan in 2015⁷¹
The Ministry of Co-operatives and Small and Medium Enterprises	<ul style="list-style-type: none"> New investment regulations (through partnership schemes) for MSME are regulated under the soon to be ratified Omnibus Law 	<ul style="list-style-type: none"> Waiver of USD 170 notarial deed fees for 1,000 micro co-operatives in 2017⁷² 	<ul style="list-style-type: none"> Capacity building for 8,790 entrepreneurs (including techno and social entrepreneurs) in 2019⁷³
Ministry of Telecommunication	N/A	<ul style="list-style-type: none"> Nexticorn initiatives: Platform to streamline and promote Indonesia's most investable startup to investors 	<ul style="list-style-type: none"> 1000 digital startup initiatives: to promote digital adaptation and innovation for local enterprises
The Coordinating Ministry of Economic Affairs	<ul style="list-style-type: none"> Issued Green Bond and Sukuk (Islamic Bond) amounting to USD 1.25 Billion to support Indonesia emission reduction goal to select eligible green projects 	N/A	N/A
BKPM	<ul style="list-style-type: none"> Targeting Indonesia to achieve top 50 countries in Ease of Doing Business. As per 2020, Indonesia sits on level 73 from 190 countries to attract foreign capital 	N/A	N/A
BEKRAF	N/A	N/A	<ul style="list-style-type: none"> Partner with UNDP to create Youth: Co-Lab Indonesia, a platform for innovation and training for youth-led social entrepreneurship and startups⁷⁴
The Ministry of Trade	N/A	N/A	<ul style="list-style-type: none"> In 2013, cooperation with Bina Swadaya to award social entrepreneurs to promote them to the general public⁷⁵

⁶⁶ <https://www.ojk.go.id/id/berita-dan-kegiatan/siaran-pers/Pages/OJK-Dorong-Pembiayaan-Program-Social-Finance.aspx>

⁶⁷ <https://www.ojk.go.id/en/berita-dan-kegiatan/siaran-pers/Documents/Pages/Press-Release-OJK-Supports-Financial-Inclusion-Activities-to-Implement-Financial-Inclusion-National-Strategy/sp-ojk-support-financial-inclusion.pdf>

⁶⁸ <https://investor.id/business/bappenas-siapkan-3-skenario-atasi-kekurangan-pembiayaan-sdgs>

⁶⁹ <https://www.medcom.id/ekonomi/mikro/nN9wYM9k-bappenas-bentuk-sdgs-financing-hub>

⁷⁰ <https://www.bappenas.go.id/id/berita-dan-siaran-pers/idf-2019-modernisasi-umkm-atasi-permasalahan-masyarakat-bantu-perekonomian-nasional/>

⁷¹ https://www.britishcouncil.org/sites/default/files/the_state_of_social_enterprise_in_indonesia_british_council_web_final_0.pdf

⁷² <https://kabarbisnis.com/read/2873550/kemenkop-ukm-fasilitasi-pengesahan-1-000-akta-koperasi-mikro-secara-gratis>

⁷³ <https://www.wartaekonomi.co.id/read214081/alokasikan-rp200-miliar-untuk-kewirausahaan-ini-program-kemenkop-dan-ukm>

⁷⁴ <https://www.id.undp.org/content/indonesia/en/home/presscenter/pressreleases/2018/9/undp-indonesia-and-bekraf-join-forces-to-boost-youth-participati.html>

⁷⁵ <http://www.kusalswadaya.org/index.php/tentang-kusala-swadaya>

Policies specific to the certain areas of impact

Focus	Supply-side/capital development	Ecosystem	Demand-side/entrepreneur development
SME development	<ul style="list-style-type: none"> New, simpler regulation to invest in SME will be ratified under the new omnibus law OJK licensed for P2P lending company has increased the amount of SME financing by institutional and retail investor 	N/A	<ul style="list-style-type: none"> Supportive and relaxed regulation for SME (lower tax rate and easier registration process) One gate policy by ministry of cooperatives and SME (previously it was under 18 different ministries)⁷⁶
Supply chain	<ul style="list-style-type: none"> Increasing foreign maximum ownership in the logistic sector from 67% to 100%, leading to 11% increased in investment⁷⁷ Government's Goods/Services Procurement Policy Agency (LKPP) updated the new government procurement to consider sustainability aspects including economic, social, and environmental aspects⁷⁸ 	N/A	N/A
Circular economy	<ul style="list-style-type: none"> POJK 51/2017 for implementation of sustainable financing for financial institutions and publicly listed companies 	N/A	<ul style="list-style-type: none"> Government is implementing green public procurement to increase supply of sustainable products
Agricultural	<ul style="list-style-type: none"> BKPM will deregulate 141 law which deter investment in agribusiness sector⁷⁹ 	<ul style="list-style-type: none"> The ministry of agriculture set up an "Agriculture War Room" for both entrepreneurs and investors to make a better agricultural related decision 	<ul style="list-style-type: none"> President mission towards sustainable agriculture with food security and farmer welfare as the end goal
Forestry	<ul style="list-style-type: none"> USD 125 billion of green bond issued by the ministry of finance 	<ul style="list-style-type: none"> The ministry of environmental and forestry are looking to increase investment and productivity in forestry in 2020-2024⁸⁰ through various measures 	<ul style="list-style-type: none"> The ministry of environmental and forestry are introducing four new forestry categorization schemes which incorporate local citizen and small holders entrepreneurs for greater benefit <p>There are 12.7 million hectares of "social forest". The ministry of cooperatives and SME have utilized 4 million hectares to give economic benefit to the general public</p>

⁷⁶ <https://investor.id/business/pemerintah-buat-kebijakan-satu-pintu-untuk-umkm>

⁷⁷ <https://ekonomi.bisnis.com/read/20190814/98/1136486/semester-i2019-investasi-logistik-jadi-primadona>

⁷⁸ <https://indonesiadevelopmentforum.com/2020/article/15377-selected-speaker-for-idf-2019-febe-amelia-proposes-social-procurement-to-enhance-the-impact-of-social-enterprises>

⁷⁹ <https://www.bkpm.go.id/id/publikasi/detail/berita/regulasi-agribisnis-141-aturan-akan-dideregulasi>

⁸⁰ <https://ekonomi.bisnis.com/read/20200106/99/1187280/kinerja-sektor-kehutanan-bakal-dipacu-dalam-4-tahun-ke-depan>

5.4 Recommendation

While the report is not meant to focus on the policy side, we believe our interviews and the data that we collected support the development of several recommendations for policy leaders in Indonesia. Below are some of our recommendations for action. Note that some of these recommendations have already been implemented over the last two years (highlighted in green).

A) Formulating national Impact Investment and social entrepreneurship strategy

Objectives	Recommendations
Identify Indonesia specific challenges	<ul style="list-style-type: none"> Map the current status of social entrepreneurship and impact investment in Indonesia Identify Indonesia-specific entrepreneurship opportunities and challenges
Specify goals and set priorities	<ul style="list-style-type: none"> Define strategies to achieve specific goals and reach specific target groups Develop and prioritize actions
Ensure coherence of entrepreneurship strategy with other national policies	<ul style="list-style-type: none"> Align social entrepreneurship strategies with overall development strategy and other private sector development strategies Manage interaction and create policy synergies
Strengthen the institutional framework	<ul style="list-style-type: none"> Designate a (or several) leading institution Set up an effective inter-agency coordination mechanism and clarify mandates Engage with the private sector and other stakeholders
Measure results, ensure policy learning	<ul style="list-style-type: none"> Define clear performance indicators and monitor impact Set up independent monitoring and evaluation routines Incorporate feedback from lessons learnt

