

Women-owned SMEs in Indonesia: A Golden Opportunity for Local Financial Institutions

Market Research Study



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Foreword

For banks looking for an underserved and potentially lucrative opening, Indonesia's small and medium enterprises sector presents an exciting opportunity. Within the sector, women-owned SMEs are particularly interesting for their prospects of offering profitable returns without taking on undue risks. As can be seen in other emerging markets, Indonesia has significant unmet demand for credit from women entrepreneurs. Banks can take best advantage of this opportunity by introducing innovations that match the unique characteristics of women business owners.

This report highlights the sizeable market opportunity that exists in Indonesia's SME sector. It is one of the fastest-growing sectors in the country and shows high potential. Yet it has long been underserved. As Indonesia seeks to transition from a labor intensive to a capital-based economy, this sector is now ripe for development. Our study pegs the potential demand for credit from the women-owned SME market at a substantial \$6 billion.

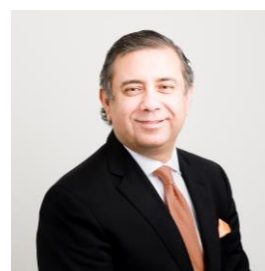
Our study illustrates the prudent business case for banking SMEs and especially women-owned SMEs. Women-owned SMEs make up almost half of Indonesia's SME market. They want to borrow more to invest in their companies and they typically record lower default rates than their male counterparts. Our research also shows that more women entrepreneurs regarded their businesses as 'highly profitable' compared to men.

Banks need to think differently and beyond traditional banking methods to leverage this potential growth. Offering alternatives to help women meet the collateral requirement in cases where immovable collateral is registered in a man's name is one way. Training staff and finding better delivery channels to meet the needs of time-poor women who typically have family and household responsibilities as well as running their business is another option.

Banks that see the opportunity and can adopt a novel approach to provide financial and non-financial services to the underserved women-owned SME banking market can enjoy a potentially profitable low-risk business opportunity that also helps women-owned enterprises realize their potential. Providing capital to this sector will also help build the country's future economic prosperity.



Signed,
Vivek Pathak
IFC Director – East Asia and the Pacific



Foreword

The American People are committed to supporting broadly shared and sustainable economic growth in the Asia-Pacific, the fastest growing region in the world. However, despite the remarkable progress made towards reducing poverty, significant pockets of extreme poverty persist. Strikingly, women continue to disproportionately be among the poorest of the poor, despite global evidence that where women are economically empowered, communities and economies thrive.

As part of the Obama administration's effort to rebalance its investments in the global economy, the USG is partnering with the International Finance Corporation (IFC) and the private sector to proactively address the gender inequities and constraints that drive the power dynamics undermining our development investments. We strongly believe that this is not only the "right" thing to do – but that it is smart, sustainable, and ultimately economically advantageous with the potential for wide-reaching impact.

This joint IFC study on Women-Owned Small and Medium Enterprises (SMEs) in Indonesia makes a significant contribution to understanding women's economic empowerment in the country by presenting a comprehensive analysis that captures original data. More than half of Indonesia's SMEs are owned by women. And even though businesses run by women and men should in theory contribute equally to economic growth, the reality is that women face many more constraints in starting and growing their businesses, including obtaining business finance.

It is clear from this report that significant reform will be necessary to improve both the business-enabling environment for women and more importantly, to increase their access to finance.

I urge all actors to endorse policies and financial products that recognize the unique needs of Indonesian women entrepreneurs and their critical role in driving economic growth. This study presents a strong case for a more inclusive investment climate in Asia. Through partnerships, public-private collaboration, and knowledge-sharing, we can ensure that women-owned businesses have greater access to investment capital.

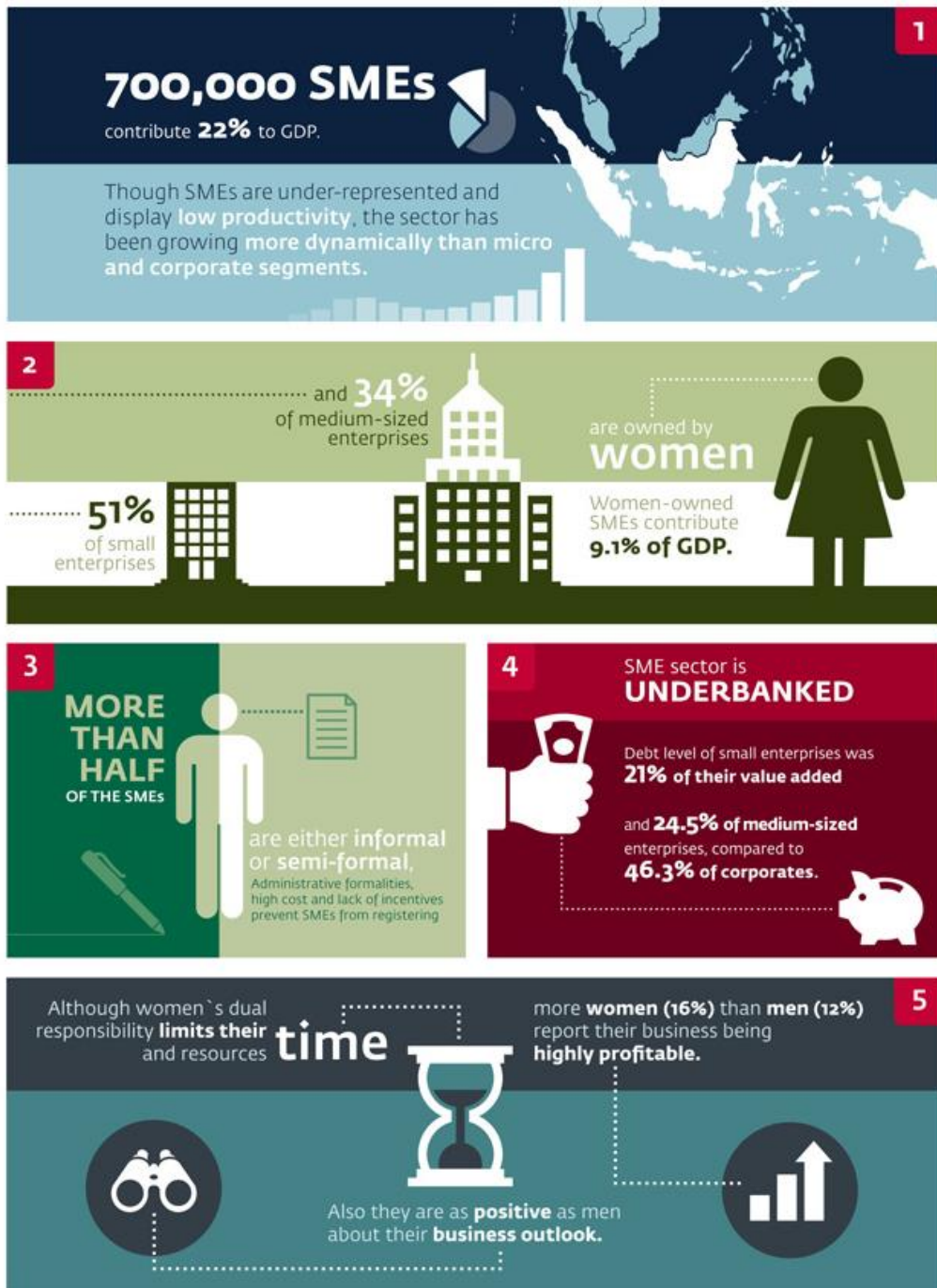
In order to build further on this study, we must make efforts to collect and analyze the data that will help make the commercial case for a more conscious integration of gender factors into capital allocation and risk assessment models. I strongly encourage all partners across the private, public, and development sectors to build on these findings for a more inclusive and economically vibrant Asia.



Signed,
JONATHAN STIVERS
USAID Assistant Administrator of the Bureau for Asia



AT-A-GLANCE



6

COMPLICATED BANK PROCEDURES
are perceived

by **40% of women** compared to **28% of men** as a **negative factor** in their bank relationship.

7

Collateral is a must for borrowing. Only

1% of loans were collateral free.

65% of loans are backed with **immovable assets**. Apart from vehicles, alternative collateral is barely accepted.

8

54% of SMEs are interested in obtaining a loan in the future.

29% currently borrow.

To mobilize the demand, adjustments in banks' lending approach to SMEs is recommended.

9

MORE WOMEN (44%) THAN MEN (40%) would like to borrow to invest in their companies:

for purchasing machinery, product development and marketing.

Women entrepreneurs would appreciate

PRODUCT BUNDLING

including access to training or networking.

10 **11**

WOMEN are more interested in using **mobile and internet banking**.

Improved alternative delivery channels would **increase access** to finance and usage of bank products.

SMEs are poorly informed about

GOVERNMENT SUPPORT SERVICES

ONLY 24% of SMEs are using them.

12 **13**

BETTER CUSTOMER SERVICE and **BETTER TRAINED STAFF**

could **increase women's borrowing** from banks in frequency and loan amount.

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1 Introduction

Indonesia, a member of the G20 since 2008, has become one of the largest economies worldwide with the promise of substantial growth potential in the coming decades. In order to realize this potential, the government of Indonesia has identified the role of the Micro, small and medium enterprise sector as pivotal to promoting growth, creating jobs, and alleviating poverty.

This is unsurprising because MSMEs account for 99 percent of all enterprises, employ 89 percent of the private sector's workforce, and contribute 57 percent to the country's GDP. Indeed, the growth generated through the MSMEs because of their numbers, and the jobs they have provided in recent years, are the main drivers of reducing poverty and rising incomes.

The government has supported MSMEs in many ways. The proliferation of microfinance through private and state-owned banks in particular has helped invigorate the sector. However, the economic strategy of recent years might soon bump up against inherent limits. That is because the thrust of the sector has been predominantly on microenterprises. Even though the growing number of microenterprises continue to be crucial for job creation, particularly in rural areas, their growth in productivity and contribution to GDP will likely remain limited.

To be sure, the type of support entailed in microfinance lending is generally not suited to serving larger and more dynamic small and medium enterprises. The main task for Indonesia therefore will be to adjust its economic model to better serve SMEs so as to avoid the middle income trap of low economic growth and stagnant GDP per capita in the future.

Indeed, small and medium enterprises have been more productive, and have substantially higher growth potential. Since 2009 alone, their number, employment profile, GDP contribution, and investments have been growing faster than those of microenterprises or corporates.

Still, their number is low and their development is constrained. Also, most banks have yet to develop specific strategies for targeting SMEs; they have tended to focus on microenterprises at the low end and corporates at the top end without tweaking their strategies to serve the missing middle. A big reason for this is that banks rely predominantly on hard collateral for providing credit, private houses or business premises backing up 65 percent of the loans granted to SMEs.

The enabling environment as well as access to finance will have to be improved significantly for the SMEs to increase their numbers and realize their growth potential. While it is the role of the government to provide SMEs with an environment that allows them to grow, banks must provide the crucial financing. This can be a tremendous opportunity for banks, given their numbers and scale of financing needed for working capital and investments.

Women-owned businesses make up more than half of all small enterprises and about a third of medium-sized enterprises, thus contributing to economic growth and job creation as much as men-owned SMEs do. Though weaker business metrics are often attributed to women-owned enterprises, their performance is not lower than that of men-owned SMEs: Their business outlook is similar to men-owned SMEs and more women-owned SMEs than men-owned SMEs say that their business is very profitable.

Compared to businesses owned by men, women-owned SMEs face constraints that are imposed by women's dual responsibility for the business on the one hand, and family and household on the other. Lack of ownership of property, minimal prior business experience, limitations in mobility and huge dependence on husbands and family are some of the other factors that hamper their growth and development.

It was also found that constraints related to regulation, access and use of finance are more severe for women than for men. However, addressing these shortcomings needs a specific approach that cannot be the same for women and men entrepreneurs. The government can do this by

creating a policy and regulatory environment that enables women to access financial services and by encouraging banks to increase their focus on women-owned enterprises.

Banks need to be sensitized to the value of women-owned SMEs both as a market and strategic differentiator, and for ways to reach this untapped market segment. To seize the opportunity, banks can overcome the abovementioned limitations, both actual and perceived through a well-designed bank support program.

This study intends to inform the government, private and state-owned banks, and the international community about the constraints faced by small businesses, particularly those owned by women. Additionally, the objective is to establish a business case for banks to help them realize the growth opportunity and contribute to their profitability by servicing this sector.

The information provided here has been collected using secondary data and expert interviews in Indonesia, in addition to a quantitative and qualitative survey conducted by the Frankfurt School of Finance & Management and Taylor Nelson Sofres Indonesia.

In August and September 2015, 600 SMEs – of which 360 were owned by women¹ and 240 by men – were interviewed in 12 cities across Indonesia (see Annex 2 for methodology). Further, nine Focus Group Discussions with 72 participants were conducted in Jakarta, Padang and Denpasar for a closer and deeper look at of segment specifics (see Annex 3 for a summary of FGD findings). The next chapter provides an overview of the SME sector and summarizes the key findings about the enabling environment. Chapter 3 discusses access to finance, and the supply and demand of bank loans for SMEs and women-owned SMEs, Chapter 4 focuses on specific challenges, patterns of access, usage and demand for financial services by women-owned SMEs. Chapter 5 provides recommendations for the government, Bank Indonesia and banks in general, and Chapter 6 draws conclusions.

¹ A woman-owned enterprise is one where: ≥ 51 percent of the stake is owned by woman/women; or ≥ 20 percent owned by a woman/women, and have ≥ 1 woman as CEO/COO. In addition, these businesses have women comprising ≥ 30 percent of the board of directors, when a board exists.

2 SMEs and their Enabling Environment

Like many developing countries, Indonesia is faced with the problem of the ‘missing middle’ with financial institutions focused on the needs of the largest and the smallest businesses. As a result SMEs are underrepresented and lack in productivity. They are, however, developing at a faster pace than both, microenterprises and the corporate sector, and the unanimous view is that SMEs will be a crucial contributor to the country’s economic growth in the coming years.

However, a host of barriers limit their potential. Most of these businesses tend to remain informal primarily because of complex bureaucratic procedures and lack of incentives to register, inhibiting them from growing. The thrust of the government support is on microenterprises, and awareness about the state support programs for SMEs is low among these businesses.

2.1 The SME Sector and its Contribution to the Economy

The development of Indonesia’s MSME sector has become a top priority in the government’s quest to generate employment and economic growth². However, it is the microenterprises that dominate the sector, constituting 99 percent of all enterprises and employing 89 percent of the private sector’s workforce (Table 1). Therefore they have an important role in generating employment even though their contribution to economic growth is limited³.

Table 1: Definition of MSMEs in Indonesia⁴

	Assets (excluding land and building)	Annual sales	Number (2013)	Employment (2013)
Micro	< 50 million IDR	< 300 million IDR	57,189,393	104,624,466
Small	50 – 500 million IDR	300 million – 2.5 billion IDR	654,222	5,570,231
Medium	500 – 10 billion IDR	2.5 billion – 50 billion IDR	52,106	3,949,385
Corporates	> 10 billion IDR	> 50 billion IDR	5,006	3,537,162

Source: SME Law 20/2008, Ministry of Cooperatives and SMEs

For Indonesia to escape the middle income trap – or, to not hit a barrier in its economic development for cross-over to the higher income group -- it must bridge the ‘missing middle’, i.e. increase the number of SMEs and their productivity. SMEs are widely acknowledged to be a major contributor for raising income levels of a country. These can be the vital link that helps Indonesia make the switch from a labor-based economic model to one that is more capital-based. So far, cheap labor-based microenterprises have dominated the economic landscape of Indonesia.

SMEs have also fared badly in comparison to corporates⁵ for their contribution to GDP. While 5,000 corporates contribute 38 percent to GDP, the contribution of 700,000 SMEs just about equals to 22 percent (Figure 1). To overcome the middle income trap, microenterprises will have to grow into small and medium-sized enterprises, and increase their productivity to be able to pay higher wages, leading to a broad middle-income class.

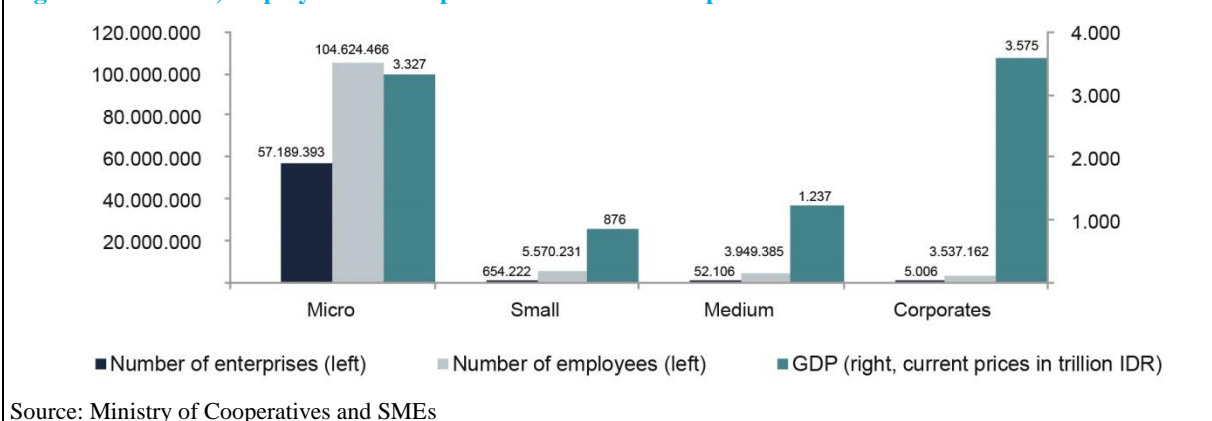
² See for instance the Comprehensive Growth Strategy of Indonesia prepared for the G20 Meeting in Australia in 2014.

³ Growth of this segment comes mainly from an increase in numbers and not from increasing productivity of employees.

⁴ SMEs in this study are defined using IFC definition (small: 5-19 employees, medium: 20-99 employees). The national one defines SMEs along annual sales and assets (See Table 1). Categorizing the surveyed enterprises along their annual sales and applying the national definition, the survey includes the upper end of microenterprises, small enterprises, and the lower end of medium-sized enterprises.

⁵ Some researchers, for example Hsieh and Olken (2014), argue that there is no ‘missing middle’ in Indonesia because not only SMEs but also corporates are lacking.

Figure 1: Number, employees and output of Indonesian enterprises in 2013



In recent years some progress has been made in closing in on the ‘missing middle’. The growth in the number of SMEs is outpacing that of the microenterprises and corporates, both in the number of employees SMEs hired, and their contribution to GDP (Table 2). From 2009 to 2013 the average number of employees remained constant for microenterprises at 1.8. Small enterprises grew from 6.4 to 8.5, and medium-sized enterprises from 65.6 to 75.8 employees on average. Similarly, investments made by SMEs have grown higher than that of microenterprises or corporates. On average, small enterprises invested 71 percent and medium-sized enterprises 69 percent of their output into the company, while the ratio was 27 percent for corporates and only 6 percent for microenterprises⁶.

Table 2: CAGR 2009-2013 of SME sector indicators

	Number of enterprises	Number of employees	GDP (constant prices)	Investments (constant prices)
Micro	2.3%	3.8%	4.3%	3.2%
Small	4.6%	12.2%	11.2%	6.8%
Medium	6.0%	9.8%	6.0%	16.7%
Corporates	1.7%	7.1%	6.6%	3.8%

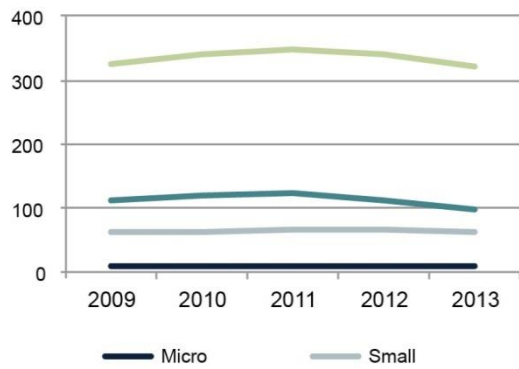
Note: CAGR=Compound annual growth rate. Source: Ministry of Cooperatives and SMEs, Frankfurt School of Finance & Management

However, SMEs score low in productivity compared to corporates. On average, an employee of a corporate entity is 5.2 times more productive than an employee of a small enterprise, and 3.3 times more productive than an employee of a medium-sized enterprise. What is worse, employee productivity has been falling across the board from 2009 to 2013 (Figure 2). While an employee of a corporate was 1.6 percent less productive in 2013 than in 2009, small enterprises lost 3.5 percent and medium-sized enterprises a huge 13.3 percent of their productivity per employee.

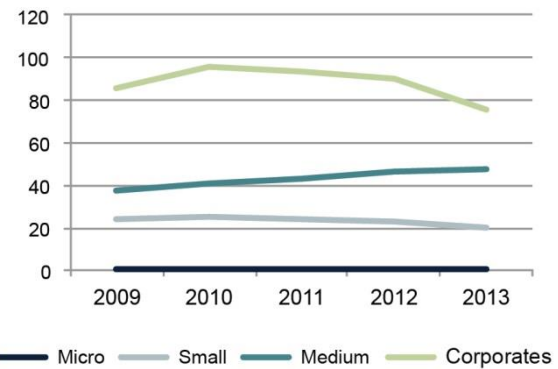
The reason is the higher increase of labor input in production than capital, which means that production has become more labor-intensive in recent years⁷. As Figure 3 shows, although investments have been increasing in the sector, they have lagged behind when measured against the number of employees. While this is a positive for job creation, it does not diminish the middle income trap, which would require higher employee productivity in order to increase average incomes.

⁶ Based on data from Ministry of Cooperatives and SMEs on total investments and gross domestic product of SMEs.

⁷ Investments per employee of small enterprises (-4.7 percent CAGR) and corporates (-3.0 percent CAGR) have been falling while investments per employee of medium-sized enterprises increased by 6.2 percent annually between 2009 and 2013. However, medium-sized enterprises also expanded their work force the most.

Figure 2: Average productivity per employee

Note: Productivity measured as GDP in million IDR at constant prices of 2000 per employee. Source: Ministry of Cooperatives and SMEs, Frankfurt School of Finance & Management

Figure 3: Average investments per employee

Note: Investments per employee in million IDR at constant prices of 2000. Source: Ministry of Cooperatives and SMEs, Frankfurt School of Finance & Management

One of the big reasons for the ‘missing middle’ is the severe regulatory and bureaucratic constraints for SMEs in Indonesia because of which these businesses primarily operate in the shadow economy. Our survey⁸ estimates that informal⁹ enterprises constitute over half of the urban SMEs¹⁰ -- at 52.5 percent. Among small enterprises, measured per number of employees (Figure 4), the share of informal businesses is higher at 60 percent. But medium-sized enterprises are also often informal – at 23 percent.

There is a strong co-relation between businesses that formalize and their turnover. Our survey shows that the enterprises with an annual turnover of Indonesian rupiah 1 billion tended to register (Figure 5) themselves. This can also be interpreted to mean that formalization allows a business to grow its turnover beyond Indonesian rupiah 1 billion.

In fact, many medium enterprises formalize to a certain extent only by applying for a sole-proprietor (UD) status, a legal status or a business license that is meant for microenterprises. However, for enterprises with an annual turnover of more than Indonesian rupiah 2.5 billion, more than 70 percent of the companies have been found to formalize. Due to the legal risk of being subjected to fines, penalties or business closure, entrepreneurs often shy away from becoming more visible¹¹, and hence avoid making large investments.

⁸ Our survey classifies SMEs per number of employees, applying the definition of the Indonesian central agency on statistics, BPS, (small: 5 – 19 employees, medium: 20 – 99 employees). For this study, 480 small and 120 medium enterprises have been surveyed. Comparing survey data with the official SME definition, 29.5 percent of enterprises surveyed would fall into the micro category, 60 percent into small and 6.5 percent into the medium category. Microenterprises had between 5 and 21 employees (average: 6.8), most of them (83 percent) were sufficiently or very profitable, and many (38 percent) expected growth in the next two years. See Annex 1 for a description of the methodology.

⁹ Informal enterprises are enterprises that have not registered their businesses and have no business license. Semi-formal enterprises are defined as enterprises that either have a license, or have registered. Semi-formal enterprises are those enterprises that have registered as sole proprietor (UP, PD). This is appropriate for microenterprises but not the recommended legal status for SMEs. SMEs are recommended to register as PT, which is also required by banks when applying for a larger loan. The questionnaire is so designed that a few SMEs registered as UP or PD might have said that they are informal. Therefore some share of SMEs classified as informal might in fact be semi-formal.

¹⁰ This is consistent with other estimations. For example ILO (2012) estimates a share of 60 percent among non-agricultural employment is in the informal sector.

¹¹ According to the findings of the focus group discussions (FGDs).

Figure 4: Formality per number of employees

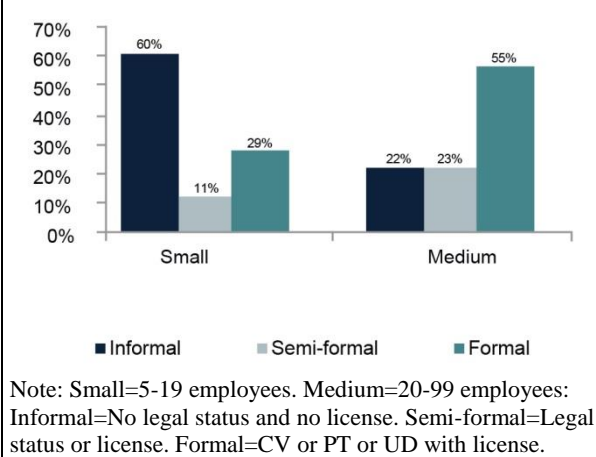
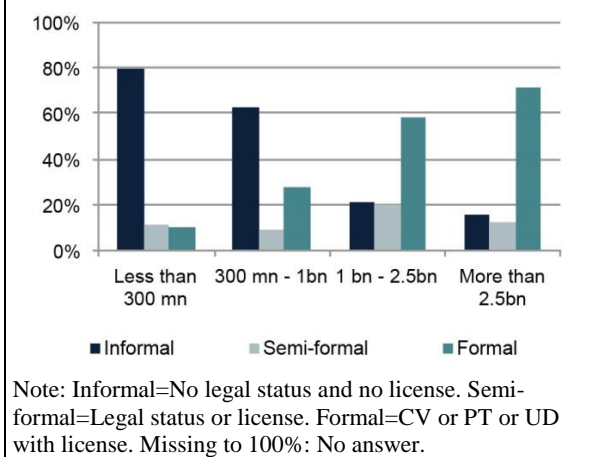


Figure 5: Formality by annual turnover

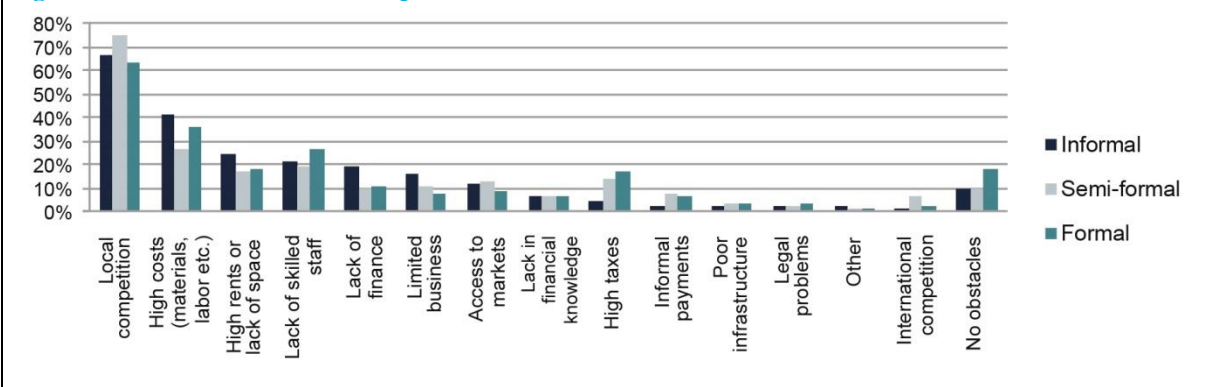


Failure to formalize also presents a barrier to cooperation between large enterprises and SMEs, by excluding them from active participation in the value chain as producers, suppliers, service providers. Furthermore, informal SMEs are prevented from obtaining government orders.

