



## ACTIVITY BRIEF

NOVEMBER 22, 2018, BANDUNG  
DECEMBER 12, 2018, SOLO  
JANUARY 16, 2019, TAKENGON



TPSA | CANADA-INDONESIA TRADE AND  
PRIVATE SECTOR ASSISTANCE PROJECT

# TPSA and ANGIN Hold Workshops on Access to Capital for Women-Led SMEs in the Apparel, Footwear, and Coffee Industries

Women-led SMEs need to know what financial service providers offer and how to access financial products and services that are responsive to their needs and compatible with their repayment capacity.

## Background

The TPSA report *Opening the World of Trade to Women: How Gender Affects Trade Benefits for Indonesian SMEs* revealed that access to capital is a major constraint faced by both women- and men-owned SMEs in the three industries of TPSA focus: footwear, apparel, and coffee. SMEs need additional capital to purchase imported raw materials, hire additional labour, rent or buy a larger storage facility, or obtain new equipment. Those working in the footwear and apparel industries see an increased need for capital when demand for their products rises during major holidays, while SMEs and cooperatives in the coffee industry need extra capital during harvest season when demand for additional labour is highest, or to purchase raw coffee beans from farmers who must be paid in cash. For women-led SMEs, financial constraints are compounded by their double burden (dual responsibility for home and business) and the societal expectation for them to obtain spousal permission before undertaking activities (whether personal or business-related) outside of the home.



Women at the Bandung workshop discuss barriers they face when accessing capital.

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

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## TPSA's Response to Address Constraints in Access to Capital

Women-led SMEs need to know what financial service providers offer and how to access financial products and services that are responsive to their needs and compatible with their repayment capacity. TPSA aims to help women-led SMEs access information about financial products and services by facilitating connections with financial service providers. For this purpose, TPSA partnered with the Angel Investment Network Indonesia (ANGIN)<sup>1</sup> to hold a series of workshops on access to capital. At these workshops, financial service providers (FSPs) introduced their financial products and services to women-led SMEs from the three industries and, in turn, those SMEs pitched their businesses to the FSPs. Three workshops were held: the first in Bandung (West Java) on November 22, 2018; the second in Solo (East Java) on December 12, 2018; and the third in Takengon (Aceh) on January 16, 2019.

The majority of participants (74 per cent) reported they would use the knowledge gained from the workshops very frequently. Fifty-one per cent felt that their knowledge had increased significantly and another 48 per cent said it had increased to some extent. Regarding their level of confidence following the workshops, 40 per cent said it was very good and 46 per cent called it good.

### Bandung and Solo Workshops

The one-day workshops held in these two cities were designed for women-led SMEs in the footwear and apparel industries. Both workshops utilized the same objectives and structure (content and process).

### Attendees

A total of 176 individuals participated in the two workshops (78 in Bandung and 98 in Solo) with 41 women-led SMEs (31 from apparel and 10 from footwear) represented. Financial service providers presented their products and services during these events. Representatives from the Indonesian businesswomen's association (IWAPI) and national and local governments (Ministry of Trade, Ministry of Industry, Ministry of SMEs and Cooperatives, and each city's Office of the City Mayor and Office of Industry and Trade) attended and expressed support for the initiative.

## TPSA's Gender and Trade Study Findings Vis-à-Vis Women-Led SMEs' Experiences Accessing Capital

Lota Bertulfo, TPSA Principal Gender Equality Expert, delivered opening remarks at the Bandung workshop. Liliiek Setiawan, TPSA Apparel Consultant, offered similar remarks at the Solo workshop. After the opening remarks, key findings from TPSA's report *Opening the World of Trade to Women: How Gender Affects Trade Benefits for Indonesian SMEs* were presented by TPSA's gender team (Lota Bertulfo in Bandung and Leya Cattleya, Senior Gender Advisor, in Solo). The presenters elaborated on the challenges to accessing capital faced by women-owned SMEs.