B) Promoting social entrepreneurship ecosystem awareness and networking

Objectives	Recommendations
Identify Indonesia specific challenges	<ul style="list-style-type: none"> Map the current status of social entrepreneurship and impact investment in Indonesia Identify Indonesia-specific entrepreneurship opportunities and challenges
Specify goals and set priorities	<ul style="list-style-type: none"> Define strategies to achieve specific goals and reach specific target groups Develop and prioritize actions
Ensure coherence of entrepreneurship strategy with other national policies	<ul style="list-style-type: none"> Align social entrepreneurship strategies with overall development strategy and other private sector development strategies Manage interaction and create policy synergies
Strengthen the institutional framework	<ul style="list-style-type: none"> Designate a (or several) leading institution Set up an effective inter-agency coordination mechanism and clarify mandates Engage with the private sector and other stakeholders
Measure results, ensure policy learning	<ul style="list-style-type: none"> Define clear performance indicators and monitor impact Set up independent monitoring and evaluation routines Incorporate feedback from lessons learnt

C) Improving access to early stage and growth capital

Objectives	Recommendations
Create innovate pools of funding for social innovation (building the supply)	<ul style="list-style-type: none"> Develop an angel network or national early stage impact investment fund Seed/invest (fund of fund) in existing investment vehicles catered to impact investment
Improve access to relevant financial services on appropriate terms	<ul style="list-style-type: none"> Develop public credit guarantee schemes Facilitate the use of new schemes as collateral (e.g. IP, called movable assets) Facilitate collateral-free loan screening mechanisms Encourage performance-based loans and incentives for innovation
Promote funding for social innovation	<ul style="list-style-type: none"> Provide incentives to attract, financial technologies (fintech), impact investors, venture capital investors and angels investors
Build the capacity of the financial sector to serve social entrepreneurs	<ul style="list-style-type: none"> Establish a national impact investment association (similar to the Association of fintech organizations) Promote public-private sector "access to impact investment partnerships" for specific groups Provide capacity-building grants and technical assistance to expand impact investment activities (especially of local fund managers) or lending to social entrepreneurs
Provide financial literacy training to entrepreneurs and encourage responsible borrowing and lending	<ul style="list-style-type: none"> Set up financial and accounting literacy trainings Undertake appropriate supervision of financial products offered to social entrepreneurs (especially the earlier stage ones)

D) Optimizing the regulatory environment

Objectives	Recommendations
Examine regulatory requirements for social entrepreneurs and impact investors	<ul style="list-style-type: none"> Benchmark time and cost of starting a business Benchmark sector- and region-specific regulations Set up public-private dialogue on regulatory costs and benefits
Minimize regulatory hurdles for social entrepreneurs where appropriate	<ul style="list-style-type: none"> Reduce regulatory requirements (e.g. licenses, procedures, administrative fees) Introduce transparent information and fast-track mechanisms and one-stop-shops to bundle procedures Enhance technology based procedures for business registration and reporting
Build social entrepreneurs' confidence in the regulatory environment	<ul style="list-style-type: none"> Ensure good governance Make contract enforcement easier and faster Establish alternative conflict resolution mechanisms Guarantee IP protection Reduce the bankruptcy stigma and facilitate re-starts
Guide entrepreneurs through the business administrative process and enhance the benefits of formalization	<ul style="list-style-type: none"> Carry out information campaigns on regulatory requirements Make explicit the link between regulatory requirements and public services, including business support services Assist social entrepreneurs in meeting regulatory requirements

E) Creating social entrepreneurship education, mindset and skills development

Objectives	Recommendations
Embed entrepreneurship in formal and informal education	<ul style="list-style-type: none"> ● Mainstream the development of social entrepreneurship awareness and entrepreneurial behaviours starting from primary school level (e.g., risk taking, teamwork behaviours, etc.) ● Promote social entrepreneurship through electives, extra curricular activities, career awareness seminars and visits to businesses at secondary school level ● Support entrepreneurship courses, programmes and chairs at higher education institutions and universities (example of certain school in Asia such as NUS or INSEAD) ● Promote vocational training and apprenticeship programmes ● Promote and link up with entrepreneurship training centres
Develop effective entrepreneurship curricula	<ul style="list-style-type: none"> ● Prepare social entrepreneurial skills education material ● Encourage tailored local material, case studies and role models ● Push interactive and on-line tools ● Promote experiential and learning-by-doing methodologies
Train teachers	<ul style="list-style-type: none"> ● Ensure teachers engage with the private sector and with social entrepreneurs and support initiatives that bring social entrepreneurs to educational institutions ● Encourage social entrepreneurship training for teachers ● Promote social entrepreneurship educators' networks
Partner with the private sector	<ul style="list-style-type: none"> ● Encourage private sector sponsorship for social entrepreneurship training and skill development ● Link up business with entrepreneurship education networks ● Develop mentoring programmes for social entrepreneurs ● Build networks in knowledge intensive sectors with leading experts and academics around the world



2020
Investing in Impact in
Indonesia



Part 6

Zooming in on COVID-19 impacts

6.1 Introduction

Due to the COVID-19 pandemic, Indonesian GDP growth for Q2 2020 contracted by 3.8% and may shrink by a further 1% in Q3⁸¹. According to INDEF, the pandemic may lead to a loss of value in investment in Indonesia as large as IDR 127 trillion (USD 9 billion).⁸² Aviation, travel/tourism, and retail are amongst the sectors hit hardest by the pandemic.⁸³

According to a YouthColab Survey in Indonesia, **79% of youth social entrepreneurs believe that the pandemic has negatively impacted their business**, with 45% of respondents attributing this to less demand or restrictions on conducting transactions due to social distancing.⁸⁴

We started the report before the large impact of COVID-19 affected the global economy. Indonesia was one of the latest countries in Southeast Asia to be constrained by large social restrictions. While not being at the heart of the analysis (the impact of Covid-19 deserves a dedicated analysis by itself), we believe that some highlights on the impact of the pandemic on both entrepreneurs and investors would trigger an element of information for our audience.

6.2 The impact of COVID-19 on demand-side of impact investment

Social entrepreneurs, similar to mainstream enterprises, have experienced significant challenges to maintain stability in their value chains. As a result, many have responded by pivoting their business channel, making cuts in human resources, or changing their long term strategy due to lack of financing.

Figure 6.1 Example of impact of Covid-19 in value chain of social enterprise

Category	Examples	Response
Sales and Distribution	A food retail operator experienced 90% sales decrease due to limitation in operating physical restaurant	The company started to pivot to online sales and de-prioritize its physical restaurant business line.
Human Resource and Workforce	A sustainable seafood product producer had to stop the operation of one of its integrated fisheries facilities due to outbreak of COVID-19 in the site	The site is currently not being operated by still maintained to enable efficient start at re-opening.
Working Capital & Short-term Financing	Another sustainable seafood product exporter is having difficulty in fulfilling its short-term working capital needs due to the lack immediate of financial resources that are usually covered by ongoing sales	The company is delaying or cutting the salary or bonus payment to its workers.
Capex and Long-term Financing	A social enterprise had the signing of their term sheet for a Series A investment cancelled last minute due to the change of mindset of their potential investors	The company has to reshape their financing and capex strategy due to inability to finance the purchase of new equipment. This unfortunately also results in their production capacity being limited.

⁸¹ "Indonesia's economy could enter recession in Q3: Sri Mulyani" 10 Jul. 2020, <https://www.thejakartapost.com/news/2020/07/10/indonesias-economy-could-enter-recession-in-q3-sri-mulyani.html>. Accessed 28 Jul. 2020.

⁸² "The Covid-19 Impacts on Investment in Indonesia - BKPM" <https://www.investindonesia.go.id/en/article-investment/detail/the-covid-19-impacts-on-investment-in-indonesia>. Accessed 27 July 2020.

⁸³ "COVID-19 impacts across Indonesia's business sectors: A recap." <https://www.thejakartapost.com/news/2020/03/30/covid-19-impacts-across-indonesias-business-sectors-a-recap.html>. Accessed 28 Jul. 2020.

⁸⁴ "Impact of COVID-19 on Youth Entrepreneurs | UNDP in" 7 Jul. 2020, <https://www.id.undp.org/content/indonesia/en/home/library/Impact-of-COVID-19-on-Youth-Entrepreneurs.html>. Accessed 29 Jul. 2020.