One big impediment is that informal businesses are handicapped in accessing bank loans. Access to finance is considered a major constraint for SME development¹². In our survey, 15 percent of SMEs mentioned lack of finance as one of the top three business challenges (Figure 6). Informal SMEs (19 percent) are obviously more affected but semi-formal (10 percent) and formal SMEs (11 percent) also face this obstacle. Enterprises with lower turnover experience access to finance as a stronger constraint. When applying the national SME definition based on annual sales as given in Table 1 above, 20 percent of micro, 15 percent of small, and 5 percent of medium-sized enterprises named it one of the top three obstacles in doing business.

Obstacles that SMEs consider more severe than access to finance are competition (66 percent), high costs of materials or labor (37 percent) as well as rents/lack of space (22 percent), in addition to the lack of skilled staff or difficulties in retaining skilled staff (23 percent). Lack of space and lack of qualified staff can be the factors influencing productivity, which in turn can be an explanation for lack of competitiveness and high costs.

Figure 6: Main obstacles of SMEs per formality status



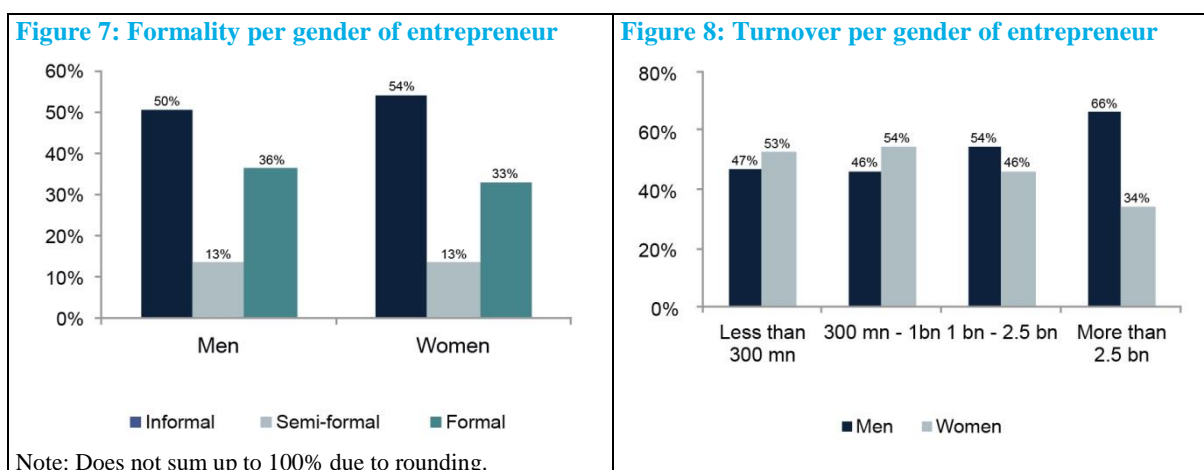
2.2 Women`s Contribution to the Economy and SME Sector

Gender-disaggregated data for small businesses is yet to be collected in Indonesia. It is therefore difficult to present hard numbers on the share of women entrepreneurs in SMEs and their economic contribution. However, it is possible to extrapolate the share of women entrepreneurs. According to IFC’s 2011 report *Strengthening Access to Finance for Women-Owned SMEs in*

¹² In the IMK 2013 survey by BPS, 28 percent report access to finance to be a major constraint. In the Enterprise Survey (covering medium rather than micro and small firms), these were 14 percent. In the World Economic Forum Competitiveness Report 2014, 11 percent of the SMEs mentioned access to finance as their most constraining factor.

*Developing Countries*¹³ the formal employment ratio of women is correlated to the share of women-owned businesses in the sector. In 2009, the World Bank's Enterprise Survey found that 42.8 percent of formal SMEs are women-owned. At the same time, formal employment of women stood at 46.7 percent¹⁴. With a formal employment ratio of 47.0 percent in 2013 it is therefore estimated that 43 percent of formal SMEs in Indonesia are women-owned.

As in many other countries, in Indonesia 'women tend to own smaller businesses. Applying the national definition of SMEs, our survey¹⁵ finds that women own 52.9 percent of the microenterprises, 50.6 percent of small and 34 percent of medium-sized enterprises in urban areas (Figure 8)¹⁶. Assuming that the ratio of women-owned businesses and the formal employment of women have remained unchanged between 2013 to 2015, women-owned small enterprises contributed¹⁷ Indonesian rupiah 443 trillion (\$ 36.5 billion), and women-owned medium-sized enterprises Indonesian rupiah 421 trillion (\$ 34.6 billion) to the Indonesian economy in 2013. This is a sizeable 9.1 percent of the country's GDP.



2.3 The Enabling Environment for Doing Business

2.3.1 Macroeconomic Environment

Indonesia is today the world's 16th largest economy, thanks to the steady economic growth the country has experienced over the last few years. However, growth rates have been falling since 2011 (Table 3). For 2015, the GDP growth rate is expected to be around 5 percent. This is clearly too low to create sufficient jobs for the growing population, and to avoid the middle-income trap¹⁸.

¹³ See IFC (2011), Figure 1.6, page 19.

¹⁴ BPS data for 2009.

¹⁵ The survey selected respondents based on a pre-determined ratio of entrepreneurs by gender and the size of their businesses, but there was no selective sampling across these two parameters. The data was collected in normal course so that it was not required to include, for instance, a woman-owned medium-sized enterprise – the attempt was not to bias this estimation. However, bias cannot be ruled out completely because of the twin criteria the survey started out with.

¹⁶ The World Bank's Enterprise Survey (2009) estimates that women own 44.1 percent of small businesses, 35 percent of medium- and 27.7 of large enterprises. The definition of WBES differs from the one used here in that WBES classifies a women-owned enterprise to have at least one woman shareholder, while we require shareholding of minimum 20 percent. However, in the case of Indonesia the definitions tally as most enterprises, particularly the small ones, have one shareholder only.

¹⁷ IFC (2011) shows that there no differences in productivity between women-owned and men-owned SMEs when controlling enterprises for size of enterprises as well as and their sector of activity. Size of enterprises is controlled; however, figures on sector productivity are not available. Compared to men (33 percent), Wwomen (23% percent percent) are less often engaged in manufacturing than men (33%), which is usually a more productive sector. However, figures on sector productivity are not available. Contribution of women-owned medium enterprises could therefore be lower. On the other hand, the share of women-owned SMEs among small enterprises might be higher when including if rural SMEs are included.

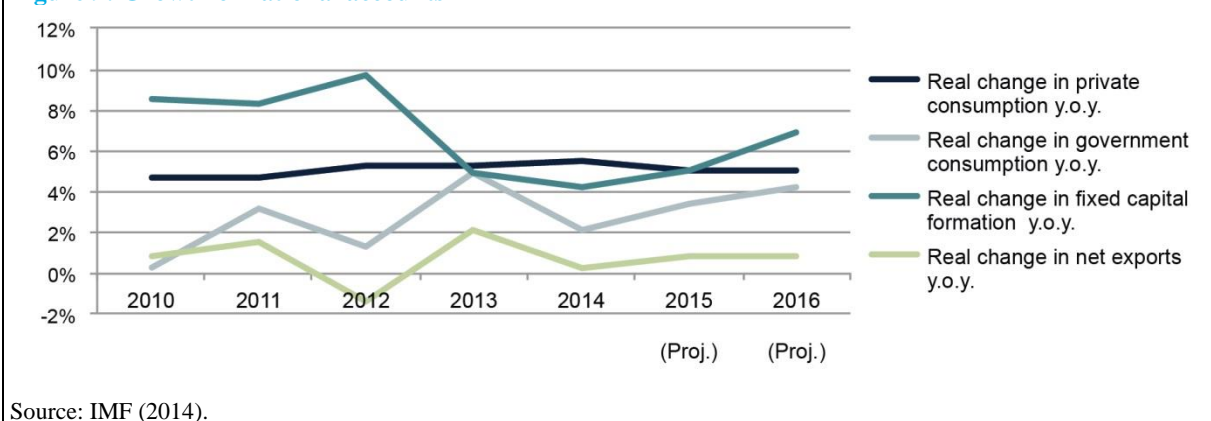
¹⁸ The World Bank (2014) estimates that an average growth of 6-7 percent until 2020 will be necessary to create sufficient jobs for the increasing working population. In order to avoid the middle-income trap, an average growth yearly rate of 9 percent until 2030 would be required. Zhou (2011) estimates that Indonesia's potential growth is 8 percent a year.

Table 3: Selected macroeconomic indicators (1)

	2010	2011	2012	2013	2014
Real GDP change y.o.y.*	6.2%	6.5%	6.3%	5.7%	5.1%
GDP, current (trillion IDR)*	6,864	7,832	8,616	9,525	10,553
GDP, current (billion USD)*	755	893	919	912	889
GDP per capita, current (USD)*	3,178	3,703	3,759	3,680	3,533
GDP per capita, PPP (USD)**	8,433	9,009	9,587	10,129	10,641
Poverty headcount, national poverty line**	13.3%	12.5%	12.0%	11.4%	11.3%
Inflation, average consumer prices*	5.1%	5.3%	4.0%	6.4%	6.4%
General government gross debt (% of GDP)*	24.5%	23.1%	23.0%	24.9%	25.0%
General government net lending (% of GDP)*	-1.2%	-0.6%	-1.6%	-2.0%	-2.2%

Source: *=IMF, **=World Bank

The declining growth rate has been widely discussed in recent research, but is mostly explained by two factors¹⁹. First, a fall of about 30 percent in the world market prices of Indonesia's main export commodities in 2012 has put its current account in the red (Table 4). Second, along with falling average productivity per employee, growth in fixed capital formation has declined from 10 percent in 2012 to 4 percent in 2014 (Figure 9). What is worse, government spending has remained low, so GDP growth has been primarily driven by the steady pace of private consumption, which contributed 57 percent to GDP in 2014²⁰.

Figure 9: Growth of national accounts

Source: IMF (2014).

SMEs mostly serve the local market and have benefited from stable macroeconomic conditions, increases in domestic income, and consumption²¹. Corporates, on the other hand, were more affected by the decline of commodity prices. They also appear to be more vulnerable than SMEs to an economic downturn in China, the largest foreign buyer of Indonesian goods and services. It is fair to assume that SMEs will remain the main contributors to growth and job creation in the coming years.

However, there are challenges faced by SMEs. An external shock might affect growth in private consumption by hitting incomes or by causing negative expectations. Also, the ASEAN Economic Community (AEC), which will be fully established in 2016, might afflict Indonesian SMEs that are today less competitive and more protected than the SMEs in region²². Therefore it will be important for SMEs to increase investments and productivity to gain competitiveness and benefit from free trade. On the positive side, SMEs will benefit from stable inflation²³,

¹⁹ See IMF (2015) or World Bank (2015a, 2015b).

²⁰ IMF (2015).

²¹ Mourougane (2012) estimates that only 1.6 percent of small and 14.2 percent of medium enterprises are involved in exporting directly or indirectly, compared to 55.3 percent of large enterprises. In our survey these are overall 3.3 percent.

²² See for example Sato (2013).

²³ Inflation increased in 2013 due to higher consumption before elections, and in 2014 due to reform of the government fuel subsidy program. While there is some pressure on inflation due to increasing food prices, in particular rice, predictions are that inflation should be back within BI's inflation target of 4% ±1%.

increasing income, lower growth of imports, and an increased government investment in infrastructure.

Table 4: Selected macroeconomic indicators (2)

	2010	2011	2012	2013	2014
Net FDI inflow (% of GDP)	1.6%	1.4%	1.6%	1.6%	1.9%
Current account balance (% of GDP)	0.7%	0.2%	-2.7%	-3.2%	-3.0%
Gross investment	32.9%	33.0%	35.1%	34.0%	33.8%
Gross national savings	33.6%	33.2%	32.3%	30.7%	30.9%
Volume of imports (% change)	17.8%	15.4%	15.5%	0.3%	-1.0%
Volume of exports (% change)	2.7%	5.8%	2.9%	2.7%	2.0%
Exchange rate IDR/USD, end of period	8,979	9,075	9,638	12,171	12,435

Source: IMF

2.3.2 The Legal Environment

Since 2004, the government of Indonesia has strategically promoted Micro, Small and Medium enterprises as the engines of sustainable and pro-poor growth. In consultation with all the relevant ministries and agencies, the government launched comprehensive economic policy reforms called the New Economic Policy Package in 2007 and 2008. This package included policies to improve the investment environment, finance and infrastructure sector. The aim was to strengthen the MSME sector.

The government also passed the SME Law (Law No.20/2008) providing a single national definition for the benefit of all government authorities and the Bank of Indonesia (Table 1). More initiatives impacting SMEs were announced in 2012, which included the MFI Law (Law No.1/2013) and the National Strategy for Financial Inclusion for Indonesia. The Financial Inclusion strategy aims to improve both, coordination among various government agencies and access to finance for MSMEs.

To be sure, most of the laws are gender-neutral and there is no discrimination between businesses owned by men and women when it comes to access to finance or other business-related needs of the SMEs. However, discriminatory social norms and family constraints tie down women entrepreneurs more as compared to men (see Box 1). These, as the findings in sections below show, indirectly impact patterns of women's access, use and demand for financial services.

Box 1: Discrimination of women on account of law and culture

The transition to democracy that started in 1998 marked the start of political, social and economic reforms (*reformasi*) in Indonesia with an overall thrust on gender equality. The reforms included ratification of international agreements and the establishment of institutional policies and programs addressing the specific needs of women. A landmark Presidential Decree of 2000 obliges all government agencies to mainstream gender in their policies and programs and to eliminate gender discrimination²⁴. The Medium Term National Development Plan specifically identifies gender as a cross-cutting issue²⁵.

The main gaps in the legal framework include the lack of laws or inadequate laws that penalize discrimination against women in the areas of family and marriage. Also, the poor enforcement of existing laws continues to be a setback against gender equality. For instance, the Marriage Act of 1974 affirms the status of men as heads of household, permits polygamy, and sets the minimum age of marriage for girls at 16. As a result, women in most traditional families in Indonesia are not in a position to take personal or economic decisions, particularly those about starting a business, selling personal assets, and borrowing loans for home or business without the man's permission. Polygamy, as well as the low minimum age for marriage, only helps contribute to gender imbalance in households.

²⁴ UN Women Indonesia Fact Sheet.

²⁵ The Medium Term National Development Plan (RPJMN) 2010 – 2014. Ministry of National Development Planning / National Development Planning Agency.

Komnas Perempuan, the National Commission on the Elimination of Violence against Women, has identified 154 discriminatory bylaws that limit the ability of women to exercise their rights in society, including rules on women's clothing, morality and religion. For instance, there is a bylaw that obliges Muslim women to be veiled, and others that prohibit women from leaving their homes after dark without being accompanied by a spouse or male relative. These inequitable rules, in addition to the women's obligations to the home and family, not just limit the hours they can contribute to the business, but also prevent them from travelling to distant places for business dealings, forcing them to depend on a male relative.

Administrative decentralization – where authority has been devolved from the central government to local authorities – and the rise of religious fundamentalism are factors linked to the weak enforcement of constitutional laws. The enactment of local legislation, which overrules the central government, further curtails women's freedom and violates their human rights.

UN statistics²⁶ show that less than 54 percent women currently participate in labor force as compared to 86 percent men. As a result, unemployment remains high with more women unemployed or engaged in risky and vulnerable work in the informal sector as compared to men, and earning lower wages.

Low wages and unemployment are also apparently leading to out-migration. In 2009, an estimated 4.3 million people went overseas, of whom 78 percent were women, engaged in domestic care work in precarious conditions without legal or social protection. In order to check this, self-employment and entrepreneurship are alternatives mooted by governments and development agencies to enable people to break out of the cycle of poverty.

The World Bank Doing Business 2015 Report that appraises the business climate of 189 economies annually ranks Indonesia lower than its peers such as Malaysia and the Philippines, as well as the regional average for the East Asia and Pacific region²⁷. In the course of the decentralization process after 1998 and the newly obtained autonomy²⁸ in its wake, local administrative set-ups have tended to treat SMEs as a source of easy revenue for the local government. Various permits and fees have been imposed mostly at the cost of sustainability and the growth potential of MSMEs. According to the Ministry of Cooperatives and SMEs, there were around 400 local government regulations potentially hindering SME development as of August 2010²⁹. The three indicators in Table 5 – business registration, paying taxes, and property registration – remain key concerns for SMEs in Indonesia.

Table 5: Doing Business indicators for three major constraints

Area	Rank 2015	Procedures	Days	Costs	Implication
Business registration/ license	155	10	53	21% of income per capita	<ul style="list-style-type: none"> ▪ Discourages becoming formal ▪ Limits growth ▪ Limits access to finance
Paying taxes	160	65 payments per year	254 hours	31% of profit	<ul style="list-style-type: none"> ▪ Discourages becoming formal ▪ Reduces growth
Property registration	117	5	27	11% of property value	<ul style="list-style-type: none"> ▪ Discourages formal ownership ▪ Risk of losing property ▪ Limits access to finance

Note: Rank out of 189 countries. Source: World Bank (2014b).

While applying for loans, banks require SMEs to present their business registration and licenses. This is also a requirement of the government if businesses want to participate in certain government support programs. Without a proper license the enterprise in fact runs the risk of

²⁶ UNDP (2013). Human Development Reports. Table 4: Gender Inequality Index.

²⁷ Indonesia ranks 114 whereas Malaysia, China, and the Philippines rank 18, 90, and 95 out 100, respectively. Source: World Bank (2015b).

²⁸ After the highly centralized state under Suharto's rule, decentralization was a major goal for the new Administration after 1998. In addition to political reasons, decentralization was meant to promote economic development of the rural areas.

²⁹ Until 2012 the Doing Business Report differentiated between several cities within Indonesia, showing that time and costs for obtaining licenses, permits, etc. can differ by 100 percent between cities.

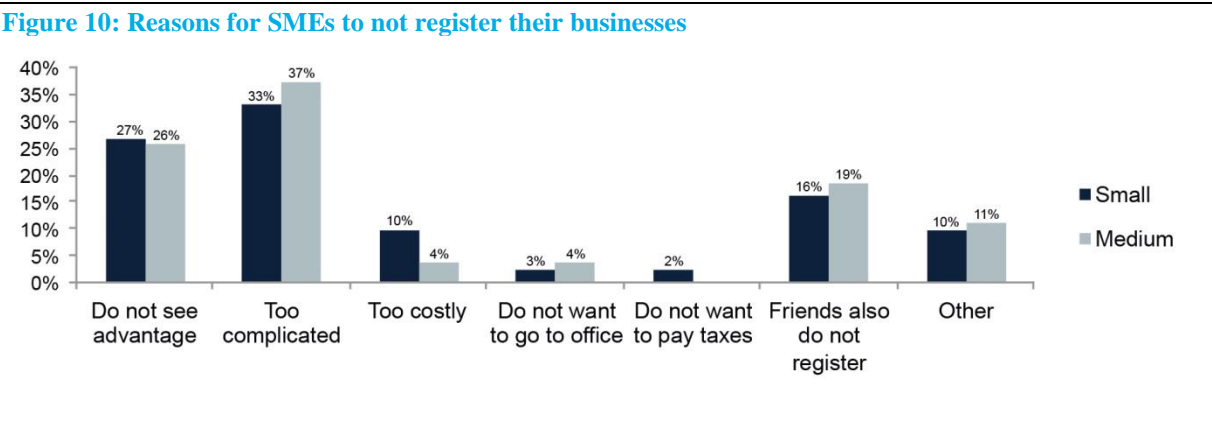
being shut down. It was pointed out in FGDs that government officials regularly visit informal businesses and demand frequent payments for agreeing to overlook the missing license.

However, the procedure for registering a business is complex and time-consuming³⁰. Thus to establish a *Perseroan Terbatas (PT)*, the most common legal entity in Indonesia, an applicant must first apply through public notary to the Ministry of Law and Human Rights for approval of the deed of establishment. Once the deed of establishment has been approved, a Certificate of Company Domicile by the local government unit (*Lurah*) is needed. The next step is to apply for a Business Trading License (*Surat Izin Usaha Perdagangan, SIUP*)³¹ from the relevant local government office (*Dinas*).

That is not all. The registration to the Workers Social Security Program is mandatory for businesses hiring more than ten employees, or paying more than 1 million Indonesian rupiah per month in salaries. All businesses must also apply for health insurance with *Badan Penyelenggara Jaminan Sosial Kesehatan (BPJS)*. Finally, a taxpayer registration number (NPWP) and VAT collector number (NPPKP) have to be obtained.

Our survey finds that most enterprises (73 percent) had no major problems in registering their businesses. Time-consuming processes (14 percent) did not seem to be much of a problem, at least for urban SMEs. Still, some (11 percent) preferred to outsource the registration process rather than do it themselves. Only 1 percent mentioned informal payments as a problem when registering. However, it should be noted that even though FGD participants mentioned informal payments and other hidden costs when dealing with authorities, they accept it as a recurrent business cost.

Interestingly, even though most SMEs did not consider the registration process as very burdensome, more than half of the SMEs surveyed -- 52.2 percent -- opted to stay informal (Figure 4 above). A sizeable number of informal businesses think the registration process is complicated (33 percent) as well as costly (9 percent, Figure 10). Another reason for businesses staying informal is that they do not see the advantage of formalization (27 percent); the decision is also influenced by friends who do not register (16 percent). In particular, informal medium-sized enterprises do not see the advantage of registering a business because of the opportunity cost of time spent doing it.



Typically, a sustainable new business registers after one or two years of operation, or when it reaches a turnover of Indonesian rupiah 1 billion. Most of the women-owned SMEs report lower turnover, which explains their high share in informal businesses. Another reason is that due to household responsibilities, women have less time to deal with time-consuming paperwork and administrative matters.

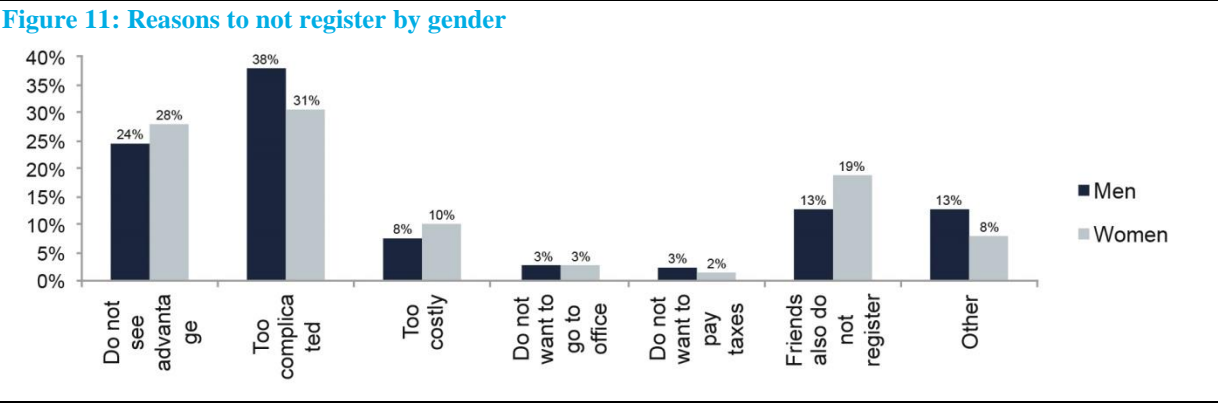
In 2013, the Asia Foundation in its report on access to trade and growth of women-owned SMEs in Indonesia found that a higher share of women (41 percent) than men (32 percent) regarded

³⁰ According to WB (2014), the procedure takes 52.5 days in Jakarta. It can take much longer in other cities.
³¹ SIUP exists in three classes: small for business with assets of more than Indonesian rupiah 50 million IDR, medium (for more than Indonesian rupiah 500 million IDR) and large (for more than Indonesian rupiah 10 billion IDR).

informal payments as a severe problem when dealing with authorities. During the FGDs too, women complained about these illegal payments. Although there is nothing to substantiate that women have to pay higher informal payments, it is likely that women have less resources for such payments or feel less comfortable in making them, preventing them to register their business or their land.

At least for urban women-owned SMEs, the registration process is not problematic -- 75 percent say it was not, as compared to 72 percent men. Fewer women than men among unregistered businesses fear the complex procedure (Figure 11). However, more women (28 percent) than men (24 percent) do not see the advantage of registering their businesses.

In other words, weighing the advantages of registration against the costs associated with the procedure, women more often say that registration is not worth the effort. Additionally, the fact that friends or colleagues in the same community also do not register discourages women (19 percent) more than men (13 percent). This could also indicate a lack of positive role models for women that show the benefits of registration of the businesses. Additionally, the type of business women tend to operate might also influence the decision not to register the business.



In addition to the lengthy and costly procedure of registration, taxes also discourage SMEs from official registration. According to The Doing Business 2015 Report, a standard medium-sized company will pay 31.4 percent of its profit in taxes and spend 253.5 hours a year filing and paying taxes. Enterprises with less than Indonesian rupiah 4.8 billion sales a year – that is, most small enterprises – are charged a final income tax (*PPH Final*) equal to 1 percent of their turnover³². The final income tax represents a lesser burden for small companies compared to medium-sized and large enterprises that pay between 12.5 percent and 25 percent of their profit. But, depending on the margin, even this can still be high for a small business. In addition, all companies pay social security and health contributions for employees which adds up to 10.2 percent of gross salaries paid.

In order to ease business registration and encourage more businesses to enter the formal sector, Indonesia has been rationalizing business licensing since 2010. Certain licenses have been phased out, fees reduced, and the application process simplified. For example, trading licenses is now a part of the business registration process.

In addition, the country has introduced One-Stop-Shops (OSS) all over the country over the past seven years. Even though these have helped make it relatively easy to access information on business registration, says The Asia Foundation 2013 report, procedures have remained complicated, it adds. Many businesses (59 percent) still need assistance and hire agents to fulfill the formalities. Informal payments remain common (54 percent)³³.

In order to increase the share of formal enterprises, Indonesia issued President Regulation (*Peraturan Presiden*) No 98 Year 2014. This is a one-page permit for micro and small

³² Government Regulation PP 46 Year 2013
³³ The Enterprise Survey finds that in 2009, 15 percent of the respondents paid illegal fees; KPPOD and Asia Foundation (2011) find a share of 20 percent that paid illegal fees and more than 50 percent said that corruption is a severe or moderate problem.

enterprises, a new legal entity status that can be applied for through a simplified procedure at lower cost. The President Regulation was followed by No 83 Year 2014 from the Ministry of Home Affairs that stipulates the guidelines for issuing permits for MSMEs.

The basic idea of this regulation is to delegate the issuance of business permits from *Kabupaten/Kota* (district/city) to *Camat* (sub-district) in order to speed up the process and reduce the cost³⁴. In addition to the three implementing ministries of the cooperatives and SMEs, home affairs, and trade, several banks were invited to participate in this initiative and recognize the one-page permit as a legal entity. So far only Bank Rakyat Indonesia is participating in this initiative and offering debit cards (*kartu IUMK*) to every micro and small enterprise that was granted a one-page permit by the government. This one-page permit should subsequently make it easier for the micro and small enterprises to get loans from BRI and other banks, as well as to participate in government support programs and services. Some of them are briefly described below.

In order to increase the usage of movable collateral, the Ministry of Law and Human Rights issued a regulation (*Permenkumham* 9/2013) in February 2013 that implements the online registration for the *Fiducia* agreement. The *Fiducia* Act (No:42 Year 1999) covers movable assets that are tangible and intangible (receivable). The Act stipulates that the ownership of an object can be transferred to the creditor with the control of the object remaining with the debtor. With this, registration of the movable collateral is done through an online system that can be accessed through notary public, eliminating the need to visit the *Fiducia* Registration Office (*Kantor Pendaftaran Fiducia*). In this online system, the Certificate of *Fiducia* is also issued by the notary public.