The study showed that women-led SMEs are reluctant to borrow from formal sources such as banks because of their stringent requirements: specifically, high interest rates, large collateral requirements, and inflexible repayment arrangements that are incompatible with businesses' production cycles. These constraints to accessing capital are compounded by the fact that women continue to be responsible for managing their home and family while also running their business. The societal norm that requires women to obtain spousal permission to undertake activities outside of the home also hinders their mobility. Without such permission, women are prevented from undertaking business-related activities such as sourcing raw materials, meeting formal capital providers and potential buyers, and attending business training.



Lota Bertulfo highlights the key findings of TPSA's gender and trade survey.



The presentation of the study findings was followed by small group discussions among participants where they could reflect on their own experiences related to accessing capital and share them with their peers. Each group was facilitated by an ANGIN staff member or consultant. The reporting from each group during a subsequent plenary session revealed that all groups corroborated the findings of the TPSA gender study.

## Financial Service Providers Talk Show

Following the small group discussions, the FSPs presented their respective financial products and services in a talk show format moderated by ANGIN. The FSPs that presented in Bandung were:

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

- Kredit Usaha Rakyat (People's Business Credit, or KUR), which offers loans at 7 per cent per year;
- Kredit Cinta Rakyat (Love for People Credit, or KCR), which offers loans at 5 per cent per year;
- Resi Gudang, or Warehouse Receipt System, which offers loans at 6 per cent for six months.<sup>2</sup>

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

**Modalku** (My Capital) is a peer-to-peer lending online platform in Southeast Asia that also has a presence in Singapore and Malaysia under the name Funding Societies. Its goal is to provide loans to MSMEs using capital raised from small investors in a manner that benefits both the lenders and the borrowers. All transactions are done online, so borrowing can be done anytime, anywhere. Modalku lends out up to Rp2 billion to MSMEs. Ajeng Kurnia Sari, Credit Manager, represented Modalku.

**Investree** is another peer-to-peer lending online platform but, unlike Modalku, it includes insti-



Valencia Dea of ANGIN works with a group on their proposed financial product.

tutional investors (such as banks) and independent investors. Investree offers both conventional interest-bearing loans and Shariah-compliant loans.<sup>3</sup> It has four products to meet the needs of various borrowers:

- Invoice Financing: short-term invoice financing with a brief repayment period of between 30 and 180 days;
- Buyer Financing: a loan for buyers, distributors, or resellers within a supply chain;
- Online Seller Financing: open to businesses doing e-commerce that need a loan for working capital;
- Merchant Cash Advance: a working-capital loan for users of reputable payment gateways.

Danang Kusuma, Vice-President for Sales, represented Investree.

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



Talk show with financial service providers in Solo.

**ANGIN's angel investor** was Nuniek Tirta Sari, who presented a financing model that the women-led SMEs participating in the workshops did not know much about: equity investment, where the investor acts as a mentor to the business owner. Ms. Sari explained that the guidance of a mentor is particularly beneficial to a business start-up or a young business about to expand. However, she pointed out that not all businesses are suitable for equity investment and that angel investors usually invest in businesses with high growth potential and substantive competitive advantage. In case of bankruptcy, angel investors normally do not force a business to return their investment, which explains why they are meticulous in assessing the risks involved.

Although the talk show was intended to showcase FSPs, **Brodo**, a men's footwear SME based in Bandung that had secured initial investment from an angel investor and received follow-on funding from a Silicon Valley venture capital firm, was also included in the panel. Brodo occasionally borrows from Investree to boost production and finance exporting activities. Putera Dwi Karunia, co-founder and Chief Operations Officer, represented Brodo.

In Solo, Nuniek Tirta Sari of ANGIN shared the same information she presented in Bandung, and added that when angel investors assess a business proposal, they look at such factors as business strategy, financial projection, and market conditions. They also assess the business owner's personality and knowledge and the experience of the business.

Hanifah Makarim represented BEKRAF again in Solo. She informed the participants that they can

apply for grants to participate in fashion shows, trade fairs, and exhibitions.