We observed that **whether or not the business is related to human ‘primary needs’ (food, health, education etc.)** serves as an important factor in its ability to succeed in the era of ‘new normal’ society.

While, it is true that being tech-enabled or online-based will give a company an advantage compared to competitors in the same industry, if it does not operate in ‘primary needs’ related business, it will likely still experience negative impact from the pandemic. This is mainly due to the fact that **many end-consumers are experiencing decline in their incomes and have less-than-optimistic expectations about their future financial prospects** and will reduce their consumption of ‘non-primary goods’ in the short term.

However, the impact of technology should not be dismissed. We have seen many businesses that were **previously less tech-enabled moving to implement more technology and online-based transactions in their business model** in order to survive this pandemic. We believe that the shift for businesses to become more tech-enabled will have a long lasting effect.



Additionally, the impact of COVID-19 on social entrepreneurs is presented according to our four main investment opportunity areas we identify in Indonesia (see Part 3), specifically: agriculture supply chain efficiency, waste and circular economy, gender lens investing and MSMEs development.

6.2.1 Agriculture supply chain efficiency

Agriculture, the second largest contributor to Indonesia’s economy, has proven to be the country’s supporting pillar during the pandemic crises. In the second quarter of 2020, the sector managed to grow 2.19 % when compared to the same quarter last year⁸⁵. This is mainly due to the fact that the Government has made access to food a priority during the crisis and permitted agricultural logistics to be exempted from large-scale social restrictions. Therefore, despite some price volatility⁸⁶, food supply has generally been stable and so far shortages have been avoided.

Indonesian SMEs and other businesses in this impact area have been affected in the following ways:

- **Indonesian agrifood e-commerce platforms** such as Sayurbox and AgRetail.id have actually reported an improvement in sales⁸⁷ - largely as a consequence of social restrictions that have prevented consumers from shopping in supermarkets or crowded markets. Furthermore, AgRetail, which is a part of Inacom (the country’s biggest platform end-to-end agro commodities), has announced business expansion outside of Jakarta to several cities in Indonesia⁸⁸.
- **Processing and production facilities of agriculture products** are allowed to operate but must follow stricter hygiene requirements. In addition, social distancing is likely to reduce the level of workforce and capacity utilisation, as well as hindering their supply chain process in the long run.

⁸⁵ "Agriculture resilient to pandemic's impact - The Jakarta Post." <https://www.thejakartapost.com/news/2020/08/08/agriculture-resilient-to-pandemics-impact.html>. Accessed 11 Aug. 2020.

⁸⁶ "Mitigating Food Supply Chain Disruptions Amid Covid-19." 13 May. 2020, <https://www.cips-indonesia.org/post/policy-brief-mitigating-food-supply-chain-disruptions-amid-covid-19>. Accessed 11 Aug. 2020.

⁸⁷ "5 Southeast Asia's Business Sectors Thriving in the COVID-19" <https://greenhouse.co/blog/5-southeast-asias-business-sectors-thriving-in-the-covid19-pandemic/>. Accessed 11 Aug. 2020.

⁸⁸ "Menjadi Bagian dari Pejuang Pangan Ditengah Badai Pandemi." 28 Apr. 2020, <https://inacom.id/news/view/2020-04-28-menjadi-bagian-dari-pejuang-pangan-ditengah-badai-pandemi>. Accessed 11 Aug. 2020.

6.2.2 Waste and circular economy

Despite the increase in household waste and medical waste due to the pandemic⁸⁹, waste facilities and waste banks in Indonesia are experiencing decreased demand for recyclable materials from factories producing consumer products. This is partly due to the slump in oil price, which also lowered the cost of virgin plastics (a direct competitor of recycled plastics). The crisis has hit the plastic recycling industry hard, with production capacity utilization reaching no more than 30-40%⁹⁰ - leading to some 63,000 formal workers being furloughed and reducing income of over 3.7 million waste pickers⁹¹.

As supply chains of many industries are disrupted, the notion of circular economy has become much more important and has featured prominently in conversations around “Building Back Better”⁹². Circular economy is a means to increase individual and community resilience. The crisis presents opportunities for impact investors and entrepreneurs to reshape current systems to become more environmentally conscious and responsible than before.

Indonesian SMEs and other businesses in this impact area have been affected in the following ways:

- **Online-based waste consolidators and recyclers are seeing an upsurge of users** as people look for ways to increase their income amidst the declining economy. For example, MallSampah⁹³ has reported a large increase in user numbers and Mountrash⁹⁴, a similar company, has introduced the option to exchange the collected waste for internet data to help users cope with the social distancing policy.
- **Non-tech enabled businesses such as recycling facilities are suspending a large part of their operations** due to decreased demand. Increase in medical waste has also exposed workers to additional risk and created heightened the demand for improving hygiene in their operations.

6.2.3 Gender lens investment

In Indonesia, women have been particularly vulnerable to the negative impacts of this pandemic. In many respects, the COVID-19 pandemic is amplifying pre-existing gender differences⁹⁵. For example:

- Indonesia is already far behind its neighbours on women’s participation in the labour force. Due to COVID-19, women are experiencing a significantly increased burden on their time given multiple responsibilities - particularly in light of continued school closures - and this could likely lead to reductions in working time and even permanent exit from the labour market.
- Women tend to be over-represented in the occupations and industries that have been hardest hit in Indonesia (retail, textiles, leisure, tourism)⁹⁶.
- A larger share of women are family caregivers and domestic workers, or work in the health sector and in client-facing roles which increases their levels of exposure to the virus.
- The redirection of government resources in the pandemic response is likely to shift funding away from reproductive and sexual health services.

⁸⁹ "The amount of household plastic waste and medical waste" 8 Jun. 2020, <https://www.idnfinancials.com/news/34596/household-plastic-waste-medical-waste-increase-covid-pandemic>. Accessed 11 Aug. 2020.

⁹⁰ "Industri daur ulang plastik rumahkan 63.000 pekerja akibat" 5 May. 2020, <https://www.antaranews.com/berita/1467057/industri-daur-ulang-plastik-rumahan-63000-pekerja-akibat-covid-19>. Accessed 11 Aug. 2020.

⁹¹ "Plastic in the time of a pandemic: protector or polluter? | World" 6 May. 2020, <https://www.weforum.org/agenda/2020/05/plastic-pollution-waste-pandemic-covid19-coronavirus-recycling-sustainability/>. Accessed 11 Aug. 2020.

⁹² <https://www.weforum.org/agenda/2020/06/opportunities-circular-economy-post-covid-19/>

⁹³ "Pandemi Covid-19, Transaksi Daur Ulang Lewat MallSampah" 22 Apr. 2020, <https://makassar.tribunnews.com/2020/04/22/pandemi-covid-19-transaksi-daur-ulang-lewat-mallsampah-naik-signifikan>. Accessed 11 Aug. 2020.

⁹⁴ "Daur Ulang Sampah, Meraup Penghasilan di Masa Pandemi" <https://ekonomi.bisnis.com/read/20200511/257/1238656/daur-ulang-sampah-meraup-penghasilan-di-masa-pandemi-covid-19>. Accessed 11 Aug. 2020.

⁹⁵ "Gender Dimensions of the COVID-19 pandemic" World Bank (2020) <http://documents1.worldbank.org/curated/en/618731587147227244/pdf/Gender-Dimensions-of-the-COVID-19-Pandemic.pdf>

⁹⁶ "Advocates call for targeted govt support to allay COVID-19" 21 Jul. 2020, <https://www.thejakartapost.com/news/2020/07/21/advocates-call-for-targeted-govt-support-to-allay-covid-19-impacts-on-women-owned-smes.html>. Accessed 11 Aug. 2020.

Women are often running small-scale businesses that have lower capacity to absorb the pandemic's negative impact on supply chains and consumer demand. 86% of over 200 women-entrepreneurs surveyed by UN Women said that they are negatively affected by the pandemic while 34% of the respondents believe they might have to close their operation entirely⁹⁷.