2.4 Government Support for SMEs

2.4.1 Programs Offering Support to SMEs

The government of Indonesia as well as Bank Indonesia offer a number of support services that aim to develop the MSME sector by raising awareness and strengthening networks, and lowering barriers to access finance. However, the majority of programs target the needs of microenterprises rather than those of the SMEs. Worse, there are no programs specifically targeting women-owned SMEs.

Financing support programs for small businesses are broadly channeled through three fronts. The government, through the Ministry of Cooperatives and SMEs or the Ministry of Industry, collaborates with the local authorities to implement programs. In addition, the country's central bank is launching its own programs that will be implemented by its head office or the 16 regional branches. State-owned companies contribute too, in the form of mandated Corporate Social Responsibility programs. Many private corporates also have programs targeting MSMEs. Some of the major programs are described below.

Kredit Usaha Rakyat (KUR) - People's Credit for Business

In order to better serve the financing needs of MSMEs, the government of Indonesia introduced Kredit Usaha Rakyat in 2007. KUR is a credit program specifically dedicated to MSMEs, implemented by three state-owned banks -- BRI, Bank Mandiri and Bank Nasional Indonesia. The government provides a guarantee of 70 percent of the total loan amount to banks disbursing loans to businesses under the scheme. Two types of financing are provided under the scheme, KUR Mikro and KUR Retail. For KUR Mikro, the loan sizes up to Indonesian rupiah 25 million are considered, and between Indonesian rupiah 25 million and Indonesian rupiah 500 million for KUR Retail. No collateral is required for KUR Mikro. The government is also providing an interest subsidy for KUR since July 2015, reducing interest rates for end borrowers from 22 percent to 12 percent annually.

³⁴ So far only 70 out of 514 *Kabupaten/Kota* have issued *Perda* (local regulation) to facilitate the President Regulation.

KUR is designed to make MSMEs bankable. Generally MSMEs can only apply once and should use regular bank loans after that. Between 2007 and 2014, total disbursement under KUR was Indonesian rupiah 153 trillion, reaching 10,991,580 borrowers of which the majority was located in Java (56 percent)³⁵. The non-performing loan ratio of KUR until December 2014 was 4.2 percent. The government has set a target of Indonesian rupiah 30 trillion³⁶ for KUR disbursement in 2015.

Pusat Layanan Usaha Terpadu (PLUT KUMKM) - MSME Support Center

PLUT KUMKM was initiated by the Ministry of Cooperatives and SMEs in order to provide business support to MSMEs. Currently there are 42 PLUT KUMKM centers in 16 provinces across Indonesia. The centers are financed by the state's budget. Services provided to enterprises under the program are:

- Business consultation (HR development, product quality improvement, intellectual property rights, business management, among others.)
- Mentoring (providing business mentor)
- Assisting MSME in obtaining financing (connecting with banks, assisting in preparing loan proposal, and so on.)
- Marketing and promotion (product exhibitions, connecting with supermarkets, better packaging, among other things.)
- Business training (technical training, accounting and bookkeeping, taxation, and other-business related activities.)
- Networking (facilitating networking with larger companies and other institutions).

The MSME Support Centers are among the most active support providers to MSMEs, offering the widest range of services. Still, as argued in the next chapter, awareness of the programs among MSMEs is rather low. Usage might be further limited by the small number of centers and their low capacity for servicing MSMEs with quality training or mentoring.

SMESCO and Exhibitions

In 2007, the government established the Small and Medium Enterprises and Cooperatives Indonesia Company. Its objective is to promote the products of Indonesian SMEs. It operates at SME Galley of SME Tower in Jakarta where enterprises can display their products. By 2015, the SME Galley had served 560 SMEs from 19 provinces offering 124 different products³⁷.

Every local government also regularly conducts MSMEs exhibition in their province or district. Some of the samples of those local government exhibitions are Jawa Barat Expo, NTB Expo, and Bogor Expo. Among the more thematic exhibitions are Indonesia Fashion Week and the Indonesia Fashion, Accessories, and Craft (IFAC) Expo.

Initiatives by Bank Indonesia to support MSMEs

Unlike the government, the country's central bank can introduce programs directly. Some of the programs currently implemented by Bank Indonesia are:

- **SME Rating Agency:** One of the problems banks face in lending to MSMEs is the staff's lack of knowledge when it comes to assessing MSME businesses. In order to address this issue, BI has introduced an MSME Credit Rating Agency and advocated its wide use. The MSME Credit Rating Agency specializes in assessing the soundness and creditworthiness of these enterprises.
- **Regional Credit Guarantee Corporation:** BI encourages the establishment of Regional Credit Guarantee Corporation in all the provinces of Indonesia. However the decision to establish these corporations falls under the jurisdiction of provincial governments.

³⁵ Ministry of Cooperatives and SMEs.

³⁶ Utumi (2014).

³⁷ <http://smescoindonesia.com/index.php/halaman/18/ukm-gallery>

- Warehouse Receipt System: BI encourages the usage of warehouse receipt system as collateral for banks loans. Unfortunately the high fees charged by the warehouses make it unfeasible for most MSME to avail this kind of service.
- Regulation to increase lending to MSME: In order to encourage banks' lending to MSMEs, BI issued a regulation (Nomor 14/ 22 /PBI/2012) in 2012 that mandates banks increase the share of their lending to the sector in stages to 20 percent of the total loan portfolio by 2018.

Corporate Social Responsibility

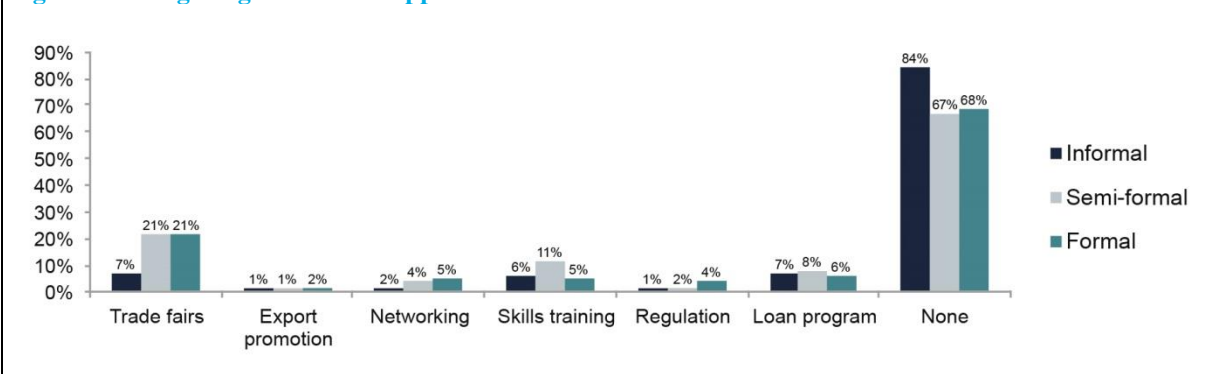
Both private companies and state-owned companies implement CSR programs in Indonesia. In fact, CSR programs are mandatory for state-owned companies and they have to set aside 2 percent of their net income for CSR activities. The CSR program of state-owned companies is known as *Program Kemitraan Bina Lingkungan (PKBL)*. The program usually initiates projects in the fields of education (scholarships), environment, natural calamities assistance, training & capacity building, production equipment/facilities donation. The objective is the overall MSME development. Low-interest loans for MSMEs³⁸ are a part of the program. Examples of programs launched by private and state-owned banks are:

- Training on bookkeeping for MSME customers by BNI
- Program Wirausaha Mandiri (Mandiri Entrepreneur Program) for encouraging and assisting young entrepreneurs in establishing a company. It includes training and workshops, in addition to the annual Young Entrepreneur Award.

2.4.2 Use of Government SME Support Services

Trade fairs as well as skills training and government loan programs such as KUR are the most popular support services SMEs use. Even though a section of the surveyed SMEs participated in several government support programs, the majority (76 percent) is not using any government support service at all. Informal SMEs in particular have hardly ever used these services, with the exception of participating in loan programs (Figure 12). An explanation might be that informal SMEs might be reluctant to apply for training or support for exhibitions without a proper legal status. In fact, both small enterprises (78 per cent) and medium enterprises (71 percent) have scarcely benefited from government services in the last two years.

Figure 12: Usage of government support services

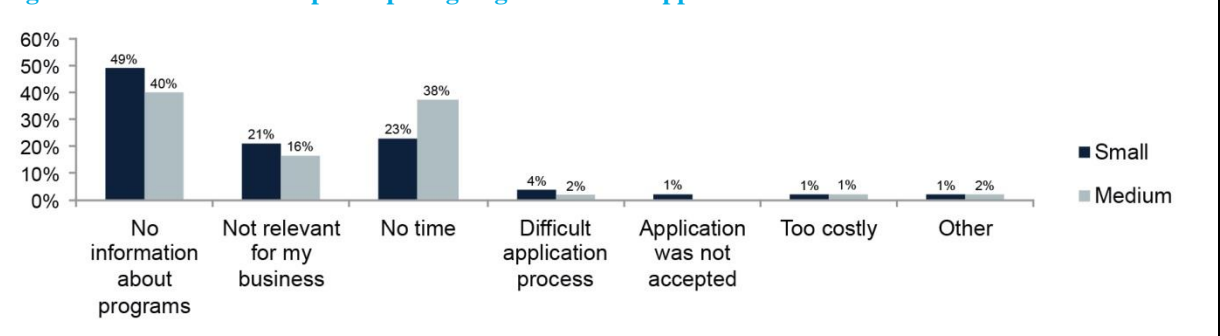


Indeed, small enterprises feel more strongly than medium enterprises that the services are not relevant for them (Figure 13). The main reason for not participating, however, is the lack of information about such programs. Small enterprises (49 percent) in particular either do not know about the offerings, or how to apply for them. Medium-sized enterprises are better informed but often lack time (38 percent). However, the respondents made it clear that the application process or its costs do not prevent SMEs from participating.

³⁸ Under PKBL, state-owned companies can provide low interest loans to micro and small enterprises with less than Indonesian rupiah 200 million in assets (excluding land and business premises), less than Indonesian rupiah 1 billion in sales. The businesses should have been under operation for more than a year.

In order to increase the use of government support services, they should orient themselves better to the needs of small enterprises. For example, in comparison to microenterprises SMEs need less training on financial literacy but more sophisticated training on accounting and financial controlling. This will also make it easier to promote them more effectively.

Figure 13: Reasons for not participating at government support services



It is to be noted that women might benefit to a greater extent than men from state support in the form of training, fairs and networking opportunities³⁹. More women than men participated in government support services, in particular trade fairs and skills training, but less so in loan programs (Figure 14). The Asia Foundation 2013 report also finds higher participation ratios for women⁴⁰. Women have a greater need for such services, or are more open to receiving support. Also, the majority of women in the FGDs felt that more support might be necessary and desirable.

However, it is revealing that a significant 75 percent of both male and female businesses that did not participate in any such program during the last two years.

Even though women stand to gain more from government support, 46 percent lacked information about the availability of support programs, or how to apply (Figure 15). However, there is a bigger reason for women’s poor participation. Women say they do not have the time to attend fairs or training, and that these services have little relevance for their businesses. Obviously, due to stricter time constraints, women are more selective in evaluating and accessing such services.

Figure 14: Participation in government support programs according to gender

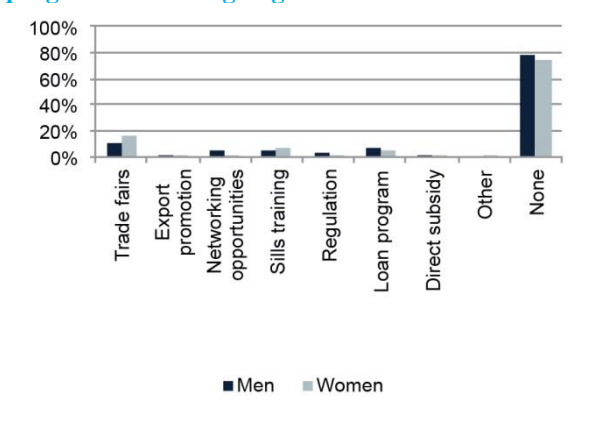
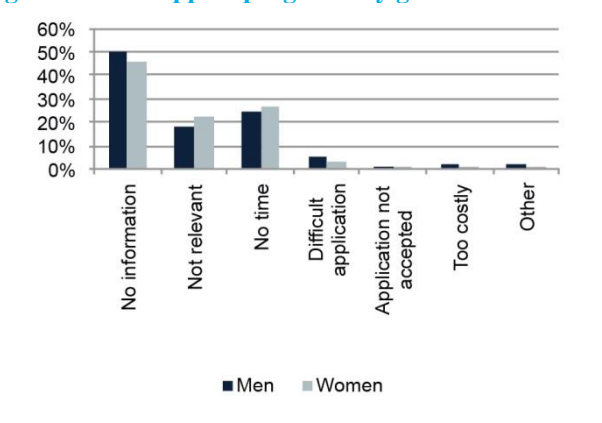


Figure 15: Reasons for not participating in government support programs by gender



Women are as likely as men to be a member of a formal or informal business network or association (15 percent). Similarly, women are more informed about their services and take greater advantage of them. Many associations or networks organize training or advisory or information-sharing between entrepreneurs. For instance, 75 percent of women members of

³⁹ The EIU (2010, 2012) Women’s Economic Opportunity Index ranks Indonesia 76 out of 113 countries in availability, costs and access of women to SME support and training. Overall, Indonesia is ranked 82th.

⁴⁰ In the Asia Foundation (2013) survey, 58 percent of the women business owners participated in trade fairs compared to 39 percent of men owners, and about 45 percent of women participated in skills training programs compared to 30 percent of men.

associations received advisory on obtaining a loan compared to 44 percent of men, who were hardly aware of such services. Women were also more likely to attend regular meetings in order to share information and knowledge or use networks to access new clients and suppliers. Both women and men said they would not just appreciate more services, especially training or advice on regulation, government support programs and accounting⁴¹, but also better dissemination of information about these services.

⁴¹ For example 23 percent of men and 28 percent of women would be interested to learn more about government programs from their association or networking group.

3 Supply and Demand of Financial Services

While access to bank loans is officially encouraged for SMEs, the offtake in reality is rather low. Nearly all SMEs have a bank account, but few are actually using it and even fewer take loans even though SMEs are able to absorb and sustain a much higher debt level.

Complex procedures and high interest rates are the main reasons why SMEs prefer to retain on profits or borrow from family or friends instead of banks. Even if these businesses borrow from a bank, loan amounts are rather small and barely meant for investments. Not surprisingly, SME bank lending remains at only a fraction of its potential. With banks historically focusing on either micro or corporate enterprises, they often lack the capacity to serve the diverse needs of SMEs effectively.

3.1 Access to Finance

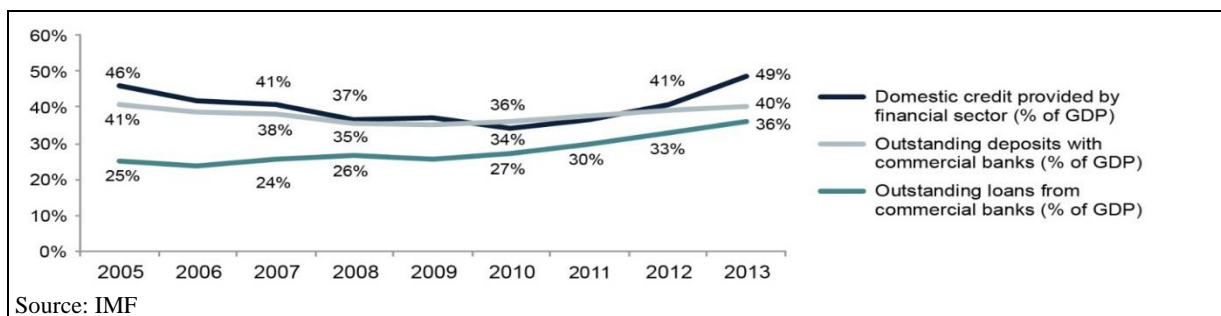
According to the 2015 data, there are 119 commercial banks in Indonesia operating through a network of about 20,000 bank branches⁴². In addition to the four state-owned banks, there are Sharia banks, rural banks, microfinance institutions, cooperatives and others that provide financial services. However, financing agencies other than commercial banks are small in scale and focus on specific customers or geographic areas.

While gaps in banking infrastructure still persist in rural areas, urban areas are considered to be well covered, providing broad access to financial services. Several banks are also offering mobile financial services, and have started to develop agent networks that will further increase accessibility and convenience of using bank services.

In 2015, total domestic credit in the country provided by the financial sector amounted to 49 percent of the GDP (Figure 16). Of this, commercial banks provided loans accounting for 36 percent of GDP. While the credit supply has been continuously increasing since 2009, the ratio is still low in international comparison. Domestic credit-to-GDP ratio for Philippines, for example, stands at 51.9 percent, for Malaysia at 142.6 percent and 173.3 percent for Thailand.

Our survey corroborates the low level of credit in the country. In 2014, only 13 percent of the adult population had borrowed from a financial institution, while 49 percent had taken a loan from other sources including family, friends or informal moneylenders⁴³. At the same time, 860 savings accounts per 1,000 adults were registered and 36 percent of the population was using a savings account opened at a financial institution. Again the share of deposits to GDP in 2013 stood at 40 percent, exceeding the amount of loans given by commercial banks. This indicates that access to banking services is generally established, though there is a long way to go in improving access to credit.

Figure 16: Credit and deposits to GDP

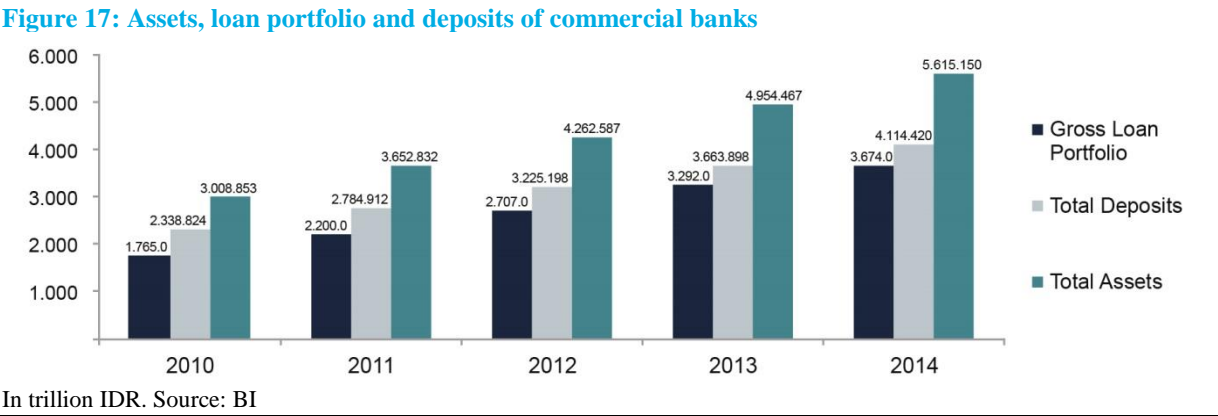


⁴² Commercial banks are classified as state-owned banks with 37 percent share in the total commercial bank assets, foreign exchange commercial banks (39 percent), non-foreign exchange commercial banks (3 percent), regional development banks (8 percent), joint venture banks (5 percent), and foreign owned banks (8 percent). The two largest banks, Bank Rakyat Indonesia (BRI) and Bank Mandiri, both state-owned, hold 27 percent of the total commercial bank assets. Commercial banks are regulated by the Financial Service Authority OJK. Basel 2.5 is fully implemented and Basel III framework is currently under implementation.

⁴³ Global Findex Database.

Overall, banks are in a good position to increase lending. According to the latest figures, total assets of commercial banks amounted to Indonesian rupiah 5,615 trillion by December 2014 (Figure 17). The loan-to-assets-ratio stood at 66 percent and loan-to-deposits ratio at 89 percent. The loan-to-deposits-ratio has been constantly increasing. It had risen to 75 percent from about 60 percent five years ago. On the other hand, the liquid-assets-ratio decreased from 27 percent in 2010 to 16 percent in 2014. This follows the increasing loan-to-GDP ratio while the deposits-to-GDP ratio has remained rather stable.

Though banks are still liquid enough to increase lending, in the medium-term increasing the deposits base might be an issue⁴⁴. **Also to be noted is that the non-performing loan ratio has been low – in the 1.8 percent-2.4 percent range between 2011 and 2014. This indicates sound risk management principles, but also a rather low risk appetite of banks⁴⁵.**



It is hardly surprising then that credit growth has been slowing down. It came down from 23 percent in 2013 to 12 percent in 2014, and a 9 percent CAGR in the first seven months of 2015⁴⁶. The fall in credit growth is seen across mostly all categories.

By the end of 2014, loans for consumption accounted for 27.6 percent of the total loan portfolio, loans for working capital 47.8 percent and loans for investments 24.6 percent. Only loans for investments increased by 4 percentage points over the three years since 2011, while loans for consumption declined by 2 percent, and working capital loans by a percentage point.

Even though the growth of investment portfolio is a positive, its share in the total loan portfolio is still low in international comparison. According to Beck et al. (2008), in developing countries investment loans on average account for 40-50 percent of business loans, and around 70 percent in the developed economies.

Lending to SMEs is not the primary business for Indonesian commercial banks. By December 2014, their combined loan portfolio to MSMEs stood at 18.3 percent (Figure 18). There were a total of 10.9 million MSME borrowers at the end of 2014.

Although the portfolio has been growing in absolute terms by 10 to 15 percent annually from 2012 to 2014, its share in the total loan portfolio has decreased by about 3 percentage points. In the first seven months of 2015 the MSME loan portfolio has grown only at a CAGR of 11 percent.

In the MSME sector, banks have tended to focus on medium-sized enterprises, which accounted for almost half (49 percent) of the sector portfolio in 2014. Small enterprises accounted for 30 percent and micro enterprises for the balance 21 percent. Wholesale and retail trade sectors received the bulk of bank financing (Figure 19). This explains the high share of working capital loans (73 percent) in the MSME loan portfolio. In terms of regional distribution, most SME

⁴⁴ Capital adequacy ratio stood at 19.6 percent in December 2014, Core Capital at 18 percent. IMF (2015a) regards liquidity and capital buffers sufficient and attests Indonesia’s banking system as generally sound.
⁴⁵ The non-performing loans have risen from 2.2 percent in December 2014 to 2.7 percent in July 2015, mainly due to banks’ high exposure to non-profitable commodities.
⁴⁶ Calculations are based on BI data.

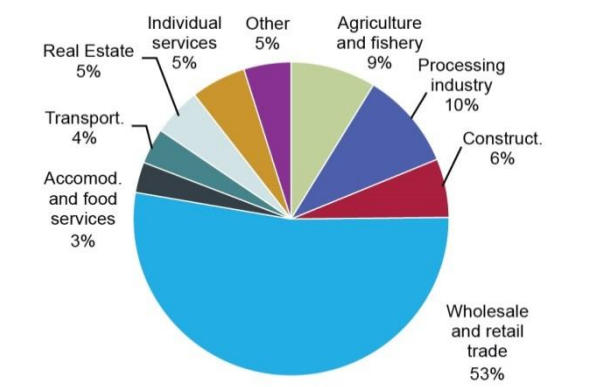
loans were allocated to Jakarta (15.2 percent), followed by East Java (13.1 percent) and West Java (12.8 percent).

Figure 18: Share of MSME loan portfolio



Source: Bank Indonesia

Figure 19: Share of sectors in MSME loan portfolio in 2014

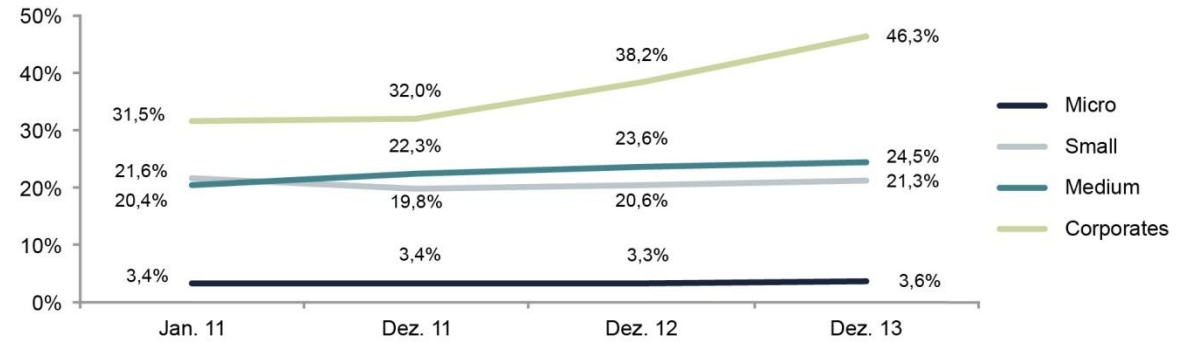


Source: Bank Indonesia

The SME sector is underbanked and characterized by a relatively low level of debt. In 2013, medium-sized enterprises had debt amounting to 24.5 percent of their value added (Figure 20). The level for small enterprises was 21.3 percent while that for corporates stood at 46.3 percent, soaring sharply from a debt level of 31.5 percent since 2011.

Admittedly, the productivity of SMEs is lower than that of corporates, but these businesses should still be able to absorb and sustain higher debt given their profitability and willingness to invest in their companies, as is shown in the next few sections (chapters 3.2 and 4.1.2) of this report. This offers lucrative business opportunities for banks to tap into the SME market.

Figure 20: Debt of enterprises from commercial banks in relation to their value added



Source: BI, Ministry of Cooperatives and SMEs, Frankfurt School of Finance & Management

In 2015, BI put into effect a new regulation of that mandates a minimum share of MSME lending in a bank’s total loan portfolio. According to the rules, commercial banks will have to have a share of 5 percent in 2015, 10 percent in 2016, 15 percent in 2017, and 20 percent from 2018 onwards. Most banks will be able to fulfill the 5 percent threshold, but there will still be many that will need to step up their efforts substantially to increase their MSME lending by 2016 and afterwards in order to conform to the new regulation.

The state-owned banks, with a 25.8 percent share of MSME loans in their total portfolio, would face less pressure in this regard. But private commercial banks⁴⁷ with just 13.6 percent of their loan book as MSME financing will face a lot of regulatory heat. Estimates peg the state-owned banks’ market share in MSME lending at 51 percent and that for private commercial banks at 41.5 percent.

Private commercial banks, often coming from corporate lending, have largely concentrated on the upper part of MSME lending. Medium-sized enterprises account for 76 percent of their

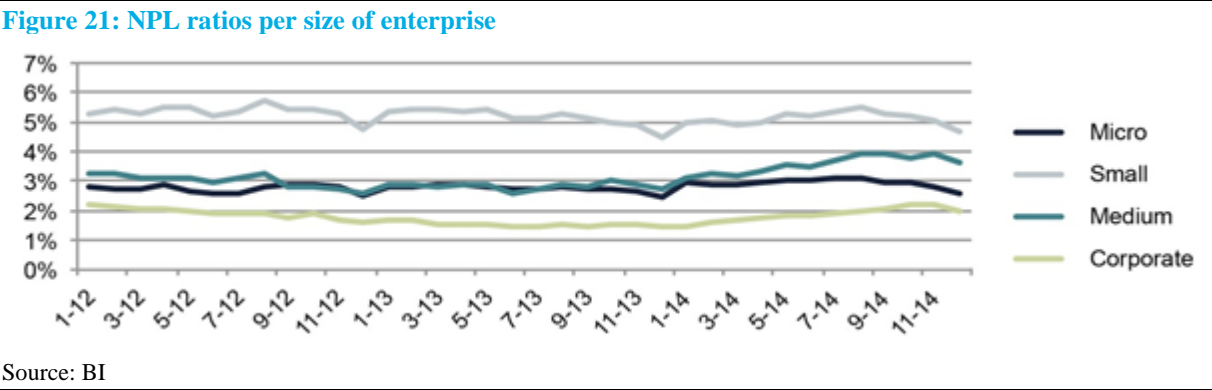
⁴⁷ Defined as foreign exchange commercial banks, joint venture banks and foreign owned banks. In particular foreign-owned banks and joint-venture banks have focused on consumer lending and will have to increase their MSME loan portfolio.