The other FSPs that presented their products and services in Solo were:

**Bank Tambunan Pensionan Nasional** (National Pension Savings Bank or BTPN), which introduced a digital mobile banking app, Jenius, to help entrepreneurs tackle the challenges they face in running their business. Its features include online banking (deposits, transfers, bill and loan payments, and online investing), expense tracking, stock inventory, Point of Sales (POS), and store management. Soelistyo Rudi Sanjaya, Digital Banking Business Product Lead, represented BTPN.

**Patamar Capital** is an American venture-capital firm that operates in several Asian countries including Indonesia. It has two funds for businesses with high growth trajectory. The Investing in Women Fund (IWF) supports businesses either owned or led by women, impacting the livelihood of women, or targeting women consumers. The minimum investment amount is US\$500,000. In 2017, Patamar Capital partnered with Kinara Indonesia, an impact investing firm, to set up the Impact Accelerator Program for Women-Led Businesses. This program offers mentoring to women-led businesses that have high growth potential and are fundable but not yet ready for Patamar Capital's investments, which are in the form of convertible debt and equity. Ellen Nio, Associate, represented Patamar Capital.

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

As with Brodo in Bandung, an SME that had accessed at least one type of financial product or service offered by FSPs was also invited to share its experience. **Du'Anyam** is a social enterprise



established by three women activist-entrepreneurs to promote the empowerment of women, improve their health and welfare, and promote culture. Currently, Du'Anyam assists in the marketing of wicker products made by women from Flores, East Nusa Tenggara. It received funding from an angel investor and an impact investor to grow the overall business, as well as grants for the social-development aspects of its work. The lesson that Du'Anyam shared with workshop participants is that a business should explore various sources of funding and not rely on just one. Samuel David, Head of Retail, represented Du'Anyam.

The talk shows provided participating women-led SMEs with information about the range of external financing options available in the market and encouraged them to determine for themselves which of these options suit their needs. Some FSPs offer conventional financial products and services (such as loans that must be accessed formally at the lender's premises), while others are more innovative and accessible as the transactions can be done online.

### Role Play: What Financial Products and Services Do Women-Owned SMEs Want?

TPSA and ANGIN thought it was important for participants, who are potential borrowers, to understand the needs of FSPs and place themselves in the shoes of lenders. Therefore, after the talk show, participants were divided into small groups and asked to play the role of investor and design a new financial product or service for women-owned footwear and apparel SMEs. Each group then presented their product in a plenary session. To boost their motivation, the task was framed as a competition where a winning financial product would be selected through peer voting.

Participants in Bandung came up with these innovative solutions and ideas to address the challenges they face in accessing capital:

**E-Kartini** is an online platform that acts as a matchmaker between women entrepreneurs and any type of capital provider. The platform would contain information related to the footwear and apparel business, market opportunities, business

training events, etc. It would also provide an offline-online master class on business-related knowledge. E-Kartini would make money from commissions charged for every investment that occurs in the platform.

**Head-to-Toe Finance** is an interest-free and collateral-free loan with a 20:80 profit-sharing scheme. The financing would be for working capital, repayable within six months. Head-to-Toe Finance would also provide a financial consultant and mentor for borrowers.

**Smart Investment Womenpreneur** (SIW) would offer two types of interest-free and collateral-free funding for start-ups and small-sized enterprises:

- working-capital loans directly from SIW: profit sharing, no collateral;
- financing from their network of angel investors: profit sharing or equity.

SIW bundled their credit products with financial-literacy training.

**PIL** is a program developed by one group to address their personal challenge of obtaining the necessary production equipment and machinery. PIL offers a space where SMEs can rent production tools, equipment, and machinery at affordable prices and use them on the spot. This way, SMEs do not need to worry about buying expensive assets, especially at the early stage of their business when the risk of failure is high.



A participant in Solo presents her group's proposed new financial product.



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

#### **And the Winner Was: JAMUAN!**

JAMUAN was the Bandung group's favourite financial product.