Some entrepreneurs, therefore, have to change their business strategy in order to survive the crisis. For example, DuAnyam⁹⁸, which works with female artisans to produce handicrafts - experienced a decrease in wholesale transactions due to the cancellation of company events and hotel closures. Management decided to move sales online and focus on selling to individual consumers by developing cloth masks to respond to growing safety needs.

6.2.4 MSMEs development and digitalization

Approximately **79% of Indonesian MSMEs reported that sales have decreased by a median of 50%**. At the same time, around 45% of enterprises that are importing and selling essential products reported an increase in supply price due to disrupted supply chains.

The significant drop in sales and rise in prices is compounded by the fact that many MSMEs have little to no cash reserves to survive prolonged crises due to the small size of their business and day-to-day nature of the transactions. This liquidity problem pushes entrepreneurs to sell their company's assets, seek loans, or use their personal savings to cover business expenses. The Government of Indonesia has taken a more active role in ensuring the survival of SMEs by lowering interest rates and relaxing rules to encourage restructuring of institutional loans to SMEs.¹⁰⁰

Indonesian businesses are adapting to ensure the survival of their customer-base and the sustainability of their business in the long term.

- **For peer-to-peer (P2P) lenders, MSMEs have experienced difficulties in repaying loans due to deteriorating financial conditions of their businesses.** Modalku¹⁰¹, a crowdfunding platform for SME financing, has implemented a more comprehensive screening process that might limit further lending to businesses in the food & beverage, travel, service in certain industries, but it is also boosting lending in other sectors such as e-commerce. Some companies, such as Amarnya, JULO, Koinworks have said they will relax repayment policies where possible or offer restructuring plans for struggling borrowers.
- **Many MSMEs are experiencing a decline in sales, and are therefore likely to reduce the use of business service or products provided by social entrepreneurship supporting them.** However, some social enterprises have risen to the occasion to further support their MSMEs customers. For example, in order to help small-time shrimp farmers survive the decline in export market, JALA¹⁰² is activating a trading feature on their smart farming app to help smallholder farmers sell to local markets, retailers and online and the company has bought shrimps at a slightly higher price than the cold storage current price.
- **In order to combat the decline in sales due to physical distancing policies, accelerated digitalization has been observed among the SMEs.** A report by Sea Insight¹⁰³ mentioned that 50% of the SMEs surveyed are increasingly utilising digital tools, such as social media, in their business operations, while 70% of entrepreneurs surveyed said that they will permanently increase their usage of these tools. Additionally, 1 in 5 entrepreneurs surveyed who are selling more actively through online channels are first time adopters.

⁹⁷ "Asia-Pacific Needs Assessment for More Gender-Inclusive" <https://asiapacific.unwomen.org/en/digital-library/publications/2020/06/asia-pacific-needs-assessment-for-more-gender-inclusive-entrepreneurship>. Accessed 11 Aug. 2020.

⁹⁸ "Melia Winata." <https://mdhs.unimelb.edu.au/engage/alumni/covid-19/alumni-on-the-frontline/melia-winata>. Accessed 11 Aug. 2020.

⁹⁹ "Impact of the COVID-19 pandemic on MSMEs - Microsave." <https://www.microsave.net/wp-content/uploads/2020/06/Impact-of-the-COVID-19-pandemic-on-MSMEs.pdf>. Accessed 28 Jul. 2020.

¹⁰⁰ "COVID-19 policy responses for those small enough to fail." <https://www.youthcolab.org/small-enough-to-fail-covid19>. Accessed 12 Aug. 2020.

¹⁰¹ "Modalku be Aware of the Increasing of Bad Credit due to" <https://www.mime.asia/modalku-be-aware-of-the-increasing-of-bad-credit-due-to-covid-19-impact/>. Accessed 11 Aug. 2020.

¹⁰² "Indonesian start-up adapts app to support shrimp farmers" <https://www.idhsustainabletrade.com/news/indonesian-start-up-adapts-app-to-support-shrimp-farmers-during-covid19/>. Accessed 11 Aug. 2020.

¹⁰³ "Reimagining SME Recovery in Indonesia I by Nathan" 5 Jul. 2020, <https://medium.com/seainsights/reimagining-sme-recovery-in-indonesia-f316cc770771>. Accessed 3 Sep. 2020.

6.3. The impact of COVID-19 on supply-side of impact investment

To better capture how COVID-19 has impacted the investors, we have taken a 2-steps approach to analyse the impact of covid on supply-side stakeholders as below

Step	Action
1: Impact Mapping	Assessing changes in the investment opportunities landscape
2: Adjustment Mapping	Understanding adjustment according to the three reactions framework (change in mission/strategy, change in “modus operandi” and change in value proposition)

Step 1: Impact Mapping

Change areas	Impact for impact investors
Impact opportunity	<ul style="list-style-type: none"> ● Redefinition of impact priorities: The Government is redefining some priorities for impact (SME development). ● Emergence of new impact areas: Marginalised populations that were not the priority of impact investors have been deeply impacted (e.g. employees of F&B companies, manufacture staff).
Market opportunity	<ul style="list-style-type: none"> ● New large market opportunities created: As an example, new healthcare and sanitation-related business models may unlock new opportunities during this crisis. For example, Halodoc¹⁰⁴, an online medical platform, is offering a service for COVID-19 rapid test on its platform. Seekmi, a new online platform for blue-collar jobs, says their new disinfection service is in high demand¹⁰⁵. ● Drive of tech-enabled businesses (e.g. online education platforms, online sustainable grocery platforms) increase their customer base and create a long-lasting impact during the social distancing period. Ruangguru¹⁰⁶, an online education platform, offers free services to students and employees in self-quarantine, increasing their potential customer base at the same time as creating positive social impact.
Capacity pipeline and funding availability	<ul style="list-style-type: none"> ● Valuation deflation: Valuations are typically cheaper in this crisis, investing in and supporting these companies will increase their likelihood of survival and bounce-back post-crisis, and may also provide greater financial return for investors. ● Decrease of funding is impacting the fundraising strategies of social entrepreneurs and it slows down the growth of several less priority markets. ● Increase filtering of quality entrepreneurs: COVID-19 has been a crash test to test the resilience and ability to adapt to “new normal”. ● Slowdown to raise new funds from private sectors: Securing funds from the capital owner (i.e. LP limited partners) has become more difficult due to cautiousness of the worsening global economy. ● New funding for COVID-19: some capital owners have relaxed their requirements if the funds are specifically mandated for COVID-19 relief support.

Step 2: Change/adjustment mapping

Impact Investors reaction to the pandemic can be classified into three distinct categories:

- i) **Change in mission strategy:** Adapting their existing fundamental strategy (e.g. changing their investment thesis to incorporate COVID-19, setting up new instruments or setting up a new funds)
- ii) **Change in modus operandi:** Shifting the way they conduct their operation (e.g. online due diligence, shortening investment decision process or investment committee meeting)
- iii) **Change in value proposition:** Providing immediate value-added activities for their portfolios (e.g. portfolio support, hiring full-time employees for the investees or providing follow on or bridge funding)

¹⁰⁴ "Panduan COVID-19 - Halodoc." 6 Apr. 2020, <https://www.halodoc.com/artikel/panduan-covid-19>. Accessed 12 Aug. 2020.

¹⁰⁵ "Tokopedia, Lazada offer disinfection services via Seekmi tie-up." 20 May. 2020, <https://www.techinasia.com/tokopedia-lazada-seekmi>. Accessed 26 Aug. 2020.

¹⁰⁶ "COVID-19: Tech startups offer free services to students ..." 18 Mar. 2020, <https://www.thejakartapost.com/life/2020/03/18/covid-19-tech-startups-offer-free-services-to-students-employees-in-self-quarantine.html>. Accessed 12 Aug. 2020.

Based on our in-depth interviews with 20 fund managers (14 of which are impact investors, 6 of which are MIE), we found out that providing additional support for portfolio companies is the most common response taken by fund managers. Further details of response of the funds that mentioned specific activity in tackling the crises are presented below accompanied by examples.