MSME loan portfolio. On the other hand, state-owned banks, particularly BRI and Bank Mandiri, have focused more on the micro (31 percent) and small enterprises (40 percent).

The lower end of the SME sector has long been considered too risky by private commercial banks. Indeed, NPL ratios are the highest for small enterprises followed by medium-sized enterprises (Figure 21). Other reasons why private banks have largely stayed away from SME lending are the perceived lower profits in the sector compared to large corporates and high profit consumer loans, as well as due to the investments required into products, delivery channels and staff capacity for strengthening SME lending.

However, lending to SMEs is not necessarily a general market risk, and is mostly correlated to the ability of banks to assess these businesses. The NPL ratio of private commercial banks in medium enterprise lending is 2.3 percent, much lower than of state-owned banks at 4.8 percent. But state-owned banks achieve much lower NPL rates in micro (1.7 percent compared to 3.1 percent) and small enterprise (4.1 percent compared to 5.4 percent) lending than private commercial banks⁴⁸.

This means that with reasonable risk management procedures and lending technology in place, every sub segment of SMEs can represent a profitable market opportunity for banks. The regulatory pressure and increasingly saturated and risky corporate segment could impel private banks to establish a clear mandate for SMEs. Moreover, both private and state-owned banks can each learn from the other in their specific segments.



3.2 Supply and Demand of Bank Loans

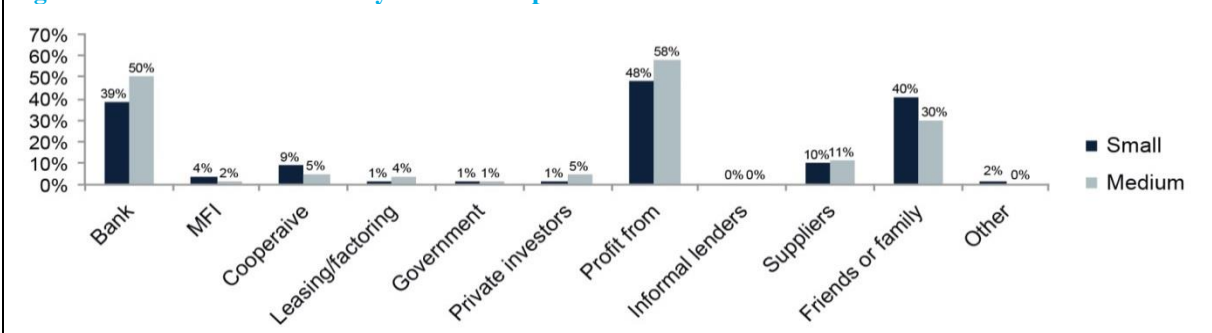
3.2.1 Supply of Bank Loans

General access to banks in Indonesia is by and large sufficiently good. Overall, 76 percent of the surveyed urban SMEs confirmed using some type of banking service. Access to loans is however limited with 39 percent of small and 50 percent of medium-sized enterprises using banks services for obtaining financing (Figure 22). In our survey, 46 percent of the SMEs said they had a loan with a bank at some point in their existence; 29 percent have or had a loan outstanding in the past two years. By national SME definition, 20 percent of urban micro enterprises, 33 percent of urban small enterprises and 41 percent of urban medium enterprises have a bank loan.

A noteworthy highlight of the survey is that most businesses finance themselves through profits or borrow from friends or family members. Also, cooperatives can be an important source for financing with 9 percent of small enterprises using them. Leasing and factoring or any other such financing through private investors is also an option for medium-sized enterprises but these are not relevant for small enterprises.

⁴⁸ Calculations are based on BI data.

Figure 22: Sources for finance by size of enterprise



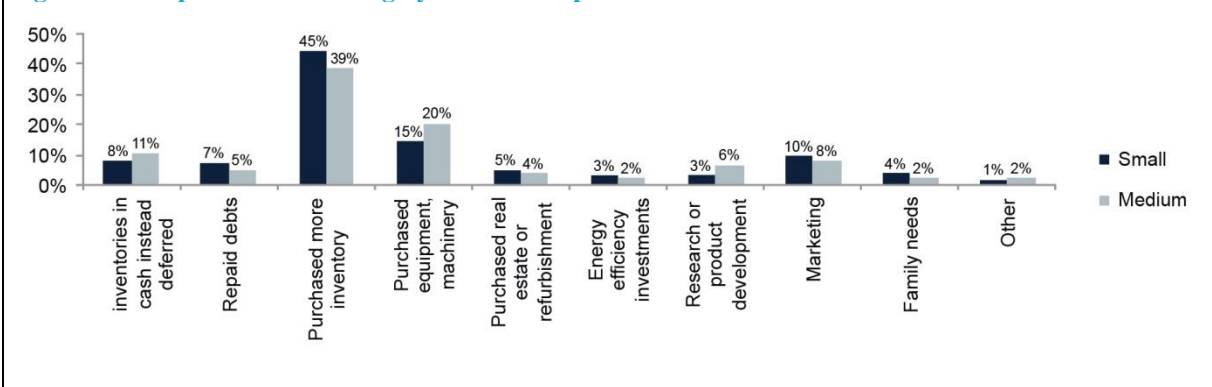
The most widely used bank loan product that SMEs avail of is the overdraft line facility, called *Plafond Rekening Koran*. This is used mostly for short term liquidity management and working capital needs as well as for installment loans. The overdraft line facility is typically given for a period of one year and can be extended subject to a satisfactory payment performance of the borrower. Some banks will assess the SME’s repayment capacity every year before extending the overdraft line facility. Borrowers who only need temporary liquidity assistance find this product more beneficial than installment loans, because they are charged the interest only when they withdraw the line.

In our survey, 21 percent of the SMEs said that they regularly use an overdraft facility. But if borrowers need long-term loans they find it cheaper to take an installment loan since an overdraft line facility is usually priced higher. Another 37 percent of the respondents said they used installment loans. Banks typically provide installment loans to SMEs for a period of three to five years or more. Most banks offer both types of loan, but a few only offer overdraft line facilities to SMEs.

SMEs borrow mostly for working capital needs, reflecting the high share of working capital loans in banks’ loan portfolios. Of the surveyed SMEs, 43 percent used their bank loans to purchase inventories while 9 percent paid for inventories in cash instead of using supplier finance (Figure 23). Using loans for investments into equipment (16 percent), real estate (5 percent), product development (3 percent) or marketing (9 percent) are also common, but more for medium-sized enterprises than for small enterprises whose biggest need is that for working capital.

Many SMEs also used loans for multiple purposes. Most loans were for supporting the business directly with less than 7 percent for repaying debts and less than 4 percent for meeting family needs.

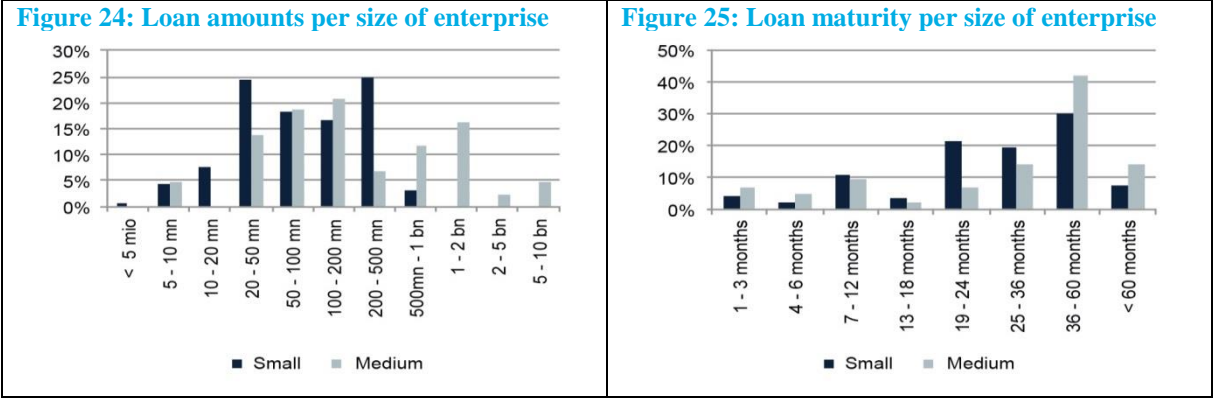
Figure 23: Purpose for borrowing by size of enterprise



With most loans serving working capital needs, loan amounts are rather small with the majority between Indonesian rupiah 20 million and Indonesian rupiah 500 million (Figure

24). Only medium-sized enterprises have loans larger than Indonesian rupiah 1 billion. No loan surveyed was larger than Indonesian rupiah 10 billion⁴⁹.

On average, maturities of loans are rather long considering that most loans are used for working capital purposes. Short-term loans of less than one year comprised only 18 percent, while 33 percent of loans have a maturity between three to five years (Figure 25)⁵⁰. Medium enterprises take more long-term loans, though these are also available for small enterprises. However, maturities in particular of medium-sized enterprises might be inflated due to their use of overdraft facilities without a clearly set repayment date.



Most banks classify SME customers according to the size of the loan. Typically, an SME customer is one that demands a loan ranging between Indonesian rupiah 200 million to Indonesian rupiah 20 billion. For such a loan the bank would typically charge interest rates in the 13 percent-19 percent range annually. Below the level of Indonesian rupiah 200 million would be a microloan with shorter maturity (1-3 years) and higher interest rates varying from 21 percent to 30 percent annually. These are often charged at monthly flat interest rate between 0.5 percent and 1.5 percent⁵¹.

As loan amounts of small enterprises were mostly below Indonesian rupiah 200 million, banks regard them as micro customers, providing them with different loan offers and customer care. Also many medium-sized enterprises would still be classified as micro customers.

On average, the surveyed SMEs paid an interest rate of 14.89 percent; the median was lower at 13 percent. Medium-sized enterprises (15.3 percent) paid slightly more than small enterprises (14.76 percent) and informal enterprises (15.08 percent) slightly more than formal enterprises (14.66 percent)⁵². Loans secured by vehicles (17 percent) or equipment (17.8 percent) were more expensive than loans secured with real estate (15.3 percent) or personal belongings (13.1 percent). However, a high 40 percent of the respondents did not remember or were not ready to reveal the interest rate they paid; so these figures should be treated carefully.

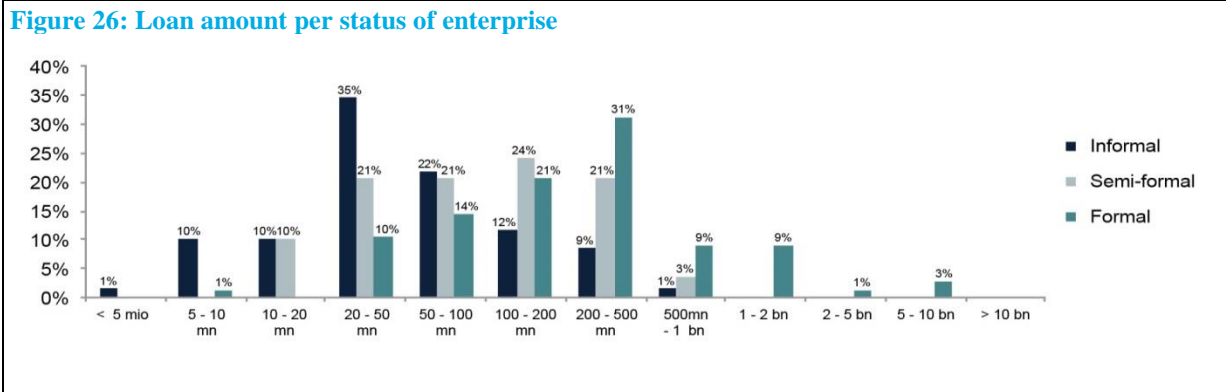
Business registration certificates and business licenses in general are required for accessing loans. Nevertheless, banks seem to show some flexibility to SMEs that do not have these documents, as is evident from the significant share of informal enterprises that applied for a loan and obtained one.

Of the informal enterprises, 48 percent tried to obtain a loan at some point and 80 percent of those were able to receive it⁵³. Additionally, 22 percent of the surveyed SMEs currently have a loan outstanding. Therefore, it is in fact possible to get a loan as an informal business. However, loan amounts of informal businesses are substantially lower with a maximum of Indonesian rupiah 100 million (Figure 26). Also, maturity is on average shorter than for formal enterprises.

⁴⁹ This finding might have been influenced by the design of the sample and focus on smaller medium-sized enterprises. Banks have a higher number of loans larger than Indonesian rupiah 10 billion in their portfolios classified as loans for medium-sized enterprises.
⁵⁰ Because many SMEs use overdraft facilities, which have no clear due date, loan maturity might be biased upwards.
⁵¹ Based on interviews with banks and review of banks' websites.
⁵² Corporates typically pay interest rates in the range of 10-13 percent and microenterprises 21 percent to 30 percent.
⁵³ For formal enterprises, 95 percent were able to obtain the loan.

Only in exceptional cases, five-year loans of above Indonesian rupiah 100 million were granted to informal enterprises.

Figure 26: Loan amount per status of enterprise



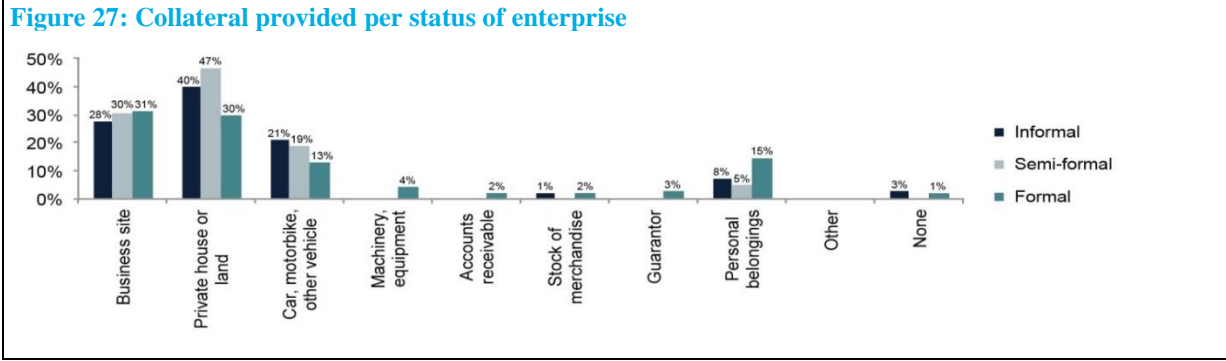
Collateral is a must for accessing loans. Only 1 percent of loans were provided without any collateral. The preferred collateral is property, especially property in a good location. Banks are also very particular regarding the certificate/land title of the property. The most preferred land title is called *sertifikat hak milik* (SHM)⁵⁴. Certificates from village heads, still common in many parts of Indonesia, are typically not accepted. In total, 65 percent of loans for SMEs were backed up with immovable collateral, either the private house of the business owner or the business premises (Figure 27).

Despite the easier process of registering movable collateral (*Fiducia* Registry, mentioned above), banks are still reluctant to accept movable collateral for the following reasons:

- **Marketability and liquidation:** Movable collateral such as machinery or inventory is more difficult to liquidate in case of default compared to land and building. For example, machinery in a particular industry is likely to find buyers only in other players in the same industry. The textile industry is a case in point.
- **Depreciation:** Movable collateral such as inventory, machinery and vehicle depreciate as opposed to land that does not.
- **Possibility of double pledge:** Banks still come across cases where one object/collateral was pledged more than once to different banks. The possibility of double pledge is much less likely in land and building collateral due to the more rigorous checking.
- **Higher perceived risk:** Banks regard movable collateral to be more risky. There are cases where debtors sold their inventory or factory workers stole the machinery when the debtor defaulted.

Despite these risks, 16 percent of loans were guaranteed with vehicles. Also common as collateral are personal belongings such as gold or jewelry (18 percent). Banks seldom accept other types of collateral such as machinery, accounts receivable, or stock of merchandise. In general, banks are more cautious when approving loans to informal businesses and insist on ‘hard’ collateral.

Figure 27: Collateral provided per status of enterprise



⁵⁴ *Sertifikat hak milik* is issued by the National Land Agency and gives the holder full land ownership and according rights. Unlike other certificates it has no expiration period.

3.2.2 Demand for Bank Loans

Our survey affirms a robust SME demand for credit. Slightly more than half (54 percent) of all enterprises are interested in obtaining a loan in the future, compared to 46 percent of those who ever had a loan outstanding. Of those who at least once had an outstanding loan, 66 percent said they would like to borrow again in the future.

Noteworthy is the 30 percent share of entrepreneurs who never borrowed but would like to borrow in the future. In contrast, about one-thirds of the SMEs have never borrowed from a bank, nor are interested in doing so. Analyzing the results of our survey on the basis of the national SME definition reveals that 51 percent of micro, 57 percent of small and 67 percent of medium-sized enterprises would be interested in borrowing (Figure 28).

SMEs would like to borrow, on average, Indonesian rupiah 339 million; the median loan amount is Indonesian rupiah 200 million. Informal enterprises would like to borrow less (Indonesian rupiah 150 million) than semi-formal (Indonesian rupiah 221 million) or formal enterprises (Indonesian rupiah 638 million).

Based on the national SME definition, micro enterprises would like to borrow Indonesian rupiah 130 million on average, small enterprises Indonesian rupiah 308 million; and medium-sized enterprises Indonesian rupiah 1,057 million (Figure 29). **This translates into a potential market demand of Indonesian rupiah 113 trillion or \$ 8.4 billion for small enterprise lending. Added to that is the market of Indonesian rupiah 36 trillion or \$ 2.7 billion for the smaller segment of medium-sized enterprises.**

These figures suggest that it is primarily the microenterprises, those with turnover of less than Indonesian rupiah 300 million, that face problem in accessing loans. **The number of entrepreneurs that would like to borrow exceeds the entrepreneurs that ever borrowed, and the loan amounts demanded clearly outstrip the loan amounts currently available to these businesses.**

Among the reasons for not borrowing are high interest rates (27 percent) and lack of collateral (15 percent), even as 37 percent of the surveyed SMEs said they do not require external financing. However, addressing these top constraints might not just allow microenterprises to obtain more financing and let them grow into the small-enterprise segment, but also encourage those undecided about taking external financing.

Most small enterprises have borrowed in the past and were, on average, able to receive the loan amounts they had sought. The main reason why a third of small enterprises are not interested in borrowing at all, either in the past or in the future, is that they have no need (54 percent), while collateral requirements (7 percent) or high interest rates (14 percent) are less of a concern.

Much the same is true for medium-sized enterprises: 69 percent of medium-sized enterprises said they are not interested in borrowing because they have no need.

However, it can't be denied that that the medium-sized enterprises demand for required loan amounts is not always met with.

An interesting highlight of the SME financing demand is that SMEs seem more constrained in putting their loans to productive uses than in accessing loans.

Figure 28: Share of SMEs using and demanding bank loans

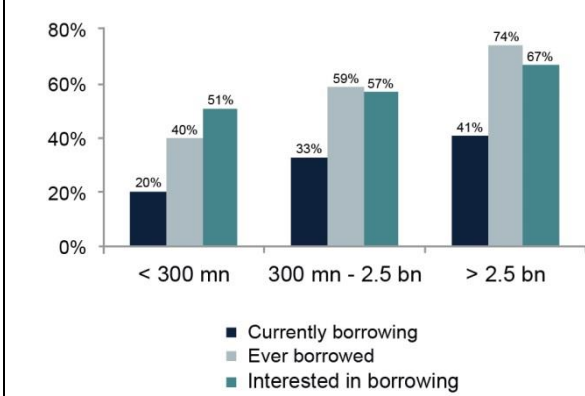
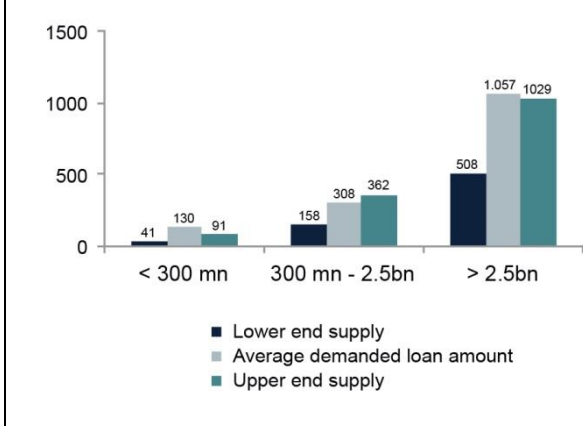


Figure 29: Requested loan amount per turnover⁵⁵



There is a substantial difference between the terms of financing that SMEs expect and those that banks are offering, pointing to the huge potential for banks to recalibrate and customize for the segment. Most respondents said they want to pay an interest rate averaging around 12 percent, a full 3 percent below what banks are currently charging. Reducing interest rates might help to mobilize the existing demand and create a new one.

Requested maturities are generally in line with those currently offered (Figure 20). A substantial 69 percent of the surveyed SMEs sought grace periods of an average 4.2 months as compared to an average of 3.7 months currently received by 40 percent of these businesses.

One suggestion that came up in the survey was that when returns on investments take longer to materialize, it might help to offer longer grace periods.

Installment loans were clearly the most preferred product with 89 percent of the surveyed SMEs saying they would like to use it or continue using it. This was followed by overdraft facility, choice of 56 percent of the respondents.

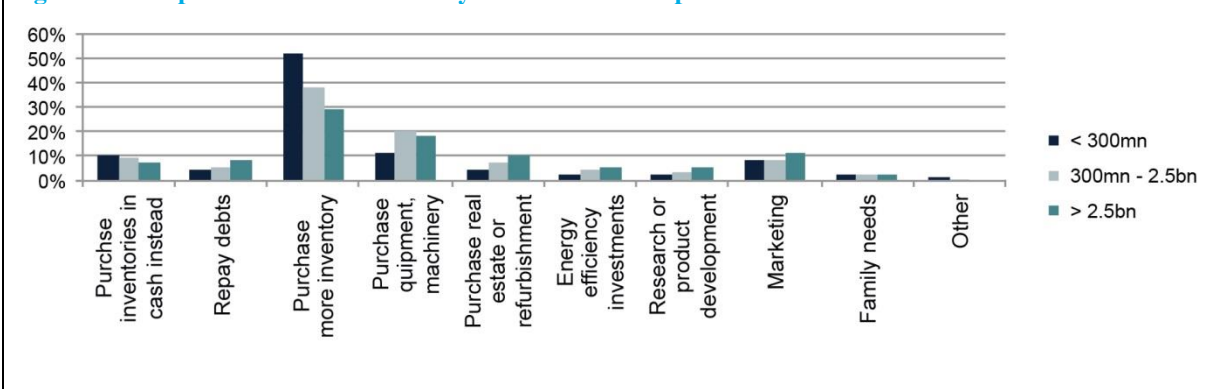
SMEs were largely in a position to provide collateral for future loans along similar lines as is currently being used. However, a higher share of SMEs (10 percent) said they could provide machinery or equipment, accounts receivables (6 percent) or stock of merchandise (7 percent) than they are doing now. **Greater use of movable collateral would help increase the pool of potential borrowers.**

As already pointed out, working capital is the biggest use of SME loans. Our survey revealed that about 50 percent of the businesses require loans for working capital, 40 percent for investments, and the balance 10 percent for repaying debts or covering family needs. But this largely depends on the business size. Enterprises with higher turnover, that is enterprises classified as small or medium-sized as per national definition, would use loans more for investment purposes than microenterprises, which need loans primarily for financing working capital (Figure 30).

In sum, if the huge unmet SME demand for financing is to be satisfied, loan amounts must be larger, interest rates lower and there should be certain flexibility in the use of movable collateral. This would help make more investments feasible for SMEs and support them in raising their productivity and growth.

⁵⁵ Surveyed SMEs were asked ranges of their received loan amounts as displayed in Figure 19. The lower end supply provides the weighted average loan amount if all SMEs would have received the lower amount of the range. The upper end supply accordingly is the average weighted loan amount if all SMEs would have received the upper amount of the range. The true average loan amount will lie somewhere in between.

Figure 30: Purpose of demanded loan by turnover of enterprise



3.3 Savings and Delivery Channels

Bank access is widely available in Indonesia, even though it is yet to get ingrained. Almost all SMEs (94 percent) have a savings account⁵⁶. However, 23 percent never use it or use it seldom while 42 percent use it only once a month. Only 36 percent of the SMEs regularly use a savings account. Term deposits, generating higher interest rates, are only used by 22 percent of the respondents, but 39 percent would be interested in using a term deposit account. The main reason for entrepreneurs not using savings or term deposit accounts is that they prefer saving in cash (58 percent), whereas 21 percent say that they do not have enough money to save, and for 11 percent the nearest bank branch is too far to visit regularly.

Most entrepreneurs regularly go to a bank branch, 90 percent at least once a month (Figure 31). Most popular channels include ATMs that are used by 94 percent of the entrepreneurs. Those who use a savings account use ATMs weekly. The Point of Sale system is not relevant for most businesses.

Women use branches and ATMs slightly more often than men. As compared to 89 percent of men, 91 percent of women use branches. Similarly 94 percent of women use ATMs as compared to 93 percent of men. But due to time constraints, women are not able to use them as frequently as every week, though they do so more than once a month. Long waiting time and bad service are big negatives, especially for women.

SMEs find alternative delivery channels of value if they are convenient and save time. Women and men entrepreneurs are interested in them, and use them alike. Our survey showed that 48 percent of women and 51 percent of men use internet banking, and an additional 15 percent of women and 12 percent of men would like to use internet banking.

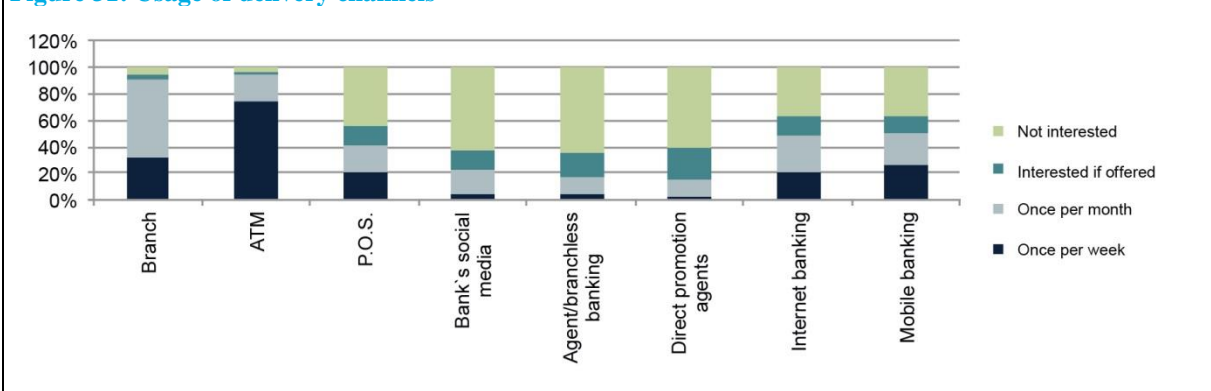
About 50 percent of the SMEs use mobile banking. FGD participants and survey respondents understand mobile banking as all interaction with their bank is through a mobile device. This includes ordering transactions by calling the call center of a bank, which is very popular in Indonesia. Mobile money services – sending and receiving electronic money without directly accessing bank accounts – is being introduced in Indonesia but is not operational yet (See Box 2). This service usually works through agent networks. Currently, respondents hardly make use of agent networks; however this could change once mobile-money services are available.

Almost two-thirds or 63 percent of the SMEs are interested in mobile banking. Entrepreneurs are particularly interested in mobile money services for remitting money (56 percent) receiving remittances (57 percent),⁵⁷ processing bill payments (51 percent), receiving money from customers (48 percent) or paying merchants and suppliers (35 percent).

⁵⁶ The government has been promoting access to bank accounts, for example with the My Savings (*TabunganKu*) program.

⁵⁷ Of the surveyed entrepreneurs 72 percent receive or send remittances.