Participants in Solo came up with the following innovative solutions to their challenges in accessing capital:

**SEKAR** is a non-collateralized loan product (between Rp100 million and Rp500 million) targeted at production and marketing. It uses a profit-sharing model and applies a two-to-three-year grace period depending on the needs and performance of the business. To minimize non-performing loans, only borrowers who are selected for and participate in SEKAR's one-year business incubation program can access the financing product. SEKAR provides mentors who can assist borrowers

pre- and post-loan approval process. Mentoring is set up using SEKAR's CSR fund. In addition to incubation, SEKAR also requires borrowers to use its Point of Sales (POS) system so that SEKAR can track borrowers' real financial performance without burdening them with conventional financial reporting, which participants claimed to be cumbersome.

**Lembaga Perempuan Mandiri** (Independent Women Institute, or LPM) is an interest-free and non-collateralized loan product (between Rp20 million and Rp150 million, repayable within three years) intended mainly for women-owned MSMEs that have been operating for more than a year. Repayment takes place in the final year, when LPM will collect 5 per cent of the borrower's net profit. LPM also offers non-financial assistance such as business mentoring (on topics such as bookkeeping, human resources management, and marketing skills), information, and connections to investors and exporters. It also hosts the Women Entrepreneurs Meeting, a regular platform for women-led MSMEs to exchange business information and experience. To minimize non-performing loans, LPM requires borrowers to provide their national identification card, business registration certificates, and financial statements. LPM will also check their digital footprints. If firms are unable to pay back their loans, LPM will follow up through letters of warning and pursue legal proceedings only as a last resort.

An **online technology platform** that connects entrepreneurs with capital providers, potential partners, online financial-literacy resources, and one another was proposed by one group. By creating an account, uploading a photo, and writing a description of their business, entrepreneurs can create a digital record of their business, which capital providers can then assess. Through this system, businesses can tackle bureaucracy concerns such as identification, credit history, etc.

**WEDOC** (Women Entrepreneur Development of Capital) is a loan product (between Rp50 million and Rp500 million, repayable within three years) with a profit-sharing scheme. The borrower will submit 8 to 10 per cent of their net profit to WEDOC by the end of year three and pay installments of their principal every month for the following two



Participants at the access to capital workshop in Bandung.



Workshop participants in Solo.

years. WEDOC does not require collateral and does not charge interest. Additionally, WEDOC will provide a mentor to borrowers who need assistance with management, bookkeeping, and marketing. The mentor's involvement will be evaluated on a case-to-case basis according to the maturity of the business. The objective is to assist the borrower until she obtains the necessary skills needed to run a successful and self-sufficient business by the end of year five.

**Nafas** is a co-manufacturing facility for MSMEs that operates using investments (based on a percentage of their sales margin) made by participants. The manufacturing site brings together several MSMEs under the same roof. Their investments keep the operations running—training, rental machinery, and labour. In the event that MSMEs underperform, they would be granted six months of improvement time, with a risk of contract termination if the expected target is not achieved. This model would help entrepreneurs strategically meet their operational needs without seeking external funding while also reaping non-financial benefits such as knowledge transfer, access to resources, and capacity-building.

#### **And the Winner Was: SEKAR!**

SEKAR was the Solo group's favourite financial product.

### **Women-Led SMEs Pitch Their Businesses to FSPs**

The final session of each workshop saw SMEs pitching their business and financing needs to the FSPs. In Bandung, 22 women-owned SMEs (seven in footwear and 15 in apparel) pitched their businesses to the FSPs.<sup>4</sup> In Solo, 19 women-led SMEs (one in footwear and 18 in apparel) did the same.<sup>5</sup>

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

In Bandung, all of the women-led SMEs who pitched their business design, produce, and sell their own footwear and apparel products. Two of them subcontract production, the rest produce in-house. The majority of them (70 per cent) are small-sized enterprises with annual revenues between Rp80 million and Rp900 million. The remaining are medium-sized enterprises with yearly incomes ranging from Rp1.5 billion to Rp4.5 billion.