Figure 6.2 COVID-19 specific responsive actions by selected impact investors and mainstream investors with impact exposures

COVID-19 Response		# of respondents	Examples of actions by respondents
Change in Mission Strategy	Updating Investment Thesis	4	Updating the strategy to incorporate more digital payment and agritech financial solutions in their focus
	New Instrument push	2	Looking at opportunities to push debt products. Previously, this investor only deployed their investment through equity or mezzanine debt instruments.
	New Fund	2	Raising a new COVID-19 resilient fund, which will provide loans for affected social enterprises.
Change in Modus Operandi	Online Due Diligence	6	Implementing a full online due diligence process
	Shorten Investment Process	3	Shortening investment process to make the most of current commercial opportunities. Company valuations are generally cheaper compared to pre-pandemic level, so it is a good timing to invest in viable companies who are scaling (Series B, early growth) at an attractive valuation
Change in Value Proposition	Portfolio Support	15	Developing PSP (portfolio support program) which includes support in hiring and emergency relief for portfolio companies in Indonesia and Vietnam.
	Follow on / Bridge funding	6	Providing additional financial assistance for portfolio companies that are affected by COVID-19.

6.4 Recommendations

In relation to combating the negative impact of the COVID-19 pandemic, we recommend industry stakeholders consider the actions below.

Supply focus

- Beyond the capital itself, the ability to quickly deploy is also crucial during this time of crisis. Therefore, it is recommended to help fund managers improve their internal processes so that they may effectively find new investment opportunities and improve the speed of their capital disbursement.

Example: R3 Coalition by GIIN, which mobilizes virtual meetings to connect relevant impact investors with investment opportunities.

- While impact investors have been quite active in providing immediate support to portfolio companies, the same rigor has not been seen from mainstream investors with an impact portfolio. In order to further stimulate further activities from mainstream investors, as LPs, private capital owners can provide capital injection for mainstream investors with initiatives to combat COVID-19.

Entrepreneur (Demand) focus

- Impact capital is now even more required to fill the financing gap especially since mainstream investors tend to take a “wait and see” approach. Therefore, participating in providing emergency financing programs for distressed social enterprises is critical.

Example: An initiatives by 50 leading global organizations, “COVID Response Alliance for Social Entrepreneurs” to provide knowledge, experience and resources to affected Social Enterprises

- Tech-enabled social enterprises tend to get more spotlight during this pandemic and therefore more support from investors and other intermediaries. It is important therefore to support other social enterprises that do not get much attention from the impact investing ecosystem.
- As mentioned above, the use of technology and online tools may help businesses survive situations where social distancing is heavily required. Therefore, helping less tech-enabled businesses explore their options in utilising technology is also recommended.
- There is a **lack of mental health support** provided to entrepreneurs and their employees despite the widely reported stress amongst society as a whole brought about by the pandemic¹⁰⁷. The decline in business performance and prolonged lockdown can result in mental burnout of entrepreneurs and their employees, further affecting the long-term performance and viability of social enterprises. As such, investors and capital owners need to pay close attention to the mental health situation of the entrepreneurs and their team.

¹⁰⁷ "COVID lockdown is world's biggest psychological experiment" 9 Apr. 2020, <https://www.weforum.org/agenda/2020/04/this-is-the-psychological-side-of-the-covid-19-pandemic-that-were-ignoring/>. Accessed 12 Aug. 2020.



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Part 7

Conclusion

Conclusion

In the middle of the report development, Indonesia got affected by the Covid-19 pandemic. As many social entrepreneurs, ANGIN operations and our own entrepreneur portfolio have been under unprecedented pressure to adjust to economic disruptions, mobility reduction and social restrictions. The role of social entrepreneurs has been more than ever critical in supporting the most vulnerable Indonesian economic actors and population.

Whatever recent challenging context we are facing, our team closed this report with a note of hope and excitement that strong progresses are in process in our ecosystem. It is encouraging to see new players joining everyday, new success stories being drawn and new learnings being exchanged.

If we were to focus on our last three pieces of advice to existing, new and upcoming capital owners or intermediaries on their impact endeavor in Indonesia:

- **Go entrepreneur first:** Center your approach on entrepreneurs. Their success is the condition to any investors, intermediaries or capital owners.
- **Go beyond stories:** Enquire deeper into the real gaps, underserved impact and market opportunities to create long lasting changes.
- **Go local:** Leverage local intermediaries who live in the country, face challenges and understand the little details that make a difference in implementing support systems to entrepreneurs.



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Appendix

Impact areas

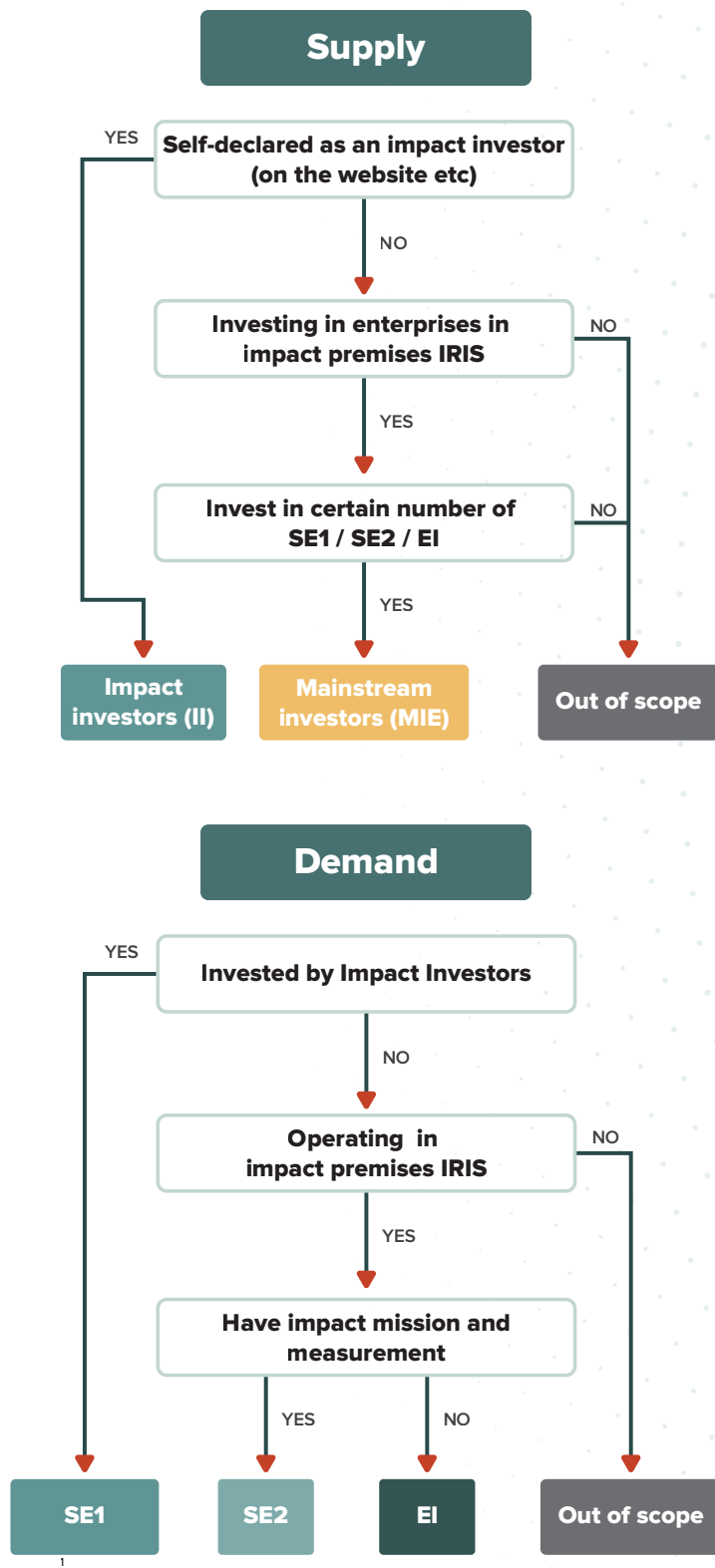
IRIS Thematic Taxonomy - adaption			
Category	Impact Focus	Impact Theme	Impact Premise
Food & Agribusiness	Social	Smallholder agriculture	Social: Smallholder agriculture
	Environmental	Sustainable agriculture	Environmental: Sustainable agriculture
Fishery	Social	Smallholder farming	Social: Smallholder agriculture
	Environmental	Sustainable fishery	Environmental: Sustainable fishery
Forestry & Land	Social	Smallholder farming	Social: Smallholder agriculture
	Environmental	Sustainable forestry	Environmental: Sustainable forestry
	Environmental	Biodiversity conservation	Environmental: Biodiversity conservation
	Environmental	Ecosystem conservation	Environmental: Ecosystem conservation
	Environmental	Climate change mitigation	Environmental: Climate change mitigation
Education	Social	Affordable and quality education	Social: Affordable and quality education
Healthcare	Social	Affordable and quality healthcare	Social: Affordable and quality healthcare
Financial services	Social	Financial inclusion	Social: Financial inclusion
Waste	Environmental	Waste management	Environmental: Waste management
Water, sanitation, & hygiene	Social	Access to clean water & sanitation	Social: Access to clean water & sanitation
Property & Real Estate	Social	Affordable quality housing	Social: Affordable quality housing
	Environmental	Green buildings	Environmental: Green buildings
Energy	Environmental	Renewable energy	Environmental: Renewable energy
	Environmental	Clean energy	Environmental: Clean energy
	Social	Energy access	Social: Energy access
Sector agnostic	Social	Diversity & inclusion	Social: Diversity & inclusion
	Social	Gender lens	Social: Gender lens
	Social	MSMEs	Social: MSMEs
	Social	Bottom of pyramid	Social: Bottom of pyramid
	Social	Employment	Social: Employment