Figure 31: Usage of delivery channels



Mobile banking is being used by 49 percent of women and 52 percent of men, with an additional 13 percent of women and 12 percent willing to use the service if it is being offered and is accessible. Interestingly, women are more interested in using mobile financial services to make payments and transactions, while men prefer to use them to communicate with banks.

Clearly, banks must use mobile banking as a delivery channel to successfully tap into women entrepreneurs as a customer segment. It will encourage them to use more banking services by making it more convenient and easier to access their banks, helping them make optimal use of their limited time available.

Box 2: Mobile Financial Services

Thanks to the fragmented geography and a significant share of informal economy in Indonesia, almost 60 percent of the population has no access to formal banking services. Therefore, many see Mobile Financial Services as being crucial to increasing financial access in the country, providing a huge business opportunity (IFC 2011, TNP2K 2014, Deloitte 2015). Not just that, the better banked SMEs could benefit greatly from being better connected to banks, for example, by saving time in large queues at bank branches.

Women, in particular, present a potentially more viable market and can be a key driver for MFS (TNP2K 2014)⁵⁸. While many banks in Indonesia offer some form of mobile banking, mobile financial services have not taken off so far.

One constraint is the lack of proper regulation. Though BI has issued e-money licenses since 2009 to 20 banks, few telecom companies and third-party providers, their m-wallet offerings have yet to move beyond the pilot stage. There are many regulatory restrictions including the types of mobile financial services allowed as well as the agents to contract; contracting unregistered agents is banned by law.

In 2014, Indonesia's financial services authority, OJK, brought in new branchless banking regulations to take banking services to the remotest areas of the country through the mobile and IT facilities. Introduced under the program Laku Pandai, these rules expand agent network and documentation requirements for all commercial banks. .

While doing so, Indonesia also brought in two regulating authorities, BI and OJK. This has led to inconsistencies. While telecom companies and third-party providers have to follow BI regulation, small banks and microfinance institutions fall under the purview of OJK. As of January 2015, OJK is the primary regulator of MFI industry.

Large banks on the other hand are allowed to choose between the two regulators. In fact, under OJK large banks are allowed to contract informal agents. Four state-owned banks and two private banks are participating in the Laku Pandai program. It clearly follows a bank-led model in which clients can access their formal bank accounts through agents to use basic services such as savings, microloans and micro-insurance.

Another constraint is the huge investment needed to build an agent network that covers larger parts of the country. The two potential anchor products, P2P transfers for domestic remittances and G2P transfers, require a wide network to be effectively delivered. But these earn the banks only small

⁵⁸ In our survey men and women named in similar proportion the services they both would be interested in. Slightly more women were interested in remittances and other electronic payments while more men said they would like to use mobile banking for interacting with their bank --receiving statements or managing their bank account via mobile phone.

margins on every transaction. Regulation bars banks or telecom companies to share their agents so that every provider has to bear the investment on its own, effectively discouraging the use of e-money licenses.

The only banks that can afford this investment – by leveraging their huge customer base – are the state-owned banks, Bank Mandiri and BRI. KPMG identified these as the winners of the new regulatory setup in 2015. Indeed, BRI is already investing heavily in agents, reaching about 35,000 in August 2015. OJK plans to have 128,000 agents active by 2016 to cover all the participating banks.

In sum, although branches and ATMs remain the most frequently used delivery channels, agent banking, internet and mobile money banking represent high-potential alternatives. Because mobile money services will be technologically linked to bank accounts this service could increase savings and savings account use. However, findings of this survey and FGDs, as well as experience from other countries, suggest that customer education will be crucial in successfully rolling out mobile money services.

3.4 Other Financial Services

The financial sector in Indonesia is still dominated by banks that control about 75 percent of all assets held by financial institutions. Not surprisingly, SMEs are not able to easily access finance or bank loans, with a few exceptions.

It is common for finance/leasing companies to finance motorcycles and cars in Indonesia. Leasing companies usually charge higher interest than banks but they compete by offering faster processing. It is not uncommon for a leasing company to process and finish leasing applications in one or two days while banks usually take much more time to process the application⁵⁹. However, leasing is more common for individuals and less for SMEs; only 2 percent of the SMEs use leasing (See Figure 22). Leasing of machinery or other equipment is typical for corporates than SMEs.

Table 6: Receivables of leasing companies, Q2 2015

Type	Receivables (in trillion IDR)
Consumer Finance (mostly car and motorcycle)	249
Leasing of heavy equipment, vehicles and machinery	110
Factoring	9
Credit card	0.05

Source: OJK

Warehouse receipt has never been able to gain ground in Indonesia. The high fees charged under the warehouse system, such as the certification fee or the processing fee, makes it prohibitive for MSME to avail of this service.

In the insurance sector, life insurance dominates before social security. Total assets of the insurance sector amount to about 7.3 percent of GDP. In the survey, 38 percent of the SMEs use some kind of insurance and another 32 percent would like to use it, indicating a demand and need for increasing insurance coverage.

Table 7: Total assets of insurance companies, Q3 2015

Type	Total Assets (in trillion IDR)
Life Insurance	328
Social Insurance (social security)	217
General insurance and Re-insurance	127
Mandatory insurance	104

Source: OJK

In 2015, the Ministry of Cooperatives and SMEs introduced insurance for micro enterprises in collaboration with OJK and the Indonesian Insurance Association. This insurance will cover losses caused by fire and natural disasters such as earthquake, tsunami, volcanic eruption, among others. The yearly premium for this insurance is Indonesian rupiah 40,000 per annum

⁵⁹ Participants of FGDs reported typical waiting time between application and disbursement of a bank loan is 30 days.

and the maximum coverage is Indonesian rupiah 5 million. This insurance can be used for the protection of place of business, inventory, and business equipment.

In Indonesia, private companies are required to register their employees to the public pension fund *BPJS Ketenagakerjaan*. Both companies and their employees make monthly contributions to BPJS. As of the second quarter of 2015, total assets of pension funds in the country amounted to Indonesian rupiah 198 trillion, which is about 1.9 percent of GDP. Entrepreneurs barely use pension funds (12 percent) but 46 percent would be interested in doing so.

4 Business Case for Women-Owned SMEs

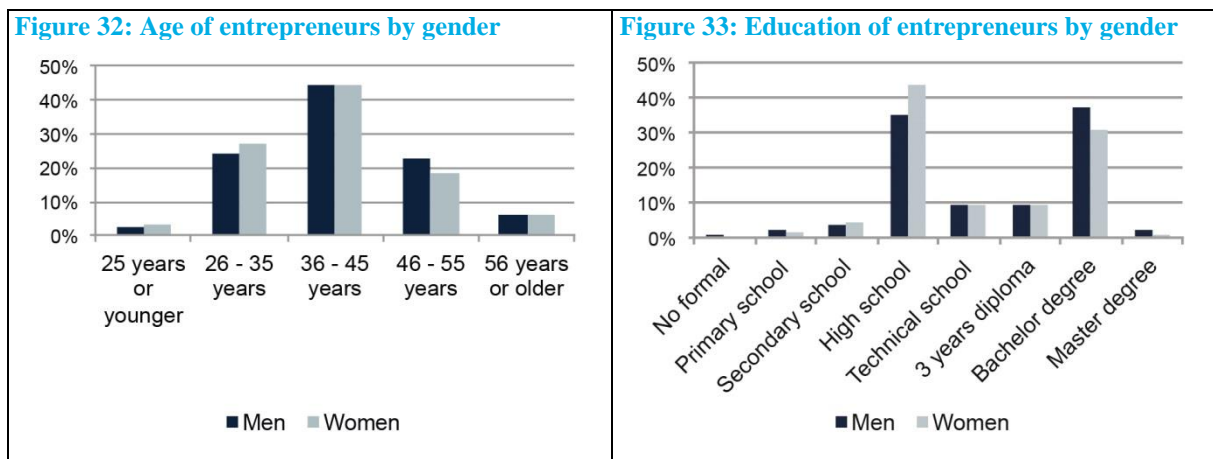
Women own almost half of the SMEs in Indonesia. Their business enterprises, on average, are informal and smaller in size. Household and family responsibilities limit their time and resources that they could use for operating and growing their businesses. Women also borrow less frequently from banks and, when they do, these are for lower amounts. This further constrains their growth. Lack of property as collateral, dependence on male members of the family for business decisions, and the inability of banks to measure up to customer expectations are the main reasons why women avoid borrowing from banks.

Despite the constraints mentioned, their demand for loans and the profitability of their businesses are the same as that for men. Targeting women entrepreneurs and addressing their needs could not just support the growth of their businesses, but also be a huge business opportunity for banks.

4.1 Differences between Men and Women Entrepreneurs

4.1.1 Entrepreneurial Profile

The profile of a female entrepreneur is not a lot different from that of a male entrepreneur. For instance, the average age of both is around 41 years and their educational level too is similar (Figure 33) and high in general. Only, the share of young entrepreneurs is higher among women than men (Figure 32).



Most entrepreneurs are married -- 89 percent of men and 88 percent of women. The household size is also similar for both the sexes -- 5.8 for men and 5.9 for women on average. Likewise, the average number of children in households is 1.4 for male entrepreneurs and 1.5 for women.

The spouse of a male entrepreneur is quite often (44 percent) a housewife, employed somewhere else (28 percent) or working in the husband's business (26 percent). If the woman owns the company, her husband would most often work somewhere else (69 percent). But a sizeable share (35 percent) would also work for their wives in their business. Both men and women counted hard work (71 percent), entrepreneurial spirit (58 percent), and family support (56 percent) among the key factors of success.

However, the reason to become an entrepreneur is different for both. Women primarily start a business for self-employment to become independent and make money (Figure 35). Men tend to be driven more by their career aspiration.

This might partly explain the slightly higher share of women (20 percent) starting a business with hardly any previous work experience than men (17 percent). However, almost a third (28 percent) had at least an experience of one to two years while the majority of both men and women had more than two years of experience.

Figure 34: Spouse's employment

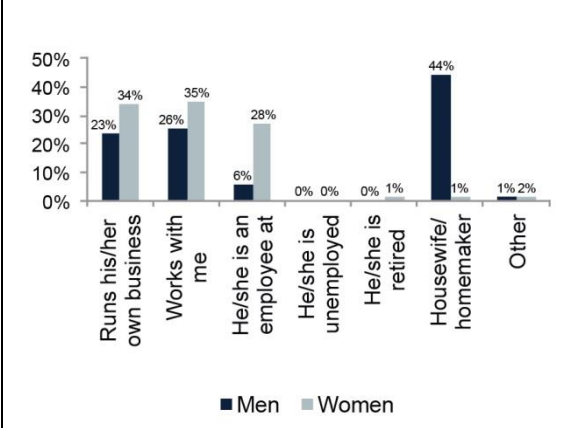
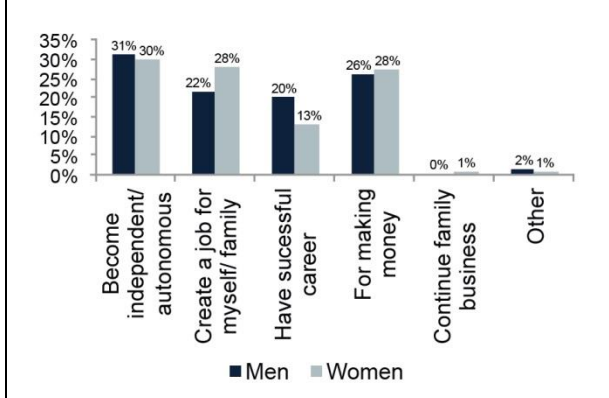


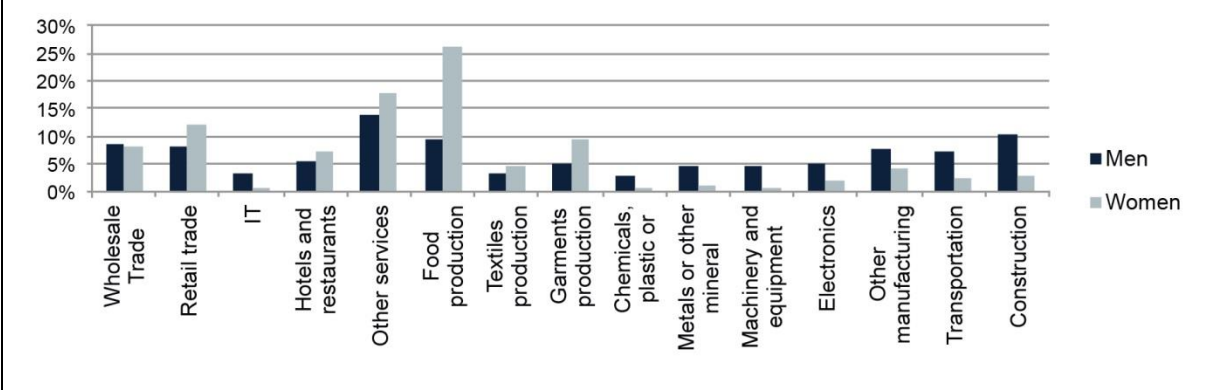
Figure 35: Motivation for becoming an entrepreneur



4.1.2 Business Profile

Women entrepreneurs tend to own more small enterprises as compared to men; medium-sized enterprises are not so common for them. On average, the number of employees is lower at 10.3 for women and 12.2 for men. This is probably because more women-owned businesses are informal and with lower turnover (Figure 8) than are those of men (Figure 7). Another factor could be that women more often opt for businesses in trade or services and less often in manufacturing, except for food, textiles and garments production (Figure 36)⁶⁰. Export hardly figures in the businesses for both men (96 percent) and women (97 percent).

Figure 36: Sectors of business activity per gender



Despite the fact that women-owned businesses are smaller in size, the same share of men and women (99 percent) said that their business was profitable in the past 12 months. **More women (16 percent) than men (12 percent) reported their business to be 'very profitable'**. Growth in the number of employees during the past 12 months too is the same for men and women. Likewise, an equal number of men and women (75 percent) keep the number of employees constant or increase it (24 percent). Business outlook for most enterprises is positive or stable with men being slightly more optimistic (Figure 37).

One important difference observed during the survey was in the use of technology. Women use computers less often than men, and about 47 percent of the women do not use one at all as compared to 40 percent men. However, both use social networks and other websites equally to market their products (Figure 38). In all, 38 percent of the respondents make use of social media.

⁶⁰ Most (50 percent) of the food production businesses are small with fewer than 8 employees and turnover less than Indonesian rupiah 300 million. These might be better classified under services than production.

Figure 37: Business outlook per gender

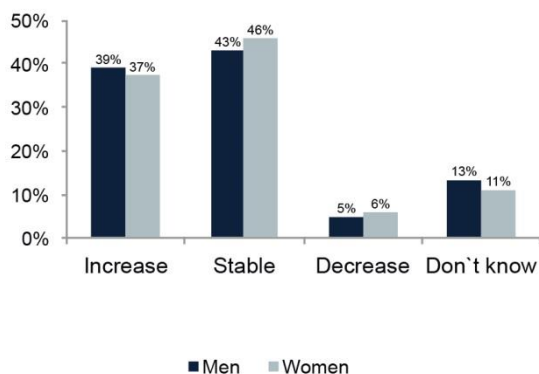
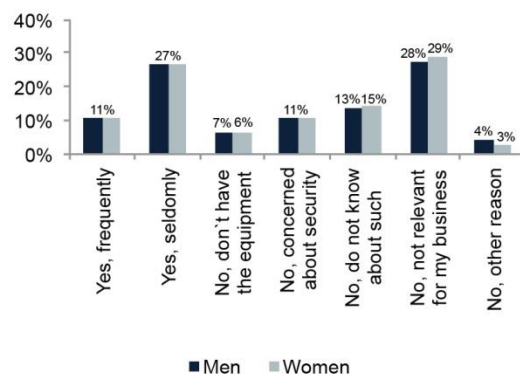


Figure 38: Use of electronic sales channels



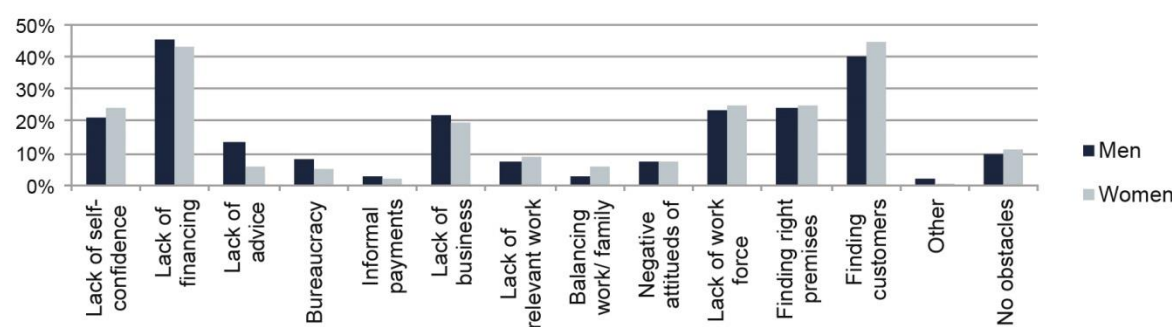
4.1.3 Difficulties for Women in Starting a Business

One big highlight of the SME survey is that the majority are first generation entrepreneurs. Almost all enterprises (77 percent) were established by the respondents; 19 percent of the businesses were inherited, and in only 3 percent of the cases did the men or women become shareholder of the spouse’s business. Therefore, most entrepreneurs faced the challenge of obtaining financing for establishing their businesses.

Access to startup capital can be a potential barrier for the success of a new venture. It could even prevent the establishment from getting off the ground to begin with. Since banks do not finance businesses that are younger than two or three years, start-ups have to be financed by savings or loans from relatives or friends.

Lack of finance during the start-up phase of businesses was thus among the top three challenges that 44 percent of the respondents faced, second only to the difficulties in establishing clientele (43 percent). Difficulties in finding the right premises and staff as well as lack of self-confidence were other significant challenges perceived slightly stronger by women than men entrepreneurs (Figure 39).

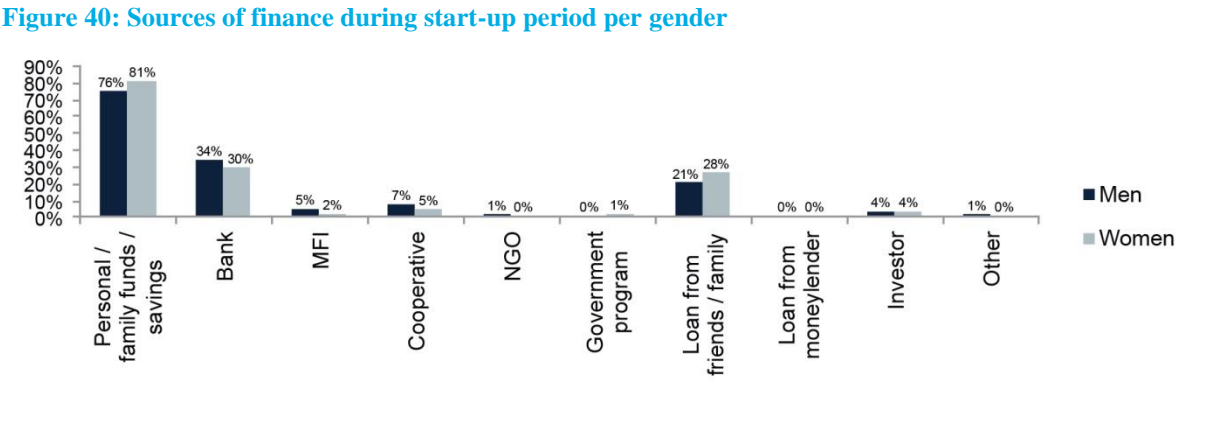
Figure 39: Main challenges during business start-up per gender



A lower share of women than men entrepreneurs named lack of financing as a major challenge. This however should not be attributed to the lack of demand on their part but rather to high generic dependence on external support. The survey data indicates that women (28 percent) rely more on loans from their family as compared to men (21 percent men), as well as on their own savings (81 percent women compared to 76 percent men) (Figure 40). Almost all the women in the FGDs also affirmed that husbands and parents were the main source of their start-up capital.

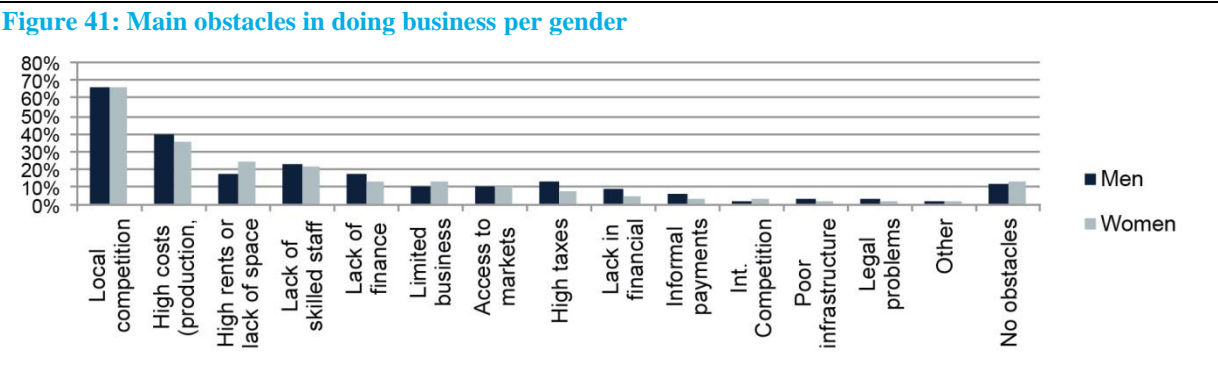
Women have little chance of establishing their own business, or making it sustainable later if husbands or family members refuse to support them. Banks, MFIs and cooperatives provide some finance for select start-ups, probably as consumer loans and against hard collateral, but

less often to women than to men. Eventually, being less restricted than women by household and family responsibilities, men benefit from a wider network and greater mobility to secure other sources of finance beyond family members and friends.



4.1.4 Difficulties for Women in Operating a Business

Overall, women face the same challenges as men in operating businesses (Figure 41). Most challenges relate to competition as well as the high costs in doing business, rents, and problems finding and retaining qualified staff. During the FGDs, women emphasized that taxes were a major constraint as there is no clarity on the types of taxes, the level of taxation, and tax rules. While both men and women ranked competition to be the leading challenge, women explicitly mentioned competition with men in male-dominated industries such as construction and trade as tough.



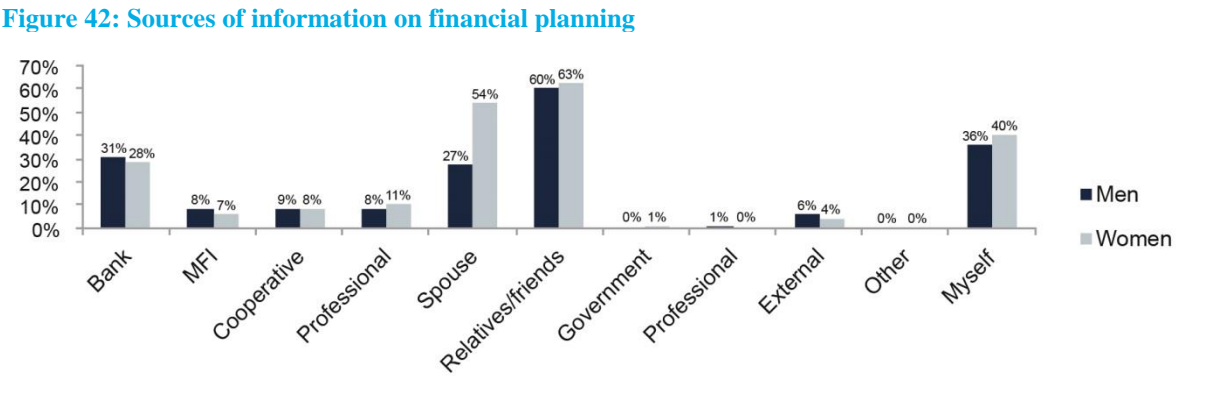
In the FGDs, women-specific challenges were discussed with women as well as men. Among the most common challenges that women faced included constraints experienced at the personal, household and social level. First and foremost, women felt handicapped by the pressure to balance their responsibilities at home and the need to focus on their business.

The well-established businesswomen in the focus groups admitted that support from their family, husbands and children was a key factor to success; however, they were subject to censure from others in society. Women entrepreneurs with younger children coped by hiring staff for housework and child care, and by managing their time efficiently. Women perceive facing greater pressure than men, who are not expected to engage in housework or child care, and hence have more time for their business.

The disadvantage continues. Women generally devote a significant portion of their business income to household needs, which limits investment in their business. In contrast, men tend to invest a greater portion of their savings in business, especially if their wives contribute to household expenditures. As head of household, men make all critical decisions, particularly in financial matters. Women clearly have far less freedom and control over economic resources and decision-making.

While most women have the freedom to make regular business decisions, husbands decide about the income proportion spent for household and business needs as well as all greater investment decisions affecting household wealth.

The survey findings confirm the strong decision-making power of men influencing the decisions of female entrepreneurs. Most women respondents (54 percent) said the spouse and the family were strongly involved in financial planning (Figure 42).



Women are also constrained by their own fears and lack of confidence. The majority of the women in the focus groups talked about the fear of failure and its repercussions, including loss of face, criticism from family and society, and most importantly the possible loss of assets put up as collateral. As women feel a greater sense of responsibility to the home and family, they experience more stress than their husbands regarding timely repayment of loans and cash flow.

Women also complain about their mobility being curtailed because of the restrictions placed by culture and society (see Box 1). In particular, those in rural areas have difficulties in accessing government offices and other business-related services not close to their communities. Often they are not permitted to travel alone or do not have the time or the money. Women also express discomfort when dealing with officials who are mostly men.

Men’s perceptions about women entrepreneurs varied depending on the age and background of the respondent. Younger male respondents in the Jakarta and Denpasar FGDs, who are from relatively modern urban centers, were positive about women in business. Men in the FGDs in Padang, West Sumatra, one of the most orthodox regions of Indonesia, emphatically opposed the idea of women as entrepreneurs, saying that they should focus on their traditional roles as homemakers. On the other hand, about a third of the men in Jakarta and Denpasar had spouses who were either employed or self-employed.

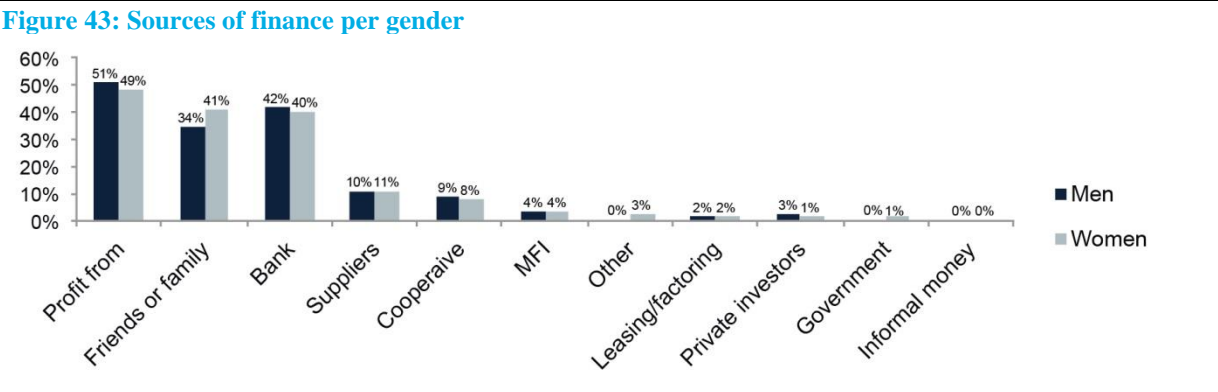
4.2 Access, Use and Demand for Financial Services

Women entrepreneurs in the FGDs indicated a clear preference for seeking finance. For this, they first prefer to use profits from their business. Next, they would liquidate assets or use pawnshops that provide funds without much paperwork and, in their opinion, at reasonable interest rates, typically 2 percent per month. If available, some would also take credit from their supplier or ask clients for advances. As the next option, they would ask family or friends for a loan. Borrowing from a bank is considered only if they need financing larger than they can obtain from family or friends.