A non-collateralized loan was the most-sought funding instrument by SMEs in Bandung (68 per cent), followed by equity (27 per cent). As many of the SMEs are small-sized enterprises, the amount of financing requested was mainly in the Rp100–500 million range, intended for working capital, purchase of machinery and equipment, and marketing and promotion.

Compared with SMEs in Bandung, the SMEs in Solo were even smaller in size, with yearly incomes ranging from Rp20 million to Rp700 million. There was only one medium-sized business, with an annual revenue of Rp3 billion.

The financing needs of the Solo SMEs were also relatively small, with more than 50 per cent seeking financing in the range of Rp200 million to Rp500 million. However, they preferred the same types of financing as those in Bandung (non-collateralized loans and equity) and offered the same reasons for seeking them.

During the presentations, a valuable piece of feedback offered by the investors/FSPs was that SMEs need to be more realistic about the financing amounts they are requesting. Some of them requested too little for their current stage



of business, while others asked for too much. Investors/FSPs also asked them to be more careful in setting their goals, as increasing sales by three to four times in one or two years is not as easy as they may think. Based on a rough spending estimate, the investors wondered whether the SMEs could achieve their optimistic production and sales targets with the amount of financing requested. On the other hand, a few others sought too much financing for their current performance.

While there was a heavy emphasis on high interest as a deterrent to accessing bank loans, based on the business pitch exercise it appears that SMEs can tolerate a friendly interest rate, but not collateral requirements. Only one SME explicitly sought a loan with a profit-sharing scheme. Even though a number of SMEs included a loan in their business pitch slides, most of them hoped to get financing from an ANGIN investor, Nuniek Tirta Sari. The switch from loan to equity might be because the SMEs were not familiar with the concept of equity prior to the talk show. That said, more in-depth education on equity investment is essential, as it seems that these SMEs still do not understand the concept of valuation and could not answer questions about the number of shares they would offer to investors.

The workshops culminated in a networking event where SMEs and FSPs continued their discussions and explored possible linkages. After the workshops, TPSA and ANGIN learned that FSPs were interested in a number of SMEs and that they are engaging in follow-up talks.

In Bandung, the following FSPs and SMEs are in further discussions:

- **Modalku** with Alfa Rajawali Semesta, Ayunda Tenun, Cloth Inc., Hana San, IM&CO, Is.Yours, Madanara, PT Ethree Abadi, Sashee Socks, Syakira Socks, and Vonny & Ellen (11 SMEs).
- **Investree** with Ayunda Tenun, IM&CO, Madanara, Sashee Socks, Syakira Socks, and Tekav Paoman Art (six SMEs).
- **Nuniek Tirta Sari** of ANGIN with Madanara (in the process of formalizing their PT business entity for the investment), Lovely Zia, Cloth Inc., and HWAN Eco Fashion (four SMEs).

In Solo, the following FSPs and SMEs are in further discussions:

- **Koinworks** noted that 90 per cent of the SMEs are eligible for its financing; however, adjustments are needed to the financing amounts requested. Koinworks is currently assessing each SME's profile and following up.
- **Nuniek Tirta Sari** says the majority of the SMEs are too early in their business development for her to invest. However, one SME that she is keen to explore for further investment is Bule Bule Garment. Ms. Sari also agreed to mentor three of the SMEs: Mekrok, HFSY, and An Attitude.
- **BEKRAF** says all of the SMEs from the Bandung and Solo workshops are eligible to become part of BEKRAF's ecosystem by registering on its mobile application, BISMA.
- **Patamar Capital** says the SMEs are still too small to qualify for financing. However, it encouraged SMEs to approach them once they are more mature.

### Takengon Workshop

The third workshop was designed for women-led SMEs and women-led cooperatives in the coffee industry. It was held in Takengon in the coffee-producing region of Gayo, Aceh. The workshop was opened by TPSA's coffee trade expert, Said Fauzan Baabud. Local government executives representing provincial agencies of trade, industry, and cooperatives and SMEs attended the opening ceremony.