Detailed methodology

The research began with building a comprehensive **database of both supply and demand-side** of Investing in Impact in Indonesia from secondary sources such as ANGIN Proprietary databases, company websites, press search, and publications.

We followed a unique 6-step approach to capture the deployment of capital into impact in Indonesia.

Appendix - 01 Detailed methodology



Step 1: Identifying Impact Investors in Indonesia - (Code II)

The report focuses first on explicit Impact Investors (II) with existing portfolios in Indonesia, who are actively investing in Indonesia or who are prospecting in Indonesia. The explicit mention to impact investment is usually stated on the website or commercial documents, and is declared during panels and events.

Step 2: Identifying Social Enterprises funded by Impact Investors - (Code SE1)

From the list of Impact Investors, we extracted their portfolio to identify in which companies these impact investors have invested in. We label such enterprises as Social Enterprise 1 (SE1) under the assumption that all Impact Investors would only invest in social enterprises.

Step 3: Identifying Enterprises operating in Impact Areas - (Code EI)

We also identified additional enterprises which have been funded by mainstream investors over the past 10 years in Indonesia. We analyzed the enterprises area of operation against IRIS+ thematic themes established by GIIN (see Appendix A. Impact Areas). Those enterprises operating within the impact Areas are classified as Enterprise in Impact Areas (EI) and those which do not, are classified as Mainstream Enterprises (ME) and will not be considered in the report.

Step 4: Identify additional Social Enterprises - (Code SE2)

From the list of EI, we are pursuing our analysis to understand if any of these EI could be classified as social enterprises as per the definition. If the EI is stating an impact mission/objective and a measurement of this impact, we classify this EI as a Social Enterprise (SE2 in our coding).

Step 5: Identifying Mainstream Investors

From the list of “Step 2, 3 and 4”, we identified mainstream investors (MI) who invested in the SE1, SE2 and EI. These mainstream investors typically represent Venture Capital (VC) firms, Private Equity (PE), Corporates who are not explicitly declared themselves as impact investors.

Step 6: Mainstream Investor with Impact Exposure - (Code MIE).

Lastly, we further identified the portfolio composition of mainstream funds investing in both SE and EI. If they fulfil at least one of the following criteria...

- At least one investment in SE1 (co-investment with impact investors)
- or, at least two investments in EI
- or, at least two investments in SE2

...we would identify this mainstream investor as **Mainstream Fund with Impact Exposure (MIE)**.

Case studies

Case studies are available on demand
 Please contact: david@angin.id

Fund Manager Sample

Background and overview	Background and overview

Impact thesis	Impact measurement	Impact reporting

Fund Management Analysis

Fully invested or closed	Currently investing	Fundraising in progress
2015 - Fund I	2015 - Fund II	2015 - Fund III

Fund Management Analysis

Portfolio	Brief description	Deal information	Impact Areas	Impac Outcome	Latest development

Learning and reflection

Additional tables

Table 1 Impact investors

	Where (historically) Observation based on impact deals from 2018-20 (43 impact deals observed by impact investors to Social Enterprises)	Where (forward)	Example
Sector/industry	<ul style="list-style-type: none"> Food Agribusiness (30% of deals) Financial Services (28% of deals) 	<ul style="list-style-type: none"> Financial services Food & agribusiness Forestry & Land 	
Business model	<ul style="list-style-type: none"> 51% tech 49% non tech 	<ul style="list-style-type: none"> Balanced distribution between tech & tech 	<ul style="list-style-type: none"> During the first phase of impact investing, there was a preference to non-tech enterprises (70% of impact deals). However, in the 2nd and 3rd phase, the distribution is getting balanced between tech & non tech type of enterprise.
Type of growth	<ul style="list-style-type: none"> Slow growth focusing on impact 	<ul style="list-style-type: none"> Fast, controlled 	
Impact theme	<ul style="list-style-type: none"> Social: Financial Inclusion (28% of deals) Environmental: Sustainable Agriculture (19% of deals) 	<ul style="list-style-type: none"> Financial inclusion & environmental protection theme 	<ul style="list-style-type: none"> 4 forestry specialized fund with high ticket size investment for forestry & land related enterprises. i.e. USD 95 million investment to PT Royal Lestari Utama and USD 30 million to PT Dharma Setya Nusanatara
Geographies	<ul style="list-style-type: none"> HQ of invested social enterprises: <ul style="list-style-type: none"> Jakarta (70%) Aceh (7%) West Java (7%) 	<ul style="list-style-type: none"> Discussion to bring impact investment to second and third tier cities 	<ul style="list-style-type: none"> Northstar foundation is looking into East Nusa Tenggara (NTT).
Beneficiaries	<ul style="list-style-type: none"> Farmers, unbanked rural citizen 	<ul style="list-style-type: none"> Farmers, unbanked rural citizen (will still target this sector & beneficiaries) 	
Stage	<ul style="list-style-type: none"> Early stage (seed & series A): 57% Growth stage (series B & C): 43% *Only from disclosed data 	<ul style="list-style-type: none"> Growth, expansion 	<ul style="list-style-type: none"> Notable growth stage investment with > USD 10 million ticket <ul style="list-style-type: none"> Series C round for Fabelio, Ruang guru and Modalku Series B round for Amarthartha & Halodoc

Table 2 Mainstream investors

	Where (historically) Observation based on 151 enterprises that hasn't received funding from Impact investors (2013-2020)	Where (forward)	Example
Sector/industry	Financial Services (32% of total enterprises) Sector Agnostic (not in any impact category defined by IRIS+) 23% of total enterprises	Fintech, education, healthcare	Due to pandemic & lockdown, health tech & edutech are receiving more users.
Business model	92% tech 8% non-tech (based on total deals)	Balanced distribution between tech & tech	During the first phase of impact investing, there was a prefer- ence to non-tech enterprises (70% of impact deals). However, in the 2nd and 3rd phase, the distribution is getting balanced between tech & non tech type of enterprise.
Type of growth	Putting more attention towards growth	Tone down on growth, started to emphasize on sustainability	
Impact theme	32% financial inclusion 12% smallholder agriculture 11% MSMEs development	Financial Inclusion Msmes empowerment	
Geographies	89% Jakarta 5% West Java 6% Other (Bali, NTT, West Suma- tra, Yogyakarta)	Will still be focused on Jakarta	
Beneficiaries	Unbanked & MSMEs	Unbanked & MSMEs	
Stage	Early stage (seed & series A): 76% Growth stage (series B & C): 15% Exit (Acquired & IPO) : 9%	Growth, Expansion	