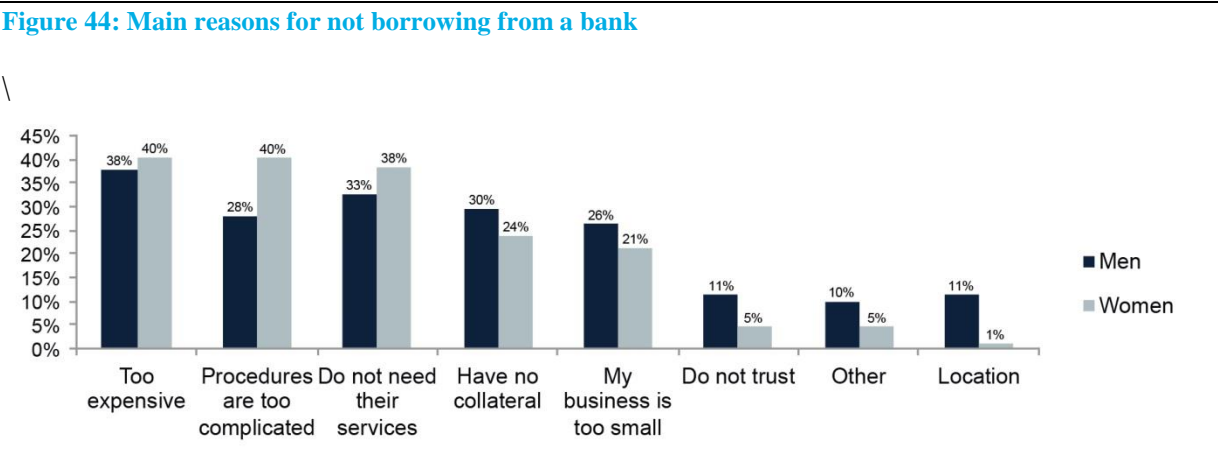
While men follow a similar strategy, and in general women and men use the same sources for financing (Figure 43), men can more often rely on profit form their businesses. Due to the responsibility of family expenses, for example children`s education, women`s profits might less often than men`s be sufficient for self-financing a business.

Also to be noted is that women more often borrow from family and friends than men, while men would more often approach a bank. Overall, a similar share of women borrowed from a

bank at least once (54 percent of women and 53 percent of men). Likewise, an equal share (29 percent each of men and women) currently or recently had a loan outstanding.



The main reasons for not borrowing from a bank are the high interest rates, the complex procedure, as well as lack of need (Figure 44). About a third of the surveyed SMEs -- 38 percent of women and 33 percent of men -- said they rely on their profits or support from their families and friends and therefore do not need bank loans. Also, in comparison to loans from family or friends, bank loans are considered too expensive by many. The largest disparity between men and women is with regard to their perception about the complexity of procedures. As opposed to 28 percent of men, 40 percent of women find it to be a hassle.



Collateral is another big reason why entrepreneurs shy away from taking bank loans. Thirty percent of men and 24 percent of women cited it as the reason for not borrowing from a bank. The reason for the discrepancy is clear. Men as household heads usually own all key assets, particularly the house. Women generally do not own property in their own name unless they have inherited it from their family or have purchased property in their own name⁶¹. They will have to ask their husbands to co-sign loan agreements or present the husband’s salary certificate or financial statements to the bank as further reference.

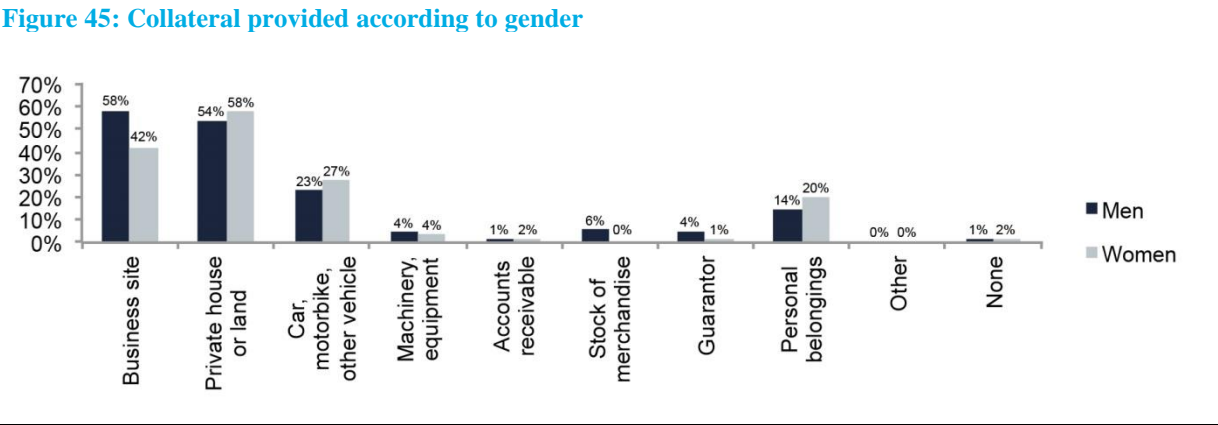
Although women in FGDs said that that was not a problem, it is more likely that women in rural areas cannot count on the support of the male household head as much. In our survey, 14 percent of women and 16 percent of men believe that the lack of collateral leads to women getting loans less often.

Secondly, women are less likely to own the business site, and must therefore provide their private house as collateral (Figure 45), which they are reluctant to do. They fear losing the house if unable to repay on time, discouraging them from borrowing or opting for smaller loan

⁶¹ Although the law accords the right to women to inherit, purchase and own property all over Indonesia, these rights are not always clearly defined, and are by large governed by ‘adat’ law. According to Indonesian tradition, sons inherit land, while daughters inherit other forms of property such as gold, jewelry, livestock.

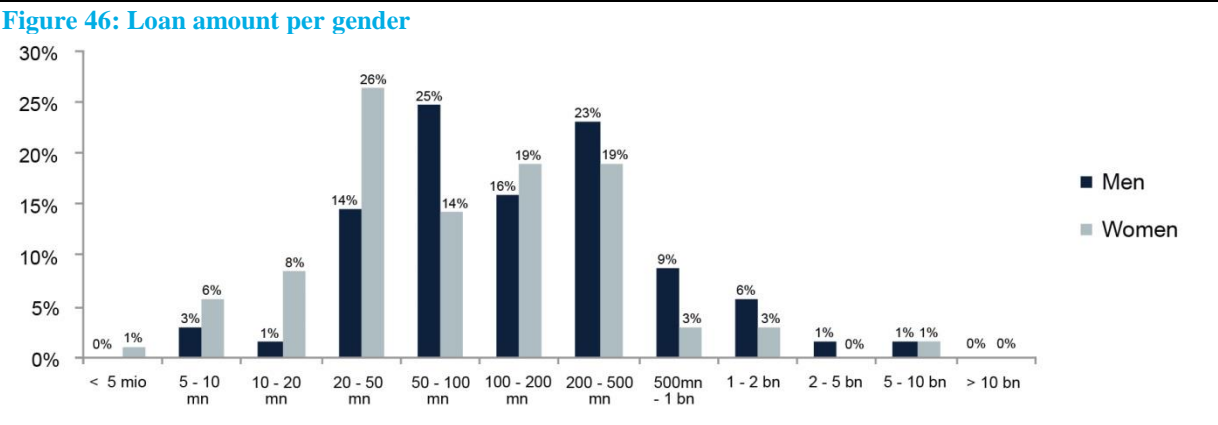
amounts. Half of the female FGD participants said one reason for not borrowing from banks is the lack of confidence in their ability to manage timely repayments.

Lastly, women borrow against vehicles or personal belongings more often than men. Although movable collateral is governed by law and an online registration system has been implemented, banks are still reluctant to use it, or tend to limit the loan amount against movable collateral (See Chapter 3.2.1). This again affects women-owned SMEs more than men-owned SMEs.



Our survey findings show that women borrow smaller amounts. More than half (56 percent) of the women borrowers had loan amounts below Indonesian rupiah 100 million compared to 43 percent of men, and only 7 percent had loans above Indonesian rupiah 1 billion compared to 17 percent of men (Figure 46).

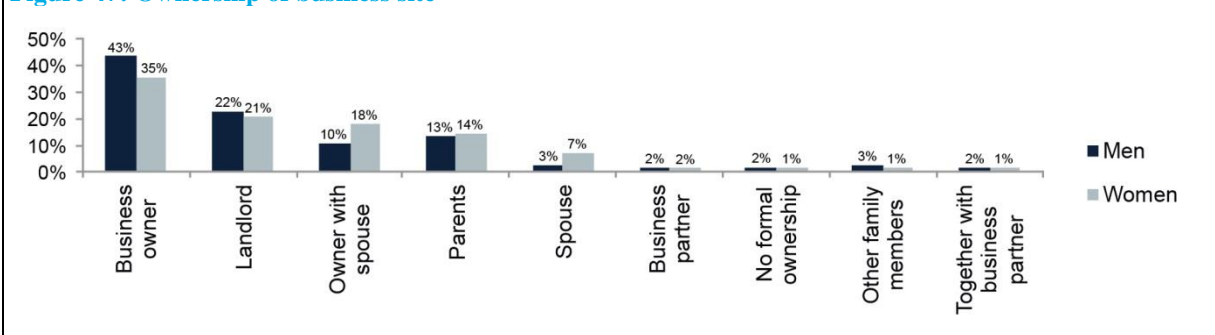
Also, loan maturity is shorter for women with 45 percent having loans of less than two years as compared to 30 percent of the men. Another set of data corroborates the trend. For loans larger than Indonesian rupiah 100 million, a smaller share of women (64 percent) receive them for longer than three years as compared to men (68 percent). On the other hand, interest rates were slightly more favorable for women (14.2 percent) than those for men (15.9 percent).



However what is heartening to note is that a number of the female FGD participants said they were building assets in their own name to attain a degree of economic independence. Most would buy a vehicle; the more established business women purchase the business site. Nevertheless, several women indicated that they would require permission from their husbands if they wanted to put up their assets as collateral or to liquidate these assets for capital.

Overall, 35 percent of women in our survey had acquired ownership of their business premises, still lower than 43 percent of men (Figure 47). In addition, women (18 percent) share ownership with their spouse more often than men do (10 percent). For that reason, women are able to use the business site as collateral less often (47 percent) than men (61 percent). Therefore, a much bigger 69 percent of the women have to rely on the house as collateral compared to 55 percent men.

Figure 47: Ownership of business site



Being somewhat limited by the loan amount and loan maturity, women (45 percent) used their loans more to finance working capital as compared to 40 percent of the men. That probably explains why more women (44 percent) than men (40 percent) would like to use their future borrowings for investment in their companies –to purchase machinery or invest into product development or marketing. At the same time, both men (40 percent) and women (41 percent) entrepreneurs would continue to earmark a large part of the loan for working capital needs. A similar share of women (19 percent) and men (18 percent) would use the loan to cover family needs or to repay debt.

Overall, the same portion of women and men – 54 percent each – wish to borrow from a bank in the future. Women would like to borrow, on average, smaller loan amounts (Indonesian rupiah 302 million) than men (Indonesian rupiah 396 million), preferably for maturities of more than two years. However, this figure is biased by the larger number of microenterprises among women SMEs.

Comparing the loan amounts demanded by gender according to the national SME definition reveals that women-owned SMEs demand higher loan amounts than those owned by men. Women-owned micro-enterprises, on average, seek Indonesian rupiah 140 million and men-owned businesses Indonesian rupiah 120 million. In the small enterprises segment, women entrepreneurs demand Indonesian rupiah 312 million and men Indonesian rupiah 306 million. Finally, women-owned medium-sized enterprises demand, on average, Indonesian rupiah 1.46 billion compared to Indonesian rupiah 1.05 billion demanded by men⁶².

In total, women-owned small enterprises demand Indonesian rupiah 65.7 trillion or \$ 4.9 billion, and women-owned medium enterprises Indonesian rupiah 13.6 trillion or \$ 1 billion. This works out to a sizeable 57.6 percent of the total small enterprise demand, and 37.2 percent of the medium enterprises segment demand respectively⁶³.

4.3 Customer Expectations from SME Banking

An important highlight of the survey is that all the factors that discouraged borrowing, namely, high interest rates, complex procedures, and collateral were also the main reasons respondents named for not borrowing from a bank (Figure 48).

Women named these factors more often than men. Women in FGDs highlighted a lack of understanding of policies and procedures, and the terms and conditions of specific products. They also referred to the gaps in the capacity of bank staff. Sometimes the staff is simply unable to explain the terms and conditions of the loans, which often left women with incomplete or inaccurate information. It is no surprise then that 10 percent of the surveyed women said that women in general are more reluctant to approach a bank than men; 19 percent of the men think this is the case too.

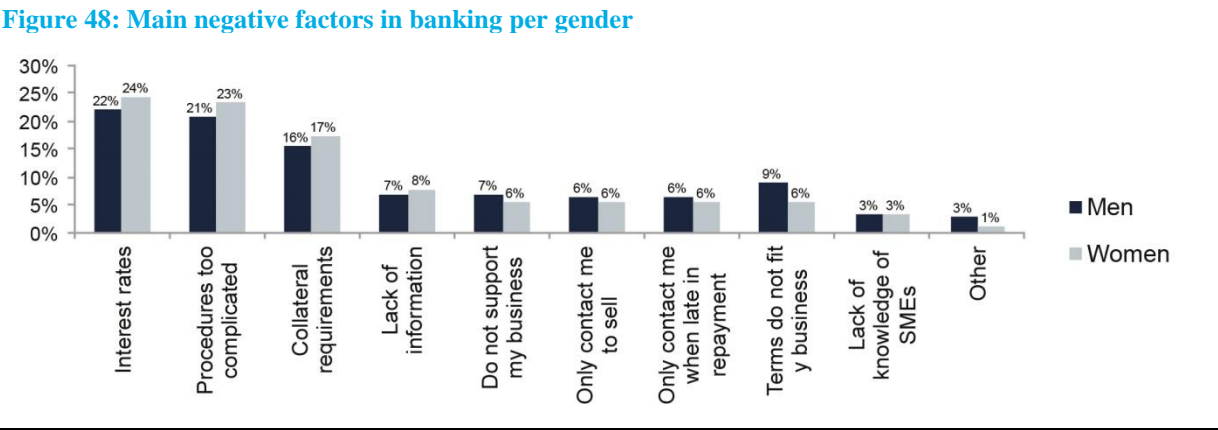
⁶² The interest rates that women are willing to pay are the same as for men.

⁶³ The calculations are approximate and based on the following figures: the average demanded loan amounts as per findings of the survey described in section 3.2.2., the share of women-owned enterprises among SMEs as calculated in section 2.2, and the number of SMEs in 2013 as presented in Table 1.

Furthermore, 9 percent of the women said that banks treat them differently than men. Lack of financial knowledge is not the reason, women believe, they are treated differently as only 7 percent of the surveyed women think that business women in Indonesia lack financial knowledge when compared to men, and only 8 percent think that women lack general managerial experience. The comparative figures for men are 13 percent and 16 percent of men respectively.

Participants in the FGDs suggested improvements in bank staff training particularly in the area of customer relations. Apparently, the staff is not adequately trained to handle new customers with the requisite level of patience. First-time borrowers may face difficulty in the loan application procedures, in preparing background documentation and obtaining the requested legal documents. The collateral requirement in particular makes borrowing complicated because it entails obtaining the ownership documents, including the husband’s approval.

Given the complex loan application procedures, legal documentation requirement, and high interest rates, borrowings from banks seem less attractive than taking loans from family and friends. Both men and women were concerned about value for money. Only 55 percent of the women and 47 percent of men were completely satisfied with the relationship banks had with them. This figure correlates with the ratio of 55 percent of bank customers being repeat bank borrowers. The higher share of satisfied women entrepreneurs is more because of their higher patience or loyalty to their bank, than anything else.



Both men and women request quality service, quick response and helpful staff (Figure 49). **Importantly, soft skills are, in general, more important than the range of products offered, or their terms for both the sexes.**

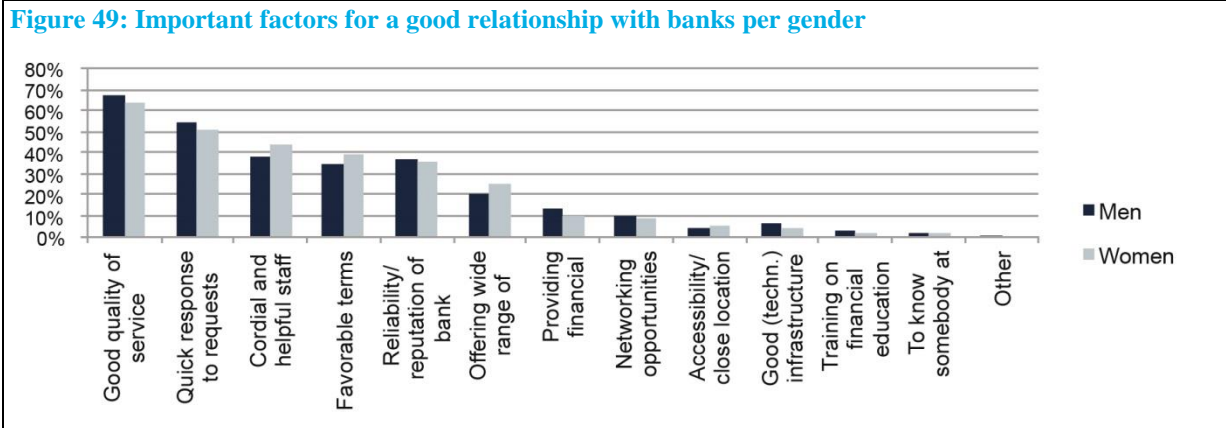
However, the survey highlighted a significant difference between men and women in understanding good customer service. Women of the FGDs were particular about their credit analyst and relationship manager. More women than men in the FGDs emphasized the importance of premium services, including dedicated lines for SMEs, and loyal loan officers. Similarly, banks said that a large problem they face is to retain good relationship managers because when they move to another bank they take most of their customers along.

Another area of complaint was about grievance redress services. About half the FGD participants, including men and women, said they were dissatisfied with the way their problems were handled, the speed and the quality of the service. All participants indicated the need for improvement of services of call centers. Many had to visit branches and spend a great deal of time to resolve their problems.

All FGD participants complained about long lines at the branches and emphasized that it was important to set up better services for long-term customers by setting up specialized SME windows and offering priority banking services to repeat customers. They pointed out that maintenance of ATMs and cash supply is a problem, especially on weekends and holidays.

Customers also indicated a preference for branchless banking services. This included not only more ATMs, mobile phone banking and internet banking services, but also better quality of the existing services. Internet and mobile phone banking to reduce error messages, delays in transfers and payments of services.

Figure 49: Important factors for a good relationship with banks per gender



While service is perceived as being more important, product offers matter too. All banked participants of the FGDs had accounts with at least three different banks, some had five. Also, 24 percent of the respondents had more than one bank. Women as well as men are in general well informed about the products offered and choose the bank that offers best value for money, giving them access to a broader range of products and greater flexibility. Popular are promotional offers, including additional products or services offered free as well as discounts when paying with a certain credit card in a certain shop.

Credit cards are increasingly popular among SME owners, but there is a need to educate female SME owners about the benefits and disadvantages of using credit cards. Financial education is also a need for women business owners who need to understand the benefits of products such as leasing, insurance, and pension plans.

Bundled products would also be appreciated by both men and women. More women than male bank customers would be interested in loan products provided with a free debit or credit card (with waivers on fees for a period of time), an insurance product free of cost for a trial period, or a pre-paid card or points on a retail card that can be redeemed at retail shops. Female customers from the FGDs also felt that banks need to focus more on adapting existing products and services and designing new products that meet the specific needs of women SME owners. Ideally, these would be combined with discrete financial education and training seminars.

4.4 Women-owned SMEs as Distinct Customer Segment

Women-owned SMEs, particularly in developing countries, have historically lacked access to financial products and services. It is estimated that over 70 percent of the women-led businesses across every region are either financially unserved or underserved⁶⁴. IFC indicates that female entrepreneurs account for anywhere between 2 percent and 10 percent of the commercial bank financing, and that there is significant unmet demand for credit from women-owned SMEs⁶⁵.

According to the World Bank (2012), women represent 40 percent of the workforce, control over one-third of the global wealth and spend \$ 20 trillion dollars annually. There is therefore a huge business opportunity for banks in targeting women-owned SMEs.

More than the size of the segment, it is the perceived lower profitability of women-led SMEs that apparently discourages banks from targeting them. Several studies confirm gender differences in business outcomes for women and male entrepreneurs, both across representative

⁶⁴ IFC (2011).
⁶⁵ IFC (2013).

samples of firms and within specific business niches⁶⁶. Female-owned businesses are typically smaller in scale and characterized by lower sales volume, lower financial performance and slower growth rates than male-owned businesses. At the same time, studies also show that women are more likely to be engaged in small retail or service businesses where the growth rate per se is limited⁶⁷.

Other studies, however, show that gender-specific differences in survival and growth rates of businesses are in fact marginal, or may even disappear when data is controlled for industry and size⁶⁸. As the World Bank research in Sub-Saharan Africa proves, there are no differences in performance when men-owned and women-owned enterprises operate under the same conditions⁶⁹. Thus the concentration of female ownership and employment in less profitable, small, more competitive and labor-intensive sectors contributes to the bias in the performance of women-owned businesses as compared to those owned by men⁷⁰.

The important thing to note is that IFC in its 2014 report finds no significant difference between men and women in the repayment rate of loans for any type of business.

Indonesia is not fundamentally different in this regard. Women-owned SMEs are usually informal or semi-formal, and more active in the services sector or small manufacturing businesses. At the same time, they have shown similar performance, reporting comparable growth in the number of employees and profitability. However, certain constraints restrict their business growth more than that of men-owned businesses.

As discussed earlier, lack of confidence and the pressure of culture to conform are the main reasons that prevent women from taking too much risk. At the same time, criticism from family and society for not prioritizing home before business -- even when successful -- can prevent women from investing time, effort and money into their businesses, restricting their growth.

However, this also means that women's businesses are less risky for banks as they never grow too much for the entrepreneur to not be able to manage them.

Even though the banks' lending policies and procedures are gender-neutral, they automatically disadvantage women entrepreneurs given their relatively weak position for loan eligibility criteria such as credit history, collateral and prior business experience⁷¹. However, when seen as an opportunity, actual or perceived limitations described above can be overcome through a well-designed bank support program. Banks can easily address the challenges women entrepreneurs face to their own benefit.

Over time, banks like Royal Bank of Canada (Canada), Westpac (Australia), Royal Bank of Scotland (Scotland), Garanti Bank (Turkey) and some others have pioneered tapping into the women banking market in their countries at an early stage. A recent report of the Women's World Banking for the European Bank of Reconstruction and Development identified more than 100 programs at 89 institutions globally.

Although the number of banks specifically addressing women-owned SMEs is still low, more and more banks are identifying it as a clear business case. They are recognizing the influence of gender-specific patterns on product design, delivery channels and market positioning of their financial institution, growing the SME banking market share and profitability.

The situation is also changing due to external pressure on banks to reposition themselves strategically so as to proactively capture new client bases. The business environment for banks in many countries is changing rapidly with non-bank financial institutions reaching out to the

⁶⁶ See for example Du Rietz and Henrekson (2000), Kalleberg and Leicht (1991), Rosa et al. (1996), or Ruane and Sutherland (2007).

⁶⁷ Robb and Wolken (2002).

⁶⁸ Du Rietz and Henrekson (2000).

⁶⁹ World Bank (2012).

⁷⁰ Golden Sachs (2014).

⁷¹ OECD (2013).

SME market to stave off the high competition among banks. Although banks have previously focused on high-value, low-risk corporate clients, there is now an increasing consensus that the SME market can be a profitable segment for banks that could help hedge against economic downturns.

There is therefore no doubt that the unserved and underserved women businesses represent an emerging, potentially profitable market segment of the SME market. In its 2013 report *Exploring bank financing for women entrepreneurs in MENA region*, OECD has shown that banks in the Middle East and North African region value investment in women-led businesses as an expansion strategy as well as a means to develop niche expertise and diversify risks. Other banks such as the EBRD have stated in the 2014 report *Global best practices in banking for women-led SMEs* that their social missions and goals for corporate social responsibility and corporate citizenship is guiding them in reaching out to this segment.

The new regulation in Indonesia that mandates MSME financing to be a minimum 20 percent of a bank's loan portfolio by 2018 has also put pressure on banks to look at the MSME market more carefully. A focus on women-owned SMEs can be a low-risk strategy for banks that will perhaps enable even them to exceed these targets.

4.5 Capitalizing on Global Experience in Targeting Women-owned SMEs

Many of the banks mentioned above as well as in Boxes 3 and 4 have discovered the potential of women-owned SMEs in their own specific way. A few entered the market by way of credit lines or incentives provided by donors and International Financial Institutions, others to proactively get ahead of the market and gain the 'first-mover' advantage so as to reap benefit of cross-selling specific offerings. Either way, there is little doubt that investing in women-owned SMEs is a strategic business opportunity that can pay off for banks and also benefit women-owned enterprises.

These opportunities are also open to Indonesian banks. As research shows, women may also be loyal customers once they receive multiple products from banks⁷². **Interviews with banks in Indonesia and elsewhere have shown that women tend to be more disciplined in repayment and their non-performing loan ratios is generally lower than those of male-owned SMEs.**

Smart use of innovative delivery channels and marketing efforts may help reach out to a segment which is less likely to proactively seek financial services despite being constrained by cultural and social issues. As the survey results show, women in Indonesia are extremely concerned about the effective use of time available for their businesses and would appreciate quick but high quality service through the various delivery channels. All things considered, focus on diversity and inclusion can enhance the bank's positioning externally to clients and investors and internally to employees.

Obviously, to develop an individual value proposition for women-owned SMEs, certain organizational changes, adjustments in business models, and internal alignment will be necessary. Depending on the banks' strategic objectives and resources, individual measures can be designed. The first step to learn about women as a customer segment should be market research and customer segmentation. It is essential to validate specific and often additional challenges faced by women entrepreneurs. This research has revealed a few differences that can be used as a starting point. Other research too corroborates that women and men are likely to have different spending and saving priorities, cash-flow needs at different stages of their lifecycle, and different attitudes toward risk and investment⁷³. Examples of other banks worldwide targeting women-led SMEs can further provide valuable information.

⁷² Goldman Sachs (2014).

⁷³ EBRD (2014).

Best-practice SME banking has shown that financial needs for business and personal use are closely intertwined in the case of women-led businesses. Banks that recognize this peculiarity have combined both in their product offers⁷⁴, bundling loans with savings accounts for children, pension plans, credit cards, and other dedicated products for women. For instance, under its “We Initiative” scheme, BLC Bank in Lebanon allows women to open savings account for children in her own name without having to disclose it to other family members. Normally, the signature of the husband or other male member of the family is necessary.

Box 3: BLC Bank in Lebanon

As one of the oldest banks in Lebanon, BLC Bank s.a.l. operates through a network of 55 branches across Lebanon and Cyprus. In line with its mission of being an innovative financial institution, BLC Bank in 2012 became the first bank in the MENA region to create a unit dedicated to women entrepreneurs. It had the task of implementing an unprecedented program aimed at women empowerment: the We Initiative. By 2015, BLC Bank served more than 31,000 women customers with a loan portfolio of \$ 180 million and deposits of \$ 750 million.

‘We Initiative’ is the first and only holistic program working for financial empowerment of women in the Middle East. It targets women as entrepreneurs, professionals, mothers, and in their daily lives, seeking to find solutions for their challenges and concerns, and aiming to unleash their potential. In addition, this initiative allows women to enhance their professional and personal lives through dedicated services and products including a unique and innovative platform www.we-initiative.com enabling them to connect, network and evolve. BLC states to have a return on investment of more than 30 percent on this initiative.

Through this program BLC Bank strives to become the employer of choice and the reference bank for women. It is the first bank in the Middle East and North Africa region that has joined the Global Banking Alliance for Women. It is committed to the UN Global Compact / UN Women Empowerment Principles, and considers them an essential guideline to any successful business.