### Attendees

Six women-led SMEs, two women-led coffee cooperatives, and four FSPs were represented, with 54 participants at the workshop. The attending



Workshop participants in Takengon.



SMEs were Siwah Rajah, No Label Coffee, CV Renah Rembune, Twilight Care, CV Nutrisi Aceh, and Asa Café. Most of these SMEs process and trade processed coffee, sourcing their coffee from large traders of green coffee beans. The two cooperatives represented were Koperasi Arinagata and Koperasi Kopi Wanita di Gayo (Kokowagayo).

### TPSA's Gender and Trade Study Findings Vis-à-Vis Women-Led SMEs' and Cooperatives' Experiences Accessing Capital

During her presentation of the gender and trade study findings, Dati Fatimah, TPSA's gender advisor, spoke about gender roles in the coffee value chain and the fact that women's roles are often overlooked and unrecognized, thus rendering their contributions to the coffee industry invisible. TPSA's gender and trade analysis of the industry showed that women are actively involved in all stages of the value chain. Many women in Toraja, South Sulawesi who are in the coffee business, for example, are large coffee traders supplying green beans to exporters.

Women coffee farmers occupy the first stage of the value chain as coffee producers, but as many of them do not own land (because land titles are in their husband/father/brother's name), they are disadvantaged and benefit less than men farmers from their participation in the value chain. Most cooperatives use land ownership as a minimum requirement for membership, which automatically disqualifies women from benefiting from membership in a cooperative.

### Financial Service Providers Talk Show

The following FSPs presented their financial products and services during the Takengon talk show:

**Crowde** is a peer-to-peer lending company servicing farmers with the goal of helping them become agropreneurs. It raises capital for lending through crowdfunding. Crowde invests in one agricultural production cycle and repayment is the full amount of principal and profit-sharing based on a

60:40 farmer-to-investor ratio. Afifa Urfani, Head of Marketing, represented Crowde.

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

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

Havid Han, an **ANGIN angel investor**, shared his views about what angel investors look for when investing in a business. His presentation gave the participants ideas for how to attract investment.

The case of **Kokowagayo** as a recipient of external financing, particularly from Café Femenino, was presented by Rizkani, founder and current Chairperson of Kokowagayo. Financing from Café Femenino helped the cooperative connect with markets in the United States and Europe. A grant from Café Femenino also helped to establish a child care centre managed by the co-op.



## The Varying Financial Needs and Challenges of SMEs and Cooperatives

Because the type of business engaged in by workshop participants varied, the approaches to determining the types of financial products and services they need also varied. In small groups, participants were asked to:

- identify where they are in the coffee value chain;
- determine their funding needs (usage and amount);
- identify the most significant pain points/factors that demotivate them from seeking external funding;
- determine what type of financial product would suit them and what features could address their identified pain points.

A representative of each group presented their financial product proposals in a plenary session, and participants were asked to vote for the proposal they felt would be most effective.

The funding needs and cycles of SMEs and cooperatives differ depending on their roles and location in the coffee value chain. These determine the type of funding instrument that would best suit their needs. A coffee value chain framework was presented to the participants to help them identify their roles and location in the value chain.

The small group discussion after the exercise revealed that participants most often preferred a no-interest loan with a small collateral requirement that is accompanied by non-financial support such as field officer assistance, business mentoring, and training in good farming practices.

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

**Mahmud Finance** is a collateral and interest-free loan (between Rp1 billion and Rp3 billion) for SMEs, especially those in the processing and marketplace stages of the coffee value chain. The loan product is primarily for project-based financing (e.g., to fulfill export requests from foreign clients) with maturity ranging from two to three years. The product requires a profit-sharing scheme (30 per

cent for Mahmud Finance and 70 per cent for the SMEs) as an alternative to interest. A loan is preferred over equity for two reasons: the majority of SMEs operate in the processing and marketplace stages of the value chain and need funding for project-specific activities (e.g., to export to foreign buyers), and the majority of the SMEs in Aceh do not have "PT" or business legal entity status and are therefore not entitled to equity investment. A loan application is done online and processed quickly, with the first loan disbursement made two weeks after application.