Table 3 Number of Impact Investors and Mainstream Investors by specific categories

Impact Investors (II) Profile		
Category	Additional descriptions	# of investors
Based on domicile		Total 66
Foreign Fund	Investors with decision making outside Indonesia	61
<i>With local rep</i>	<i>- With employee(s) in Indonesia</i>	23
<i>Without local rep</i>	<i>- Without employee(s) in Indonesia</i>	38
Local Fund	Investors with decision making or HQ in Indonesia	5
Based on number of investments		Total 66
Prospecting		16
1 investment		27
> 1 investment		23

Mainstream Investors with impact exposures (MIE) Profile		
Category	Additional descriptions	# of investors
Based on domicile		Total 107
Foreign Fund	Investors with decision making outside Indonesia	75
<i>With local rep</i>	<i>- With employee(s) in Indonesia</i>	51
<i>Without local rep</i>	<i>- Without employee(s) in Indonesia</i>	24
Local Fund	Investors with decision making or HQ in Indonesia	32
Based on number of investments		Total 107
Prospecting		18
1 investment		67
> 1 investment		22

Table 4 Number of Impact Investment Deals Made by impact Investors and Mainstream Investors by specific categories

Impact Investors (II) Investment Deals		
Category	Additional descriptions	# of investments
Sectors	Total	83
Financial services		22
Natural resources	Inc. Fishery, Food & Agribusiness, Forestry & Land	33
Sector agnostic	Not in IRIS+ impact category	14
Others	Inc. Education, Energy, Healthcare, Waste, Water	14
Tech-enabled	Total	83
Yes		45
No		38
Gender-frame	Total	83
Women-led	Enterprises with women at executive level	16
Non women-led	Enterprises without women at executive level	67

Mainstream Investors with impact exposures (MIE) Investment Deals		
Category	Additional descriptions	# of investments
Sectors	Total	37
Financial services		15
Natural resources	Inc. Fishery, Food & Agribusiness, Forestry & Land	4
Sector agnostic	Not in IRIS+ impact category	12
Others	Inc. Education, Energy, Healthcare, Waste, Water	6
Tech-enabled	Total	37
Yes		33
No		4
Gender-frame	Total	37
Women-led	Enterprises with women at executive level	8
Non women-led	Enterprises without women at executive level	29

Table 5 Number of Impact Investment Deals by years

Impact deals by Year		
Year	Impact Investors (II)	Mainstream Investors (MIE)
2013	4	0
2014	5	0
2015	9	1
2016	7	6
2017	12	3
2018	15	8
2019	19	16
2020	12	3
Total	83	37

Table 6 Detailed investment team profiles in selected impact investors in Indonesia

Topic	Analyst / Associate Level	Middle Management Level	Partner Level	Overall
Have experience in:				
Finance related	67%	70%	50%	62%
Entrepreneur / Start-up	33%	40%	50%	42%
Corporate	33%	30%	40%	35%
Consulting	33%	20%	40%	31%
Non profit / DFI / Gov	17%	20%	20%	19%
Gender				
Male	67%	60%	90%	73%
Female	33%	40%	10%	27%
Nationality				
Indonesian	100%	70%	60%	73%
Foreign	0%	30%	40%	27%
Graduate / Post Graduate Education				
Yes	50%	90%	70%	73%
No	50%	10%	30%	27%
Foreign Educated				
Yes	67%	90%	80%	81%
No	33%	10%	20%	19%
<i>Employee Count</i>	6	10	10	26

Team Structure	(Number of fund managers)	(%)
Partner Only	2	14%
Middle Management Only	5	36%
Analyst / Associate Only	2	14%
Partner + Middle Management	3	21%
Partner + Analyst / Associate	1	7%
Complete	1	7%
Total	14	100%

Table 7 Breakdown of social enterprises by selected categories

Classification of Social enterprise		Social Enterprises		Enterprise in Impact Areas
		SE1	SE2	
		Funded by Impact Investors	Funded by Mainstream Investors	Funded by Mainstream Investors
		71	20	129
Impact category	Education	3%	n/a	10%
	Energy	1%	14%	n/a
	Financial services	23%	14%	36%
	Fishery	8%	n/a	1%
	Food & agribusiness	27%	14%	20%
	Forestry & land	6%	n/a	n/a
	Healthcare	3%	n/a	12%
	Sector agnostic	18%	45%	19%
	Waste	8%	14%	2%
	Water, sanitation & hygiene	3%	n/a	n/a
Tech/ non-tech based	Non-tech	52%	23%	5%
	Tech	49%	77%	95%
Founder gender	Women Led	19%	5%	12%
	Non-Women Led	74%	86%	87%
	Unknown	6%	9%	1%
Location	Jakarta	64%	77%	91%
	Outside Jakarta	36%	23%	9%
Company stage	Early Stage (Seed & Series A)	70%	68%	85%
	Growth Stage (Series B above)	12%	27%	8%
	Late Stage (Mature, Exit, Public)	18%	4%	6%

Table 8 Previous research the number of social enterprises in Indonesia

Source	Year	Methodology	Estimation	Limitation of Study
British Council, USAHA Social	2019	Assumes a 1.5% rate of social enterprise presence within the total number of SMEs.	342,025 ¹⁰⁸	<ul style="list-style-type: none"> Definition of social enterprise includes NGOs and social businesses. The study did not verify whether the enterprises had the characteristics of a social enterprises: impact intention, impact measurement and for-profit model.
BCG, The Art of Sustainable Giving	2015	Identified tech- and non-tech based business models that deliver a social purpose. Number derived from best data available using proxy for actual figures.	1,400	<ul style="list-style-type: none"> No quantitative analysis was conducted for the purpose of research

Table 9 Estimated number of total social enterprises in Indonesia

Findings		Assumptions
Funding success rate	1%	Assumption: The average success rate of enterprises getting funded by institutional investors based on ANGIN's experience and investor feedback in Indonesia.
Total number of social enterprises applying for funding	9,100	Assumption: The number of social enterprises (91) that have been funded by investors represents an estimated 1% of the total applicants (based on industry average).
% of Social Enterprises in Indonesia who have applied for funding	5%	Assumption: 95% of social enterprises in Indonesia are self-funded or bootstrapping, similar to most SMEs or cooperatives according to observation.
Total number of Social Enterprises in Indonesia (estimated)	182,000	If 5% (9,100) social enterprises in Indonesia are funded then there are approximately 182,000 overall.

¹⁰⁸ "Millennials lead social enterprise surge in Indonesia - Pioneerpost." <https://www.pioneerpost.com/news-views/20181217/millennials-lead-social-enterprise-surge-indonesia#:~:text=It%20estimates%20there%20are%20more%20than%20342%2C000%20social%20enterprises%20in%20the%20region.&text=Unlike%20other%20countries%20in%20the,worked%20in%20the%20creative%20industries.> Accessed 27 July 2020.