In other innovations, few banks have adjusted their credit assessment methodologies towards more cash-flow-based lending and/or alternative forms of collateral. For example, Garanti Bank in Turkey introduced the Gold Secured Loan program, which allows women to use gold as collateral. Acknowledging women’s general shortage of ‘hard’ collateral, the bank has capitalized on their emotional commitment to gold, which women in Turkey begin to accumulate early in life.

Also evidence from Latin America and Africa suggests that application of adjusted credit risk assessment models lead to fewer rejections of creditworthy women-owned SMEs as compared to traditional models that rely on credit history and availability of collateral.

Banks need to work on a suite of delivery channels to reach out to women in particular because of the issues of time and mobility that prevent them from interacting with banks. Whether accidentally or as a reflection of the digital revolution in the MENA region, it is heartening to note that 65 percent of the banks surveyed by OECD for its 2013 report use internet, social media and mobile banking as marketing and distribution channels to connect with women business owners⁷⁵.

Banks can also make use of the existing delivery channels to service women entrepreneurs by collaborating with existing business associations, as well as agents located at places women frequent routinely, including markets and beauty salons. Some of the banks like BPR bank in Rwanda have found that assigning female relationship managers at their branches was useful.

In order to tackle the lack of confidence or financial knowledge, perceived or real, on the part of women while accessing bank services, banks should design specific non-financial services like SME training on financial, business and sales skills, in addition to mentoring and the provision of networking events and knowledge resources.

⁷⁴ EBRD (2014).

⁷⁵ OECD (2013).

Best-practice banks even offered online networks. For instance, BCI in Mozambique and BLC bank in Lebanon use IFC’s SME toolkit as a basis for their networks. There were also bank awards to motivate and acknowledge women entrepreneurs -- Santander Banefe in Chile, Wells Fargo in the United States, and Garanti Bank in Turkey are a few examples.

Box 4: Garanti Bank in Turkey

Garanti Bank is the second largest private bank in Turkey with assets totaling \$ 94 billion. Established in 1946, the bank sees itself as primarily development-oriented, focusing on serving entrepreneurs due to their important role in Turkey’s economic growth. Garanti Bank’s SME portfolio has grown steadily throughout the 2007-2014 period. At the end of 2014, the bank had a total banking volume of \$ 15.6 billion representing approximately 10 percent of the Turkish SME loan market.

One of the reasons for the success of Garanti Bank is its focus on women entrepreneurs. Garanti developed a specific proposition for women based on two main concepts. The first is the specific Women Entrepreneur Support Package that has allowed 9,500 women to receive loans. The package includes a range of products, including short-term revolving, spot or installment loans in line with the business’s working-capital needs during the production period. This is in addition to the overdraft account, and Bonus Business card for payments of all business related expenses. The second proposition focuses on Women Entrepreneur Meetings, a platform for exchanging information, opinions and experiences on marketing, management and technology. The bank has reached more than 3,000 women through this.

These two initiatives have helped the bank gain the reputation of being women-friendly and increase its loyal customer base. Garanti’s female entrepreneur customers consume more bank products than their male counterparts and are more profitable for the bank. By 2014-end, loans provided to women entrepreneurs amounted to \$ 900 million.

These and other examples from best-practice commercial banks show that women-specific constraints can be viewed as promising opportunities. Obviously, as the survey results show, women in Indonesia would appreciate non-financial services as well as customized product offerings that take into account their time constraints as well as their business metrics. Adjustments to the terms and conditions of the loans and collateral requirements will help banks service them in particular.

Clearly, women need to be served differently. Relationship managers trained in serving women-led SMEs could make a big difference. Banks in Indonesia should be able to make good use of the findings of this survey.

5 Recommendations for the Government, BI and Banks

Government and its agencies

Improve investment climate through incentives for business registration and a simplified tax regime for SMEs: Government regulations to increase formality and ease registration procedure, introduced in 2010 and in 2014 (President Regulation on one-page permit), are constructive and timely initiatives. However, their effectiveness and impact is often diluted by lack of leverage. Complying with tax obligations and registration requirements should be made easier and more transparent, with efforts to minimize hidden costs for SMEs in the coming months and years.

Women-owned SMEs will benefit from these reforms as it will ease the process of doing business. Tax burden for start-up businesses should be minimal to promote formalization of enterprises. The one-page registration, which still needs time to gain acceptance and become institutionalized, offers some advantages but these alone may not be sufficient. It could be complemented by a simplified tax procedure which could include tax exemption for a period of one or two years. Some direct incentives for SMEs to register should also be considered.

Improve the relevance of the state support programs and ensure their efficient promotion: SME support programs such as trade fairs, skills training and loans programs are widely used by formal businesses but only by those that are well informed about them. Not just that, unless these services are relevant and they are promoted actively, SMEs will not take advantage of them. Government authorities should assess the effectiveness of the existing programs and revise their content and delivery, if necessary, with the support of external advisors. It is of utmost importance to ensure that they are promoted at the district and sub-district levels.

The government should also make available online all information and resources on how to register, incorporate, and obtain licenses and permits. Additionally, facts and Frequently Asked Questions about finance, costs, grants, loans, taxes, and incentives should be provided and actively disseminated.

State support programs in general and for women in particular would be more effective if they were targeted towards specific segments, for example youth. Such programs could offer incentives to young men and women for instance in non-traditional sectors such as information technology. Specific programs could also offer advice on start-up alternatives for women and youth.

Tax incentives for investments: The government could introduce tax incentives for SMEs undertaking investment projects on the purchase of machinery or real estate for example. So far tax incentives in the form of tax holidays and depreciation rules exist only for companies paying corporate taxes as well as for foreign investors. Companies with annual sales of less than Indonesian rupiah 4.8 billion pay a flat tax of 1 percent. This effectively covers all SMEs. A rule that would allow these businesses to deduct the costs of investments from annual sales base, immediately or over time, could reduce investment costs of SMEs and encourage more investments.

Improve the registry of movable collateral: The government could improve the registry of movable collateral (*Fiducia* registry) so as to eliminate the possibility of double pledging. Special emphasis needs to be given to objects that do not have formal certificate of ownership such as machinery.

Bank Indonesia

Develop state lending programs for SMEs: The success of the KUR program has demonstrated that well-designed state support can significantly improve access to finance for microenterprises. These programs should be implemented until the SME market matures and banks learn the specific needs of SMEs and their investment potential.

Until then, banks will continue to rely on interest rates as a tool to mitigate risks associated with the SME segment. In the absence of underwriting processes suitable for small businesses, banks tend to charge high risk premiums from them.

The programs should also be opened to private commercial banks that will also have to comply with the recent BI regulation on a minimum 20 percent MSMEs loans by 2018. In addition, an SME fund could be established in cooperation and with participation of international donor organizations as shareholders. This will help promote SME financing among banks by means of dedicated credit lines accompanied with the advisory component.

The success of the KUR program can be further leveraged to support micro enterprises with the potential to graduate into SMEs and also support nascent SMEs that have no history with formal banks, and can benefit from an entry-level credit product. Cooperation between BI and other line ministries and the private sector would help promote nascent SMEs and address the challenges faced by the “missing middle“.

Enforce collection of gender-disaggregated data and promote gender performance indicators: The lack of gender-disaggregated data limits the ability to promote inclusive financial services and monitor the impact of such initiatives. BI could take the initiative to nudge Indonesian banks to collect gender-disaggregated data for a better understanding of the specifics of women-led SMEs. Banks need to compile important gender-disaggregated information on the creditworthiness and risks of potential borrowers to prove that developing a distinct value proposition for women is worth the effort.

The central bank could further educate banks on how to target and serve women-owned SMEs to meet the overall requirement of an increased MSMEs share in their total lending portfolios. As part of the gender-disaggregated data, certain indicators can be mandated as part of the regular reporting. As benchmarks, BI can use gender-measuring indicators of the Women’s World Banking or the Global Banking Alliance for Women.

Promote awareness of the benefits of women-owned SMEs: Banks in Indonesia need to wake up to the constraints and opportunities faced by women-run businesses, which may impact their ability to access finance. BI could take an active role in promoting awareness for their specific needs that possibly require an innovative approach, adapting existing products or the creation of new ones.

For this, the regulator should initiate gender-sensitivity workshops involving bank management with the support of IFIs. It would be a good idea to conduct these workshops as a pilot project to specifically promote awareness for women-led SMEs and design specific advisory support packages for the banks that would like to develop tailored programs and customized products for women entrepreneurs.

Enhance regulatory framework for electronic payment and alternative delivery channels (mobile banking): Branchless banking, in combination with mobile banking, has great potential to increase access to finance as well as to make banking more convenient for SMEs. Convenient access to bank accounts and the introduction of m-money could increase usage of electronic payments and increase deposits, benefiting women in particular. However, dual regulation by BI and OJK is proving to be a big bind for banks and mobile network operators entering the market. Regulation should be modified to increase competition between systems

by reducing the market-entry constraints for private banks. At the same time, it should allow for broader cooperation of banks, especially in building up an agent network.

Support Ministry of Cooperatives for the development of SMEs, especially women businesses. The current focus of the Bank Indonesia is primarily on agribusiness and agriculture given the impact of the sector on economic stability. However, there is a need for BI to focus on other sub-sectors with a strong presence of women. Also, BI could play a critical role in supporting the Ministry of Cooperatives that currently focuses on micro enterprises through producer cooperatives, especially in the handicrafts and production sectors. Similar effort should be made to support the small and medium enterprise segments. The private sector and public-private partnership could easily fill this void.

Banks

Target SMEs as a separate and strategic customer segment: SMEs represent a distinct segment that differs substantially from microenterprises and corporate sector in its financial and operational needs and requires more alternative services. At the same time, the segment is growing more strongly than the microenterprise segment and is less served than the corporate sector.

Therefore targeting the SME market with a dedicated strategy can benefit banks. Such a strategy should include simplifying loan application procedures and document requirements, and customizing them according to their specific needs. Most importantly, it requires building knowledge and capacity to serve SMEs in general and women-led businesses in particular.

Gender sensitization training for bank staff, particularly those interfacing with customers, is essential. Better customer service, especially for women SMEs, can be achieved through appropriate staff incentive mechanisms. These could be by way of monetary and non-monetary awards or commendations for bank staff who have met targets of outreach to female customers, cross-selling products to them, among others.

Improve SME credit assessment methodologies: This study has revealed that the capacity of banks to assess SMEs is rather inadequate. The SME financing requirements are too large for microfinance but too small to be effectively served through corporate business models. Therefore, banks need to understand the way SMEs operate and, accordingly develop mechanisms to assess the market risk of this segment effectively.

Innovative approaches to collateral like accepting movable collateral or accounts receivables as well as effective underwriting are needed to manage credit risk. With sound credit appraisal and risk management, banks can serve women SMEs better. Banks can also use human resource development strategies to include gender sensitization training for their staff. **Better customer service and relationship management will also help react quickly to arrears and address problem loans before they lead to losses.**

Customize offerings and lending methodologies for women-specific needs: Banks are recommended to explore ways to adapt and reposition themselves if they want to capture women-led SMEs as a distinct and lucrative segment. Adapted policies in exposure limits, collateral requirements and pricing are necessary to ensure the segment's profitability. Loan product reform could also include flexibility in loan tenure, i.e. longer tenure for larger loans to reduce the size of installments, and the use of KUR loan products to address collateral gaps.

Not just that, it is vital for banks to link first-time borrowers in the formal banking system with financial education, either through a specialized desk within the bank, or referral to a government program or NGO offering the requisite service. Banks could also promote other credit offerings such as line of credit, loan guarantee, and leasing products to make financial services more effective for women SMEs.

Banks should also exploit ways to leverage information and communication technologies to connect with underserved women-led SMEs. They should provide non-financial services like an information exchange platform for women-owned SMEs. The best-practice banks have shown that even a small investment in product adaptation and specific initiatives for women, e.g. by way of awards or recognition, can generate high impact at low cost.

Table 8: Financial products most needed by women entrepreneurs

Priority	Loan product	Description	Usage and potential:
1.	Installment loans	These should be larger loan amounts and lower interest rates, ideally with a grace period of a minimum 6 months, to enable women-owned SMEs to undertake larger investments into their businesses. Broader acceptance of movable collateral might stimulate uptake.	Usage: 36% Additional potential: 29%
2.	Overdraft facility	This should be offered in addition to installment loans and not as replacement to ease working capital need. For collateral, stocks or account receivables should be considered.	Usage: 22% Additional potential: 21%
3.	Term deposits	In comparison to the savings accounts, term deposits are barely used. However they pay higher interest rates and are more suitable to save for business investments or private needs such as school fees, housing and so on.	Usage: 22% Additional potential: 39%
4.	Insurance	Entrepreneurs are underinsured in terms of usage and coverage. Due to the risk to the company and its employees, entrepreneurs should have health insurance, ideally including foregone income for some period. Insurances for women might in particular be beneficial as it would protect the family as a whole.	Usage: 38% Additional potential: 30%
5.	Pension	Entrepreneurs barely save for their retirement but are increasingly able to, and demanding to do so.	Usage: 13% Additional potential: 19%
6.	Credit Cards	These are becoming increasingly popular and can be a good way to increase usage of electronic money that allows entrepreneurs to easily take small loans in case of need. However, credit cards have been the reason for over indebtedness. Financial literacy should be a requirement for receiving a credit card.	Usage: 25% Additional potential: 22%

Strengthen and streamline non-financial services: Banks can improve their approach to women-led SMEs by addressing access barriers effectively. They could devise alternative delivery channels to tackle the limitation of physical reach, make eligibility norms flexible, and remove burdensome paperwork and irrelevant product features. In addition, they must tackle usage barriers like high transaction costs and pricing of formal loans as compared to informal sources of finance.

Banks can also make themselves attractive by offering or strengthening non-financial services. Considering that women prefer informal sources of financing, banks should help them understand the different financing options open to them, the collateral and documentary requirements involved, and the costs and risks associated with these options. With non-financial services like financial education training, electronic media with content customized for women, mentoring and advisory services on development of business and tailored networking opportunities, banks could easily become the preferred option for women-led SMEs.

Taking these and other steps to support the development of SMEs and women-owned SMEs in Indonesia will create a tremendous business opportunity for banks and for the country in general. The combined efforts of the banks, government agencies, and other stakeholders will translate into a stronger Indonesian economy.

6 Conclusion

Indonesia's SME sector is small in comparison to its microenterprise sector and is far less productive than the corporate sector. However, SMEs will play an important role in generating income on a broader level if the country is to avoid the middle income trap. The SME sector has been growing more dynamically in past years compared to the microenterprise or corporate sector. Eliminating certain constraints and improving access to finance could further boost its growth.

While the number of SMEs and number of employees has been increasing quickly, investments lagged behind so that average productivity per employee has been falling. Indeed, the growth in fixed capital formation decreased markedly and is considered responsible for lower GDP growth rates. Although most SMEs evaluated their business outlook as generally positive, they have been reluctant to obtain finance for investment purposes.

There are three major areas that need to be addressed by the government and the financial sector to strengthen SMEs and their contribution to the economy. First, about half of the SMEs are either informal or obtain semi-formal status, mostly due to administrative formalities and the high cost of obtaining the formal status. It has been seen that only businesses with a turnover above Indonesia n rupiah 1 billion will opt for formalization. Informal status makes SMEs ineligible for a number of business development opportunities. For instance, it excludes them from active participation in the value chain as producers, suppliers, service providers, often in close relationships with larger businesses.

Second, investments require long-term financing. Most SMEs make use of short-term finance to cover their liquidity needs through, what seems to them, the most accessible sources. These are primarily either profits retained from own businesses or borrowings from family or friends. Thus, investment loans that banks offer are seldom made use of. Only 11 percent of the surveyed SMEs did so, mostly because loans from informal sources deliver better value and convenience as compared to banks.

Third, not only SMEs but specifically those owned by women are strong contributors to economic growth and employment. They need to be offered better growth opportunities. Women-owned SMEs represent almost half of the market. They are most often informal and their businesses are smaller in size, though not weaker in terms of performance. Some challenges are perceived and experienced by women stronger than by men because of the limitations in time, mobility and resources, in addition to cultural and social aspects. At the same time, more often than men, women are interested in advisory, training and information sharing and are more demanding of the quality of services that banks or government support programs provide.

In order to ensure higher growth rates for SMEs, the environment for doing business in Indonesia has to be improved. The government should take measures to increase formality. Also, a broader access and higher quality of government support services could assist SMEs in gaining new knowledge or accessing new markets. Compared to currently implemented programs, however, stronger focus should be placed on the specific needs of SMEs.

In turn, the banks would have to strategically reposition themselves to serve the SME segment by applying business models distinct from those used for micro and corporate lending. Additionally, servicing unbanked women SMEs could be a new area for the banks to focus on. Accepting movable collateral or applying cash-flow lending instead of balance-sheet lending might increase access to bank loans. Increasing loan amounts along with competitive interest rates would go a long way in covering the SMEs' unmet demand for financing. This will likely make borrowing more attractive for larger loan amounts, and make more investments feasible for SMEs, supporting their productivity and growth.

The bundling of products into ‘SME packages’, combining financial products with access to information and networking, could increase consumption of bank products and foster loyalty while supporting SMEs in their growth. Simplified procedures as well as alternative delivery channels might further stimulate use of bank services by both men and women-owned SMEs.

Banks are in a good position to increase lending to SMEs. The debt levels of SMEs are much lower and the investment needs higher than those of the corporates. Compared to microenterprises, SMEs can absorb much higher loans. The present survey shows that 54 percent of the SMEs are interested in getting a bank loan in the future. This underscores the huge untapped demand and a business opportunity waiting to be exploited.

Annex 1 – Overview of Relevant SME Policy and Regulations

Table 9: Overview of regulations and policies affecting SMEs

Regulations		
Name	Outline	
Law No.20/2008 on Micro, Small and Medium-sized Enterprises	MSME definition and the government obligation to promote the MSME sector	
Law No.7/1992 and Law No.10/1998 (amendment) on Banking	Regulation on Banks	
Presidential Decree No.2/2008 on Guarantee Institutions	Regulation on credit guarantee and re guarantee institutions	
Regulation No.222/2008 and No.99/2011 on Guarantee Institutions and Reguarantee Institutions	Regulation on credit guarantee and re guarantee institutions (Ministry of Finance)	
Law No.17/2012 on Cooperatives	Regulation on cooperatives	
Law No.1/2013 on Microfinance Institutions	Regulation on microfinance institutions (MFIs)	
Presidential Regulation No.9/2009 on Financing Institutions	Regulation on nonbank financial institutions (NBFIs)	
Law No.8/1996 on Capital Market	Regulation on capital markets	
Bapepam-LK Rule No.IX.C.7	SME definition in capital markets	
Regulators and policy makers		
Bank Indonesia (BI)	Regulates and supervises banks (until 2014) SME access to finance and financial inclusion policies	
Financial Services Authority (OJK, Otoritas Jasa Keuangan)	Established in 2011 Regulates and supervises NBFIs and capital markets Regulates and supervises banks (since 2014)	
Coordinating Ministry of Economic Affairs	Responsible for managing the KUR program	
Ministry of Cooperatives and SMEs (MCSME)	Regulates and supervises credit cooperatives Policies and programs to support cooperatives and SMEs	
National Team for Acceleration of Poverty Reduction Office of the Vice President (TNP2K)	Financial inclusion policies and strategies	
Policies		
Name	Responsible Entity	Outline
MSME Development Action Plan 2006-2009	MCMSE	Increase MSME productivity, employment, export, contribution to GDP, entrepreneurship, etc.
Institution of the President of the Republic of Indonesia No.6/2007 and No.5/2008 (New Economic Policy Package1 and II)	Government	A comprehensive economic policy package prepared by all economic ministries/agencies. Access to finance (strengthening revolving fund, credit guarantee institutions, MFIs, effective implementation of KUR, development of financing schemes for MSMEs, shariah product development, etc.). Access to market Capacity development of human resources Deregulation
Joint Decree on MFI Promotion Strategy (2009)	BI MCSME MOF MOHA	Database on informal MFIs Formalization of informal MFIs Human resource development Strengthening supervision Support for formalized MFIS
The Capital Market and Non-Bank Financial Industry Master Plan 2010-2014 (2010)	MOF	Easily accessible, efficient, and competition source of funds. Conducive and attractive investment climate as well as reliable risk management. A stable, resilient, and liquid industry. Fair and transparent regulatory framework which guarantees legal certainty
National Strategy for Financial Inclusion (2012)	Government	Increase public access to financial services among all layers of the population. Low-income poor

		Working poor/MSMEs Near poor
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Annex 2 – Regional Differences of Women-owned SMEs

In the following only the regional differences of women-owned SMEs are analyzed. Generally, the results of analysis should be treated carefully, as for some of the questions the number of respondents per region was low and therefore could not be considered representative of the region. Only questions answered by at least 15 respondents per region were considered for the analysis below.

Differences in size and obstacles

Women-owned SMEs differ in size per region. The proportion of upper-end micros and lower-end small enterprises (per official definition) is high in East Java. Bali, West Sumatra, Jakarta and in particular South Sulawesi have a high portion of larger small and lower-end medium-sized enterprises (Figure 50).

Enterprises in West Sumatra and East Kalimantan are least profitable with 23 percent of the enterprises being only slightly profitable or claiming losses (Figure 51). Women-owned SMEs in Bali and South Sulawesi are the most profitable. Similar is their business outlook with highest portion of women-owned SMEs expecting growth of their business in South Sulawesi. West Sumatra and Bali have a high share of enterprises expecting growth but also the highest share of businesses expecting a downturn. The majority of businesses in Jakarta, East Java and East Kalimantan expect stability within the next two years.

Figure 50: Turnover of women-owned SMEs per region

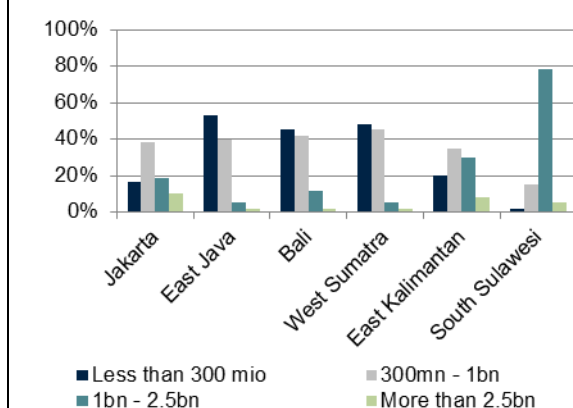
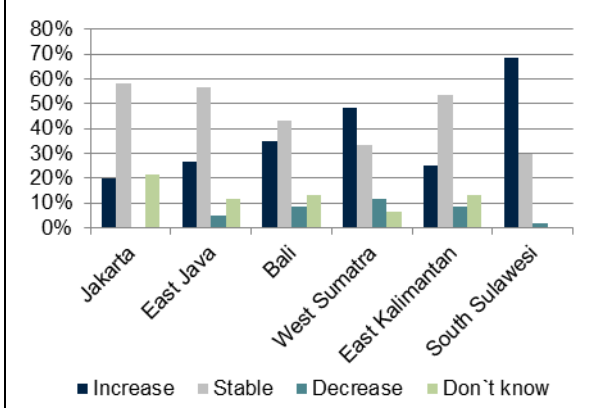
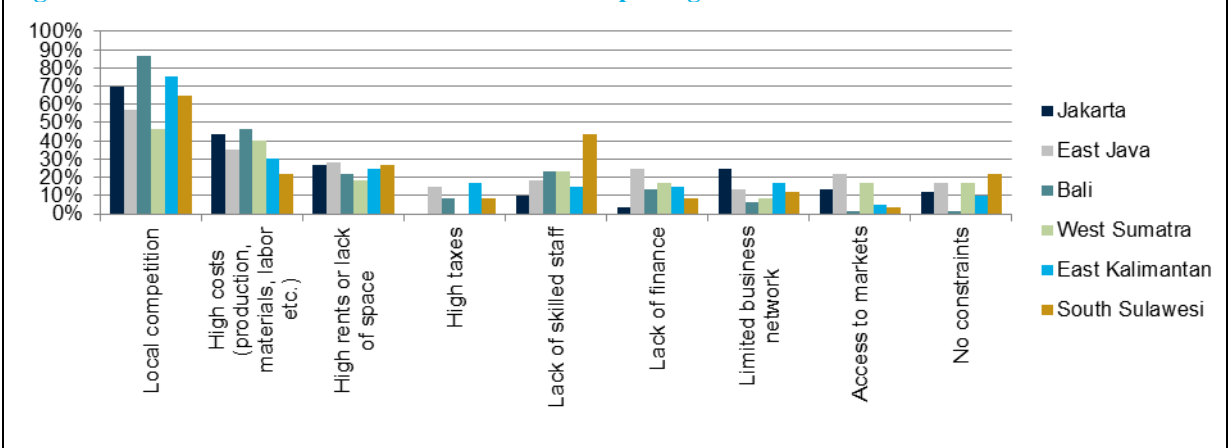


Figure 51: Business outlook of women-owned SMEs per region



Competition is the largest challenge in all regions, but is in particular severe in Bali (Figure 52). Lack of skilled staff is a strong constrain in South Sulawesi where the larger businesses are located. Lack of finance is mentioned most often in East Java and West Sumatra and least often in Jakarta.

Figure 52: Current obstacles of women-owned SMEs per region



Sources of financing and usage of banks

The majority of women-owned SMEs in all regions use some kind of bank services. In Jakarta, South Sulawesi and also East Java most women-owned SMEs are banked (Figure 53). In East Kalimantan and Bali there is potential to increase the share of banked women-owned SMEs. Women-owned SMEs from South Sulawesi and East Java as well as from West Sumatra use most often banks to finance their businesses, while the share of bank financing is the lowest in Bali (Figure 54). Cooperatives still play an important role for financing the businesses there. Retained profits and friends and families are important means of financing in all regions, especially in Jakarta and East Kalimantan.

Figure 53: Usage of bank services of women-owned SMEs per region

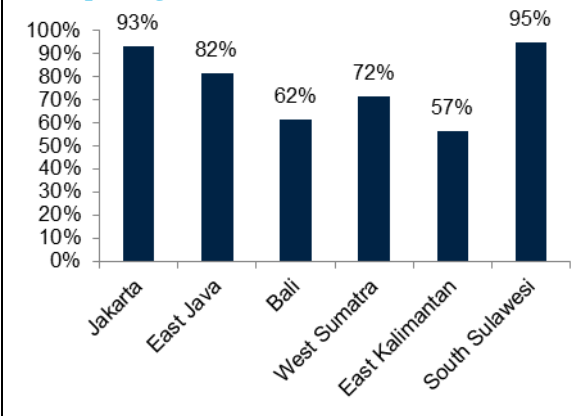
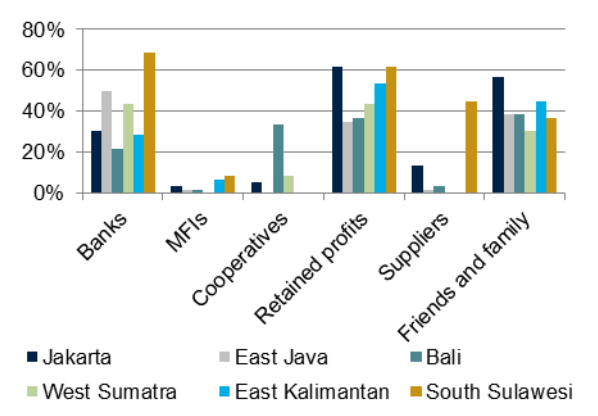


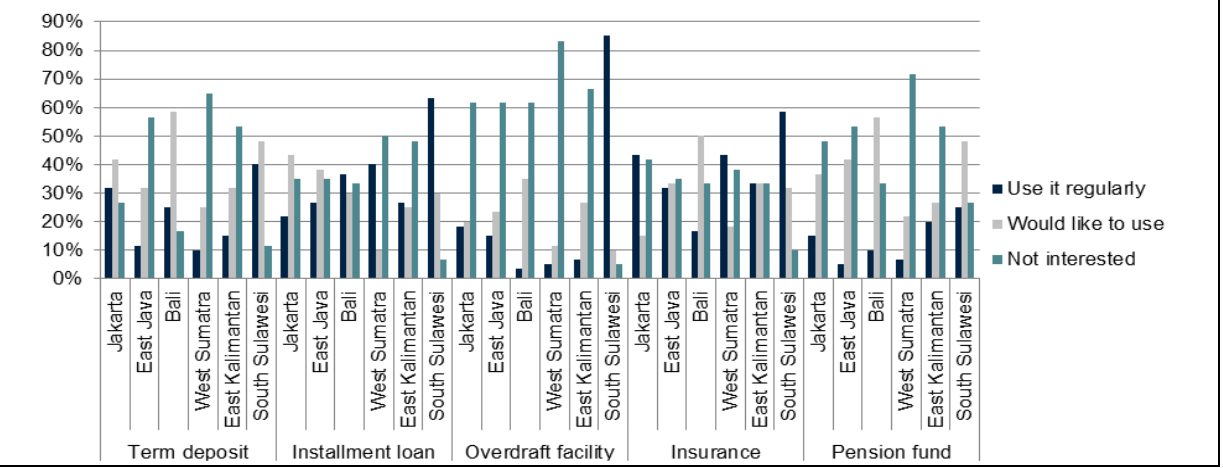
Figure 54: Sources of finance of women-owned SMEs per region



Women-owned SMEs in South Sulawesi used bank loans in the past most often (83 percent), whereas about every second women-owned SMEs ever used a bank loan in all other regions. Currently, the share of loans outstanding amounts to 48 percent in South Sulawesi, 43 percent in West Sumatra, 25 percent in East Java, 22 percent in Bali and East Kalimantan, and only 17 percent in Jakarta.