A field officer will be assigned to assist and monitor borrowers to ensure proper and effective use of the loan. The borrower will contribute to the cost of services from the field officer by providing a one-time contribution of Rp500 million. One field officer would be assigned to a maximum of 12 borrowers.

**S3TR** (Suka-Sama-Suka-Tanpa-Riba) is a women-friendly profit sharing, non-collateral loan product targeted at coffee SMEs and focused on processing, input supply, and marketplace. It is marketed toward both women- and men-owned SMEs. It offers a working-capital loan of between Rp10 million and Rp100 million with a grace period of five years for start-ups/new businesses, and Rp150 million to Rp1 billion with a grace period of three years for established businesses. S3TR implements a 70:30 profit-sharing scheme, which it collects in the maturity year. Documentary requirements include national identification number and various types of business registration, as



Participants discuss the features needed from financial products.



well as financial statements. The loan application can be done online or in person. S3TR also offers non-financial assistance such as business mentoring, coffee production technical advisory services, and support in accessing markets, both local and foreign.

**Datu Beru Investment** (DBI) offers working capital using a *mudarabah* scheme, a form of partnership between a business owner and an investor where the partners profit share.<sup>6</sup> DBI also provides in-kind investment, such as drying houses, which are in high demand by processors in Takengon. DBI would gain returns from their profit-sharing financial product and service fees from real asset/in-kind investments. The loans would be in the range of Rp500 million to Rp1 billion offered for a six-month term. To minimize non-performing loans, DBI would require collateral in the form of sales contracts or invoices. The loan from DBI is bundled with training for women entrepreneurs on topics such as product diversification, best practices in coffee processing, and marketing, as well as a matchmaking service to bring together coffee traders and customers, especially foreign buyers, through an online database where SMEs can contact and offer their products to registered buyers.

### Women-Led SMEs and Cooperatives Pitch Their Businesses to FSPs

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

All presenters asked for a loan, with four explicitly requesting a loan with no collateral requirements and one for credit with Shariah principles. The funding needs of the smaller-sized SMEs were in the range of Rp80 million to Rp800 million. Meanwhile, the medium-sized SMEs (particularly the two cooperatives and CV Nutrisi) sought funding in the amount of Rp8 billion to Rp20 billion,



A business pitch in Takengon.

needed for additional working capital and capital expenditures. With the presence of this external funding, they expected to at least double their production and sales.

After each business pitch, the FSPs were asked to comment on whether the business was fundable or not. The FSPs' views were as follows:

**Eximbank:** 75 per cent of those that presented are bankable based on their business and current achievement. However, further discussion is needed to understand their business in detail. The rest are not yet suitable because they are still too small.

**Crowde:** While all presenters are eligible to apply for funding, Crowde can only fund a portion of their financing needs, specifically for working capital. Dividing the fundraising into several phases, rather than a significant lump sum given at one time, would be more suitable as the loan can be used for a specific project or activity in the production cycle.

**Root Capital:** In Gayo, only cooperatives (i.e., Kokowagayo, Koperasi Ketiara, and Koperasi Arinataga) are eligible for Root Capital financing as it has a strict mandate to finance only coffee traders and not coffee SMEs working in other parts of the value chain.

**Hauid Han:** Three SMEs showed appealing traction and unique business models: Asa Coffee, because it has managed to lock in famous business-to-business (B2B) clients such as JJ Royale and



Anomali; CV Renah Rembune, because it has started to implement blockchain with HARA; and Twilight, because it showcased a unique value proposition through its skin care products. Some others were not suitable for angel investors because their funding need is already too large, such as the two cooperatives and CV Nutrisi Aceh. Some SMEs have potential, but their business needs to be in better shape first: for example, Siwah Radja and No Label Coffee.