Table 10 Commitments on GLI

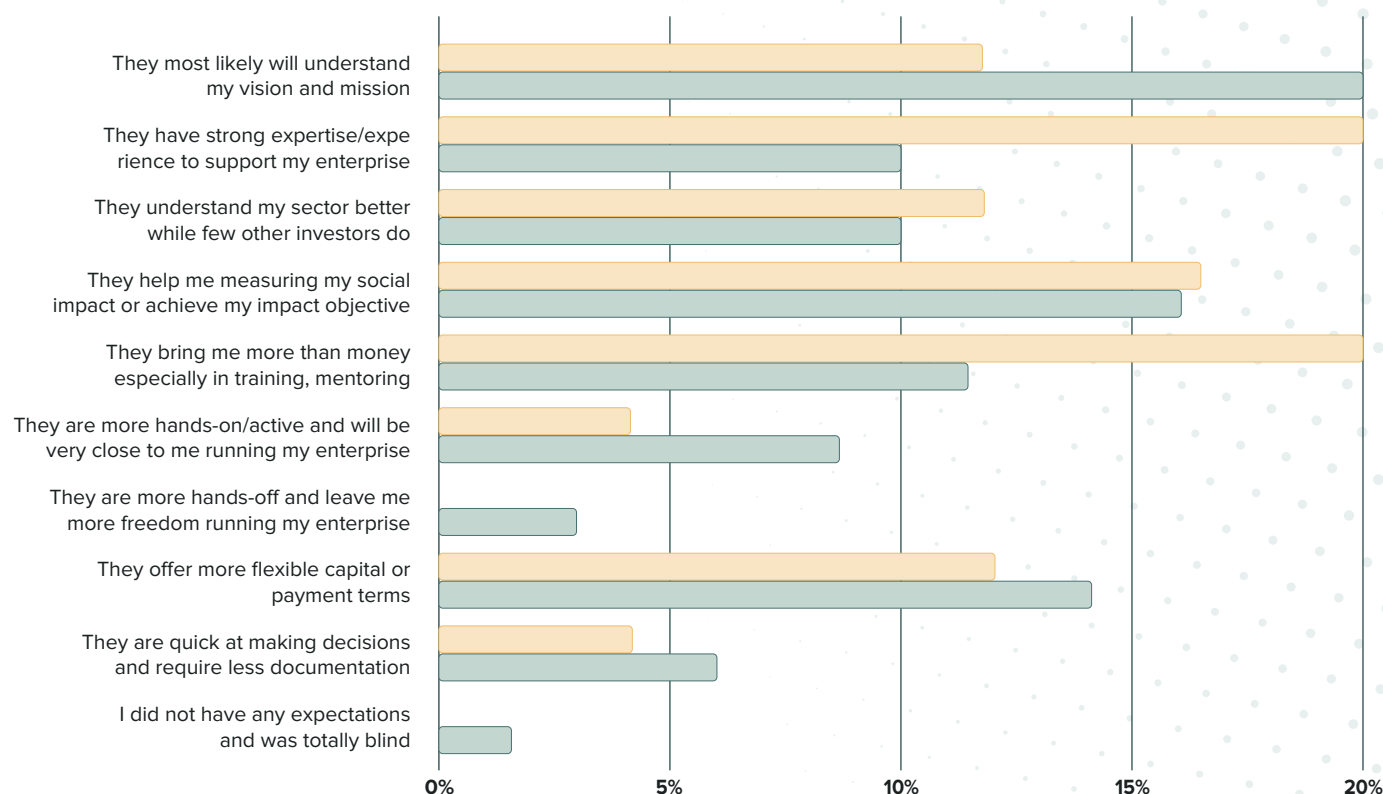
Type	Fund Manager	Additional GLI Commitment for 2019 onwards
Impact Investors (II)	Patamar Capital	Launched USD 50 million Beacon Fund that are targeting Women-led SMEs in SEA (majority Indonesia) -USAID and DFAT backed.
	Bamboo Capital Partners	Currently raising USD 50 million Care Bamboo Impact Fund for “Gender Just” investment in South Asia & SEA (starting with Indonesia & Cambodia).
	IIX	Currently raising IIX Women Livelihood Bond Series 3.
	Moonshot Ventures	Currently raising for IWEF in partnership with YCAB Ventures, and supported by Investing in Women by DFAT Australia.
	ADB Ventures	Actively looking for businesses with gender empowerment impact.
Mainstream investors with impact exposure (MIE)	Teja Ventures	USD 10 million Gender Lens Funds targeting Southeast Asia (focused on Indonesia), China, and India. Teja Ventures views gender lenses not only from an impact perspective but also as levers to identified untapped investment opportunities.
	Gobi Venture	Pledged USD 50 million to invest in women founders by 2020 across funds. Gobi also conducted performance assessment of gender lens in their fund’s global portfolio and highlight gender lens/women led ventures in deal flows.

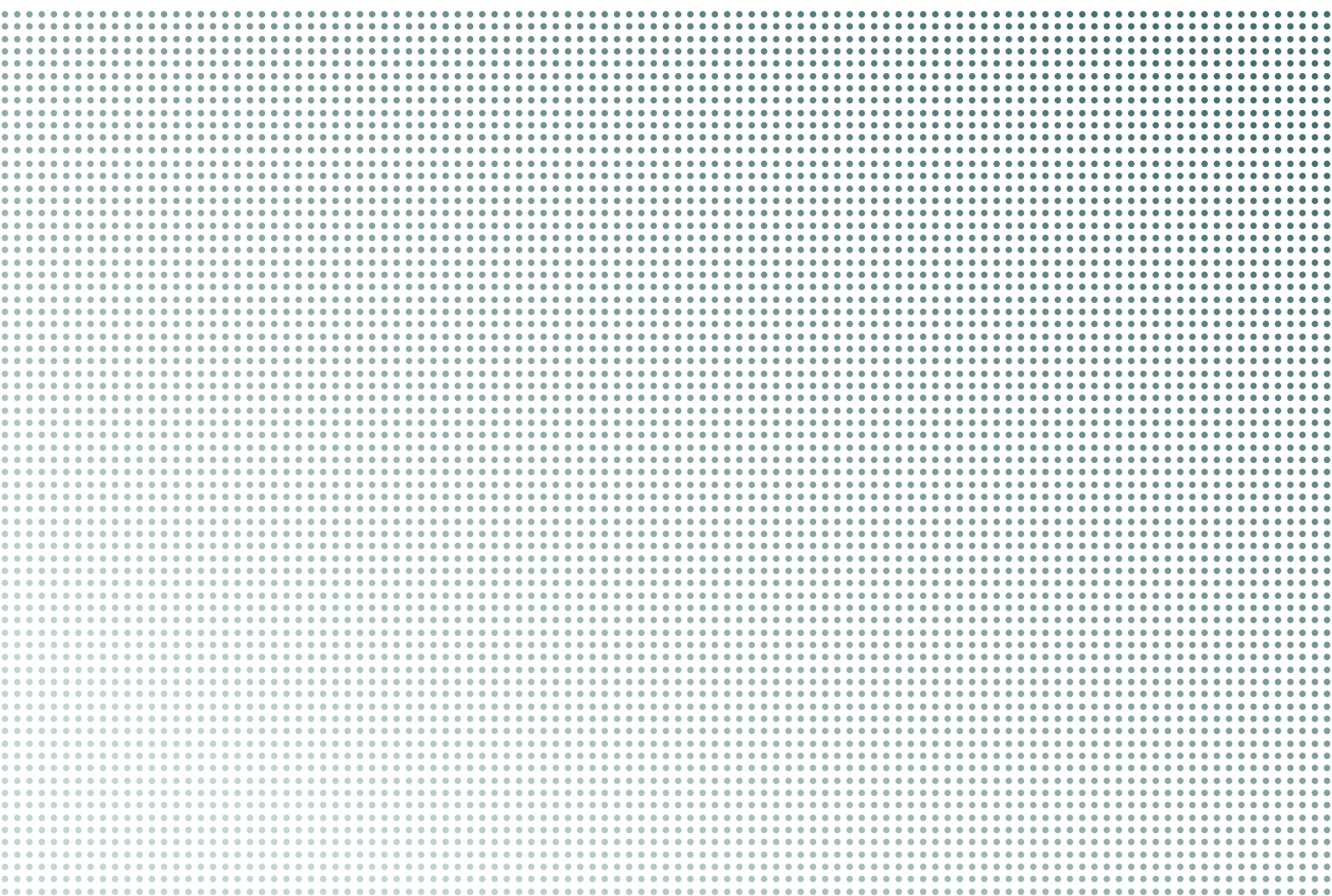
*based on press review and interviews

Table 10 Entrepreneurs’ expectation on impact investors

Data collected from online surveys

- Entrepreneurs based in Jakarta
- Entrepreneurs based outside Jakarta





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