### ANGIN Team

The members of the ANGIN team that facilitated the small group discussions and helped participants express their challenges in accessing capital and identify solutions at the three workshops were: Azmiah Shahab, Benedikta Atika, Dian Wulandari, Ellen Nio, Feby Ramadhani, Gema Minang, Meredith Peng, Nancy Margried, Natasha Adhihusada, Stephanie Arifin, and Valencia Dea. Ms. Dea, who was the team leader of the ANGIN team for these workshops, ably introduced a dynamic, participatory, and creative process that inspired the participating SMEs and cooperatives to come up with innovative solutions to their needs for additional capital. The workshops offered a win-win opportunity for both the women-led SMEs and cooperatives that TPSA is assisting and the participating FSPs.

### About the TPSA Project

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

TPSA is designed to provide training, research, and technical assistance to Indonesian government agencies, the private sector—particularly small and medium-sized enterprises (SMEs)—academics, and civil society organizations on trade-related infor-

mation, trade policy analysis, regulatory reforms, and trade and investment promotion by Canadian, Indonesian, and other experts from public and private organizations.

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

The expected immediate outcomes of TPSA are:

- improved trade and investment information flows between Indonesia and Canada, particularly for the private sector, SMEs, and women entrepreneurs, including trade-related environmental risks and opportunities;
- enhanced private sector business links between Indonesia and Canada, particularly for SMEs;
- strengthened analytical skills and knowledge of Indonesian stakeholders on how to increase trade and investment between Indonesia and Canada;
- improved understanding of regulatory rules and best practices for trade and investment.

For further information, please contact the Project Office in Jakarta, Indonesia:

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## ENDNOTES

- <sup>1</sup> ANGIN ([www.angin.id](http://www.angin.id)) is a membership-based network of Indonesian high-net-worth individuals (angel investors) committed to investing in and mentoring early-stage companies (technology and social enterprises) operating in Indonesia. Since its inception in 2013, it has attracted 72 angel investors, facilitated investment in 33 companies, and helped 40 companies raise funds through mentoring and networking.
- <sup>2</sup> In Indonesia, this system is regulated by *Law Number 9 of 2006* concerning warehouse receipt systems, where the definition of warehouse receipt according to the law is "a document of ownership of goods stored in warehouses as issued by the warehouse company."
- <sup>3</sup> Shariah-compliant loans are those that comply with Islamic principles: no interest ("riba") on investment; loans should not be invested in businesses considered prejudicial to Muslims (alcohol, gambling, etc.); and the investment contract must contain clear guidelines to ensure that all terms and conditions are detailed in a manner in which no disputes can arise in the future. For more information, see <https://www.ublfunds.com.pk/individual/resources-tools/learning-center/shariah-compliant-investments/>.
- <sup>4</sup> Footwear SMEs that presented in Bandung: Alfa Rajawali, Eramsis, E-Three Abadi, Hana San, Is.Yours, Pravasa, Sashee Socks, Syakira Socks, and Vonny & Ellen. Apparel companies that presented: Ayunda Tenun, Batik Kanawa, Batik Sakera, Cloth, Inc., CV Indraindri, Hwan Eco Fashion, IM\_Co (Update Plus), Linean, Look at Hijab, Lovely Zia, Madanara, Myn Limited, and Tekav Paoman Art.
- <sup>5</sup> Apparel SMEs that presented in Solo: An Attitude, Batik Ikat, Batik Syandana, Bule-bule, Cemanting Art, CV Pelang Nusa, Erlene Handycraft, HFSY Batik, House of Distraw, Mekrok, Miracle Leaves, Oppo Label.co, Plaza Busana Muslim, Pt Fumi Sumartinto (HelSteen Collection), Tenun Eboon, Trasty, VNT Project, Waiki, and Yasmin Butik and Batik. One footwear company, Naray.co., also presented.
- <sup>6</sup> Mudarabah definition: <https://www.deposits.org/dictionary/term/mudarabah/>.