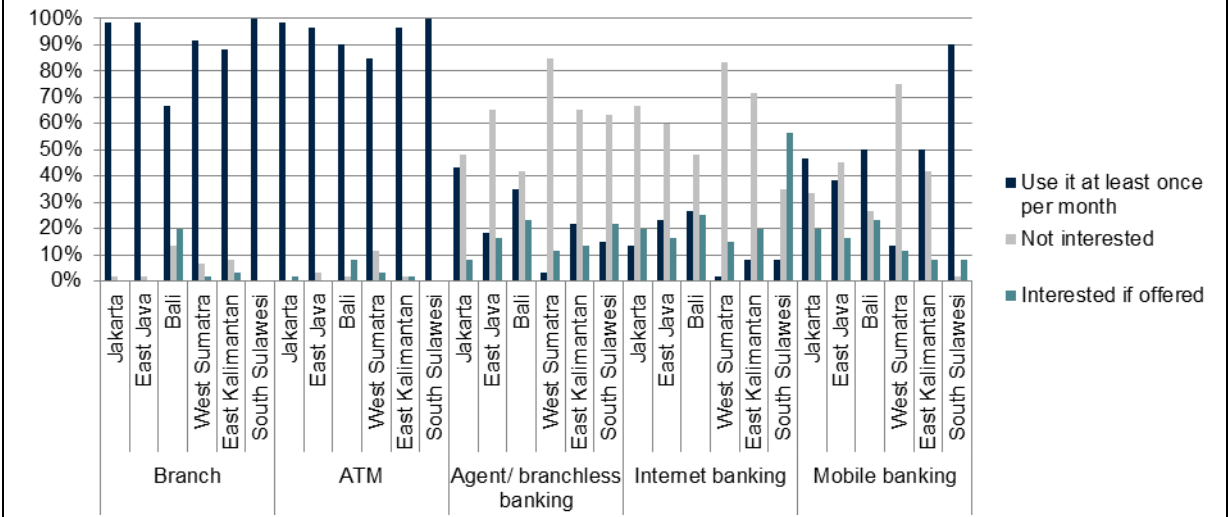
Savings account is used by almost all women-owned SMEs in all regions. Similarly, sending and receiving remittances is a frequently used service. It is of less relevance in Bali, however, with only 22 percent using it but 63 percent expressing an interest in using the service. Term deposits are also of large interest in Bali (Figure 55). Installment loans are frequently asked for in in Jakarta, East Java and Bali, but not in West Sumatra and East Kalimantan. In South Sulawesi they are already frequently used in addition to the overdraft facilities. The latter would raise greater interest in Bali as well. Insurances are most commonly used in South Sulawesi, Jakarta and West Sumatra with larger utilization by women-owned SMEs in Bali, East Java and East Kalimantan. Interest in pension funds is also high in all regions, in particular Bali and South Sulawesi. Only West Sumatra and East Kalimantan seem to show less interest.

Figure 55: Usage and interest in banking products



Branches and ATMs are frequently used in all regions with the exception of Bali where branches are avoided (Figure 56). Agent banking is already established in Bali as well as in Jakarta where also mobile banking usage is quite high. In South Sulawesi and East Kalimantan, where mobile banking is also used, agent banking is of less interest. In West Sumatra the interest in mobile, internet and branchless banking is in general very low.

Figure 56: Usage of delivery channels of women-owned SMEs per region



Demand for bank loans

In South Sulawesi, where the largest women-owned enterprises are located, 87 percent of the enterprises are interested in a bank loan (Figure 57) of on average Indonesian rupiah 480 million (Figure 58). East Java shows the second highest demand both in the number of enterprises and the average demanded loan amount. In Jakarta, interest in bank loans is the lowest but the average demanded loan amount of Indonesian rupiah 210 million falls in the middle of the range between Indonesian rupiah 150 million in West Sumatra and Indonesian rupiah 480 million in South Sulawesi. Balinese women-owned SMEs also show high interest in bank loans but on average only for small amounts (Indonesian rupiah 160 million). In West Sumatra and East Kalimantan demand for bank loans is the lowest both the number of enterprises interested and the average demanded loan amount.

Figure 57: Demand for bank loans of women-owned SMEs per region

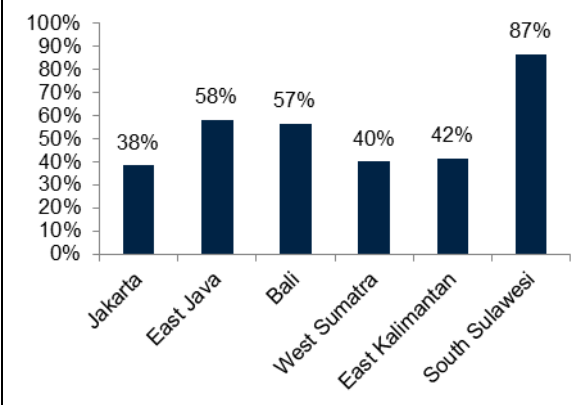
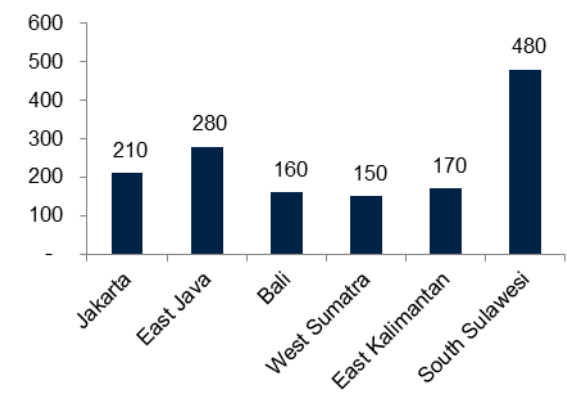


Figure 58: Average demanded loan amount of women-owned SMEs per region



The main reason for the lack of interest in a loan is “no need” in all regions. While in Jakarta 70 percent of the enterprises do not need a loan and only 14 percent blame extremely high interest rates, more women (23 percent-25 percent) complain about the latter in West Sumatra, East Kalimantan, South Sulawesi, and East Java. In Bali, “no need” is the reason for only 31 percent and interest rates for 15 percent of the respondents. Insufficient collateral, however, is the major reason why 31 percent of the female respondents are not interested in a bank loan.

Annex 3 – Methodology of the Survey

Objective

The objective of the quantitative survey was to collect detailed data on female-owned and male-owned urban SMEs in order to analyze their differences in entrepreneur and business profile and assess the aspects of access to finance in general and for women-owned SMEs in particular. For this purpose, a sample of SMEs in Indonesia was drawn based on the SME definition and the female/male entrepreneur definition of IFC (see below). Structured face-to-face interviews were conducted with 600 eligible entrepreneurs, of which 360 should be women and 240 men; 480 should be small enterprises and 120 medium-sized enterprises.

Survey Tool

The survey tool was the questionnaire which included 67 questions covering the following aspects:

1. Profile of entrepreneur (position & ownership, gender, age and education, etc.)
2. Profile of business (formality, sector, number of employees and age of business, etc.)
3. Business start-up phase (financing, motivation & key success factors, challenges, etc.)
4. Current business status (facilities & technology, support of associations & governmental programs, turnover & profitability, general obstacles & particular obstacles for women, etc.)
5. Relationship with Financial Institutions (financial advice & source of financing, positive & negative factors of banking in Indonesia, etc.)
6. Usage of banking products (reasons for and against lending, purpose of loan, loan application process & loan characteristics, differences in banking of men and women, usage and interest in other bank products and delivery channels, etc.)
7. Future usage of banking products (demand for loans and their preferred characteristics, expectations towards banks, etc.)

Eligibility Criteria and Definitions

Eligible respondents are female or male entrepreneurs that run a small or medium enterprise and fit into the following definitions.

Female Entrepreneur: A woman-owned enterprise is one where $\geq 51\%$ owned by woman/women or $\geq 20\%$ owned by a woman/women and have ≥ 1 woman as CEO/COO.

Male Entrepreneur: A men-owned enterprise is one where $\geq 51\%$ owned by man/men or $\geq 80\%$ owned by a man/men and do not have ≥ 1 woman as CEO/COO.

Table 10: Definition of SME for sample

Type	Number of employees	Eligibility
Micro enterprises	1 - 4	No
Small enterprises	5 - 19	Yes
Medium enterprises	20 - 99	Yes
Corporates	>100	No

Selection of respondents

Small enterprises: Respondents were selected using the randomized-area method. Cities were broken down into five regions (Central, North, East, South and West). In each region, five starting points were randomly selected. The interviewers approached the enterprise nearest to their starting point to conduct the interview. If the entrepreneur was willing but not available an appointment for an interview was set and the interviewer returned some other time. If the entrepreneur was not willing to be interviewed, was not met at the premises, was not eligible or did not fit into the quota, or when the interview was completed, the interviewer skipped the

next three houses and approached the next enterprise. This continued until two eligible, small enterprises have been interviewed. The small enterprises had to be from two different sectors.

Medium enterprises: Were randomly selected from a BPS list of companies from 2014 that includes medium-sized enterprises and corporates, whereas corporates have been dropped. Selected enterprises were contacted and an appointment for an interview was agreed on. In cities where it was not possible to arrange a sufficient number of interviews according to the quote, the methodology of small enterprises has been used.

Sampling

Eligible respondents were randomly drawn from the survey population using the approach described above and based on the following quotas:

- Regional quota: data was collected in two large cities and their surroundings of six provinces of Indonesia. In each city 50 interviews were completed.
- Gender quota: 60 percent women and 40 percent men.
- Business size quota: 80 percent small enterprises and 20 percent medium-sized enterprises.
- Sector quota: Minimum and maximum number of respondents from different sectors was set to ensure broad coverage of different economic activities. Limits were calculated as share of contribution to GDP that either exceeds or equals 50 percent.

Table 11: Limits set on sectors for sampling

	Nominal GDP (in trillion IDR)	Share	Lower end	Upper end	Small minimum	Small maximum	Medium minimum	Medium maximum
Wholesale and retail trades, repair of motor vehicles and motorcycles	1,410,932	21.9%	10.9%	32.8%	53	158	13	39
IT	368,943	5.7%	2.9%	8.6%	14	41	3	10
Hotels and restaurants	330,672.4	5.1%	2.6%	7.7%	12	37	3	9
Other services	624,112.8	9.7%	4.8%	14.5%	23	70	6	17
Manufacturing	2,215,753.6	34.4%	17.2%	51.6%	83	248	21	62
Construction	1,041,949.5	16.2%	8.1%	24.3%	39	116	10	29
Transport and storage	450,600	7.0%	3.5%	10.5%	17	50	4	13

Representation

Data collection resulted in two representative samples on women-owned urban SMEs and men-owned urban SMEs which can be compared (assumption: Student-t distribution):⁷⁶

- The survey on female entrepreneurs is representative for urban SMEs of Indonesia on the 95 percent confidence level with a margin of error of 6 percent.
- The survey on male entrepreneurs is representative for urban SMEs of Indonesia on the 90 percent confidence level with a margin of error of 6 percent.

⁷⁶ Under the restrictions given by the selection of respondents: Urban SMEs and SMEs that can be found by interviewers.

Table 12: Summary on number of interviews completed per city and quota

Region	West Sumatra		DKI Jakarta		East Java		Bali		East Kalimantan		South Sulawesi		Total
City	Padang	Bukittinggi	Jakarta	Bodetabek	Suraabaya	Malang	Denpasar	Singaraja	Balikpapan	Samarinda	Makassar	Parepare	-
Nr. of total interviews	50	50	50	50	50	50	50	50	50	50	50	50	600
Business size quota													
Small	40	40	40	40	40	40	40	40	40	40	40	40	480
Medium	10	10	10	10	10	10	10	10	10	10	10	10	120
Gender quota													
Women SMEs	60		60		60		60		60		60		360
Men SMEs	40		40		40		40		40		40		240

Table 13: Response rate of sample

Nr	City	Total number of successful Interviews	Unsuccessful Interview			Total of Unsuccessful Interview	Response Rate
			Respondent refused for interview	Screened out (not eligible)	Stopped (quota full)		
1	Jakarta	50	14	93	6	113	31%
2	Bodetabek	50	19	104	11	134	27%
3	Surabaya	50	15	81	12	108	32%
4	Malang	50	16	71	12	99	34%
5	Denpasar	50	12	48	12	72	41%
6	Singaraja	50	18	41	8	67	43%
7	Padang	50	11	46	9	66	43%
8	Bukittinggi	50	22	37	8	67	43%
9	Samarinda	50	12	46	7	65	43%
10	Balikpapan	50	15	48	6	69	42%
11	Makassar	50	12	52	17	81	38%
12	Parepare	50	22	73	21	116	30%
TOTAL		600				1057	36%

Annex 4 – Focus Group Discussions

Overview

- A total of nine FGDs were conducted with eight participants in each group.
- The respondents were recruited by TNS Indonesia, based on the eligibility criteria prepared by FS in consultation with IFC, BI and USAID. The FGDs were audio and video recorded.

Eligibility Criteria and Recruitment

The respondent sample included a good cross-section of businesses of different sectors and sizes, and entrepreneurs of different age, management experience, etc., with at least 50 percent of all respondents with experience of cooperation with banks (criterion: had a loan from a bank within the last two years) and about 20% of all respondents from medium-sized companies. Three FGDs were held in each of the three regions: Jakarta (West Java), Padang (West Sumatra), Denpasar (Bali). Two FGDs were conducted with women entrepreneurs only and one with male entrepreneurs only. In each region one of the two FGDs conducted with women included women who were clients of banks and one FGD had women with no loans from banks (in past 12 months). The FGD with men in each region included clients who had bank loans as well as male entrepreneurs who may be clients of banks but with no loans in the past 12 months. Refer to the facilitator guidelines and FGD program plan for details.

Summary Participant Profile

- 67 percent of the total participants were women entrepreneurs and 23 percent were male. Half of the women and half of the men had loans from banks in the past 12 months.
- The majority (42 percent) of the participants were in the age group of 30 to 39 years-, and 32 percent in the 40-to-49 age group. About 31 percent of the women were 30 to 39 years-old and 25 percent in the 40-to-49 age group.
- The majority (35 percent) of the participants had secondary education and 31 percent had university education. The majority of women entrepreneurs either had university education (Bachelor's Degree) or higher secondary education.
- The majority of the participants (96 percent) were married. All the women were married. Two men were single and one man was divorced.
- About 53 percent of the participants had household size of over five, including married couple with children and other dependents, and single or divorced persons living with dependents. Another 47 percent of the participants were in the household size category of one to four persons, including husband/wife and two children. There was no real difference between male and female respondents.
- The majority of participants (46 percent) were in the service sector, 36 percent in the trade/retail sector and about 17 percent in the manufacturing/production sector. The service sector included primarily food services, garments, beauty salons and construction. Most of those in trade were engaged in food products or garments. Industry and production businesses included primarily food processing, furniture, and some kind of handicraft production. Both male and female respondents were predominantly engaged in the service sector followed by trade and retail services. About 31 percent of the women were in services, 25 percent in trade/retail, and only 10 percent in manufacturing.
- Almost two-third of the total number of respondents (63 percent) had less than 19 paid employees. About 32 percent had more than 20 employees, but none had more than 30. There was no major difference between male and female businesses.

Findings

Motivation for establishing business was primarily to meet economic needs. About a quarter of the respondents were influenced by friends and family or had inherited the business from a parent. A small number had started their business as a hobby but were not completely committed. The business was more than a source of income: it had helped them gain confidence, become self-reliant, develop their skills, and gain exposure. All the men indicated that being the primary breadwinner for the family and head of household economic need was the main motivator. However, those who had been employed previously indicated the shift to entrepreneurship was motivated by the desire to become independent. A few mentioned that they had opted for a business for flexible hours to spend more time with their family.

Startup financing strategies were generally the same for men and women. Almost all of the men had saved for capitalizing the start-up. A few had support from friends and family. Almost none had borrowed from a formal financial institution. Several men and women had borrowed from pawnshops and two indicated borrowing from a cooperative at low rates of interest. None had borrowed from a bank for starting up a business. Borrowing from the bank came after two to three years of business experience and more reliable cash flow.

Reluctance to borrow among the respondents was influenced by three factors – the availability of personal resources and access to funds from family and friends, access to loans from alternative sources such as pawnshops and cooperatives that offer loans at lower rate of interest, little or no paperwork and more flexible terms and conditions as compared to banks. Some respondents indicated using credit from suppliers and advance from clients for the purchase of raw materials to meet their capital needs. Respondents indicated a preference for pawnshops for loans. About half of the respondents indicated their unwillingness to borrow from banks was due to a lack of confidence in their ability to manage timely repayments. Complicated bank procedures and paperwork required by banks were other factors mentioned by participants.

Clients had a high **awareness of financial products** including business loans, personal loans, credit cards, leasing, line of credit, overdraft facilities, as well as various insurance products. All respondents were using various types of products, including plastic cards, payments and transfer services, online and mobile phone banking.

Demand for loans was primarily for business purposes. None of the respondents indicated having borrowed for consumption or social needs. Entrepreneurs had availed themselves to micro loans as well as personal loans for business purposes, and some had borrowed business loans. Three women indicated using the KUR loan – two had borrowed from Bank BRI and one from Bank Mandiri – in the initial stages of their business. The vast majority had borrowed from Bank BRI. There is a strong bias towards a pawnshop type of loan product – typically carries lower than 2 percent per month, no collateral, flexible terms and conditions, limited paperwork, simple procedures and quick and easy approval and disbursement. Bundled products are also appreciated. Almost all respondents, men and women indicated a preference to have accounts with more than one bank for greater flexibility and wider range of options.

The ideal loan product for respondents is one that ranges between 10 and 500 million rupiah, for a maximum of five-year period. Currently most banks lend only for three-year periods making installments too large for the comfort of seasonal businesses or families with irregular income. While women were using mostly standard business or personal loan products, some of the men were making use of overdraft facilities, online loans, credit cards and leasing products, in addition to standard loan and savings products.

Incentive to borrow from banks depended on the availability of capital. Most of the women indicated that they had sufficient personal resources as their businesses were profitable. Most indicated liquidating assets, including gold or sale of motorcycles and cars. In the event that they needed additional capital, these women were able to borrow from family and friends. These

women also indicated the use of pawnshop loans. The only reason entrepreneurs would consider borrowing from a bank is if they did not have liquidity, and if they were not able to obtain funds from family and friends.

Access to financial services was not identified as a major constraint by either male or female respondents. Access has improved over time according to all respondents with a larger number of banks and extensive branch networks in urban areas. Rural areas are well served by Bank BRI and other state banks, as well as regional banks and cooperative banks. Branchless banking mechanisms, including ATMs, debit and credit cards, phone and internet banking have added a high level of convenience and reduced transaction costs for customers.

Opening savings accounts was considered relatively easy, and all of the respondents – men and women – had at least three savings accounts and several had more than five accounts with different banks, including accounts for business and personal purposes.

Access to credit was also not perceived to be a challenge as long as applicants had the relevant identification, paperwork, proof of income to demonstrate capacity to repay instalments and collateral. Access was easier for those who had contacts in the bank as they could provide referrals and speed up the process. The Bank Indonesia Credit Bureau provided credit records. None of the respondents had been rejected by banks. Those respondents who did not have bank loans were also confident that they would be approved for bank loans if they chose to apply. They were being pursued by banks encouraging them to borrow. The respondents with loans were confident that they would be offered repeat loans.

Respondents indicated that they visited branches once a month or less. ATM visits were more frequent, ranging from daily visits to an average of two to three visits per week. Both men and women prefer to conduct transactions by phone and internet, and avoided branch visits due to the long lines. Men and women preferred having accounts with more than one bank in order to have a wider choice of services and pricing options.

Interest in **repeat loans** was indicated by about a third of all customers including women, depending on the terms and conditions and the pricing. The others were interested in repeat loans only if they could not manage with their own resources. The interest in new products and services depended on the type of product, the benefit offered, and the pricing.

Credit history is also not an issue as all the respondents had bank accounts. All had savings accounts and those with loans had borrowed previously. A few of the male respondents indicated that access to credit had become easier since the establishment of the BI Credit Bureau which allowed banks to check the credit history of their customers. Most of the men and women were aware of the BI Credit Bureau services. As all of them had at least one (some had more than five) savings account, all had credit record which enhanced their access to loans.

Key constraints included the lack of understanding of policies and procedures, and the terms and conditions of specific products and gaps in the capacity of bank staff. The expansion of banking networks has led to gaps in capacity building of staff, and often the staff is not adequately trained to handle new customers with the requisite level of patience. Sometimes the staff is simply unable to explain the terms and conditions, which leads to misunderstandings. First-time borrowers may also find difficulty with the loan application procedures, preparing background documentation, and obtaining the requisite documents.

Collateral requirements were not considered to be a barrier. Most women indicated that they used their husband's salary certificate. Other income sources are considered and proof has to be provided. The documents that are required for loan applications include marriage certificate, salary certificate or proof of income and financial records, including statements of bank accounts with other banks.

Ownership of property to put up as collateral was not identified as a major constraint as respondents had established their businesses before borrowing. Those who did not have

adequate collateral had taken advantage of the KUR loan program, and borrowed under the KUR project from Bank BRI and Bank Mandiri. While most assets are under a man's name, the women respondents indicated that spouses were generally willing to stand up as guarantors and offer their property as collateral. Once they had established their business, women entrepreneurs invested in assets to put up as collateral for loans. Several women indicated that they had inherited property from parents, and others had purchased assets in their own name, including real estate and vehicles. Although the house is in the man's name, it can be used as collateral by either party, and both have to co-sign the loan regardless of the gender of the debtor.

Perception about bank products was generally positive. Most respondents, including men and women, were interested in the savings and investment instruments. All were aware of the range of products such as term deposits, insurance, and pension products. The respondents were also aware of the new government-promoted health insurance scheme, but indicated a preference for a higher priced private health insurance product.

Grievance redressal mechanisms All were aware of customer grievance redressal mechanisms and the toll-free numbers for help desks. However, there were complaints about the resolution of problems, including delays, long waiting periods on the phone, and the need to go to the branch as the problem could not be resolved by the call center representative. Several customers, especially women complained about the delay in bank to bank transfers and delays in payments made online.

The suggested improvements in bank services are the same for both men and women. The most important area is customer service. About a third of the female respondents indicated the need for banks to be more flexible, especially with regards to repayment. Banks needed to offer grace periods and be more flexible in case customers had difficulty repaying their loans on the due date due to cash flow problems. There was also a need for banks to explain their rules and regulations in a clear and transparent manner, and ensure that staff could communicate clearly with customers. Customers were often inconvenienced when staff provided incomplete or inaccurate information. Respondents suggested improvements in staff training particularly in the area of customer relations.

All respondents indicated the need for improvements in the grievance redressal services offered by phone. About half the respondents including men and women indicated dissatisfaction with the manner in which their problems were handled, the speed and the quality of the service. Many had to visit branches and spend a great deal of time to resolve the problems. Some banks, e.g. BCA, had improved their service while others were not responsive. All respondents complained about the long lines at the branches, and expressed the importance of providing better services for long-term customers, including the establishment of specialized SME windows and offering priority banking services to repeat customers.

Customers defined a good bank as one that had a sound reputation; focused on customer service; had friendly staff; provided efficient, easy and low-cost transactions with simple procedures; and limited paperwork. Flexibility and low rates on loans, preferably calculated on a declining balance were also considered important. Customers valued a quick resolution of problems – preferably over the phone without visit to branch.

Customer satisfaction was overall positive with regard to the range of products on offer. While customers felt that banks were more or less the same, it was important to explore options for better pricing and services. Banks were constantly offering new products and promotions. Examples of improvement were cited in the case of Bank Mandiri that offers both personal and business loans, at lower rates of interest and with simplified procedures. The bank is offering a leasing product as an alternative to a loan. BCA is offering personal loans to meet business needs and has improved internet banking over the past 12 months. Women were offered

specialized products, including points on cards for retail shopping, credit cards with a waiver on annual fees, and credit cards or loans bundled with free insurance.

Challenges faced by women included constraints experienced at the personal, household and social level. Women were first and foremost constrained by the pressure to balance their responsibilities at home and the need to focus on the business. Women respondents indicated that they were criticized by their family and by others in society for not prioritizing their homes and families. Women were subject to criticism if they succeeded in their business as they were perceived as dominating their spouses. If they faced difficulties in their business, they were perceived as failures and not supported or encouraged. The well-established business women in the focus groups admitted that support from their family, husbands and children was a key factor to their success; however, they were subject to censure from others in society. Women entrepreneurs with younger children coped by recruiting staff for housework and child care, and by managing their time efficiently. The need to manage time efficiently was a primary reason for demanding efficient and convenient banking services, such as smart phone banking, internet banking and ATMs.

Men in Indonesia are considered heads of household and the primary decision-makers, forcing women to seek permission for all major decisions, particularly in financial matters. Men have greater freedom in comparison, and control over their resources. Men as heads of household own all key assets, particularly the house. Women generally do not own property in their own name, unless they have inherited it from their family, or have purchased property in their own name. A number of the female respondents had taken steps to purchase assets in their own name to obtain a degree of economic independence, although several indicated that they would require permission from their husbands if they wanted to put up these assets as collateral or to liquidate these assets for capital.

Women are constrained by their own fears and lack of confidence. The majority of the women in the focus groups talked about fear of failure, and the repercussions, including loss of face, criticism from family and society, and most importantly the possible loss of assets put up as collateral. As women feel a greater sense of responsibility to the home and family, they experience more stress than their husbands regarding timely repayment of loans and cash flow.

Men's perceptions about women entrepreneurs varied depending on the age and background of the respondent. Younger male respondents in Jakarta and Denpasar, which are relatively modern urban centers, were positive about women in business. The men in the FGD in Padang, West Sumatra, one of the most orthodox regions of Indonesia, were emphatically negative about the idea of women as entrepreneurs, and expressed their opinion that women should focus on their traditional roles as wives and mothers leaving men to focus on earning income. On the other hand, about a third of the men in Jakarta and Bali had spouses who were either employed or self-employed.

Men also perceived some advantages experienced by women entrepreneurs. Male respondents expressed their opinion that women have an advantage over men as they are generally better communicators, and are therefore well suited to business in the service and trade sub-sectors. Also, women are good at marketing and negotiation. As they are generally better at saving, compared to men, women are better at money management and can put away more for their family and for their business investment needs.

Male respondents believed women entrepreneurs to have an advantage as they are focused, detail oriented, and effective communicators. Banks would find women good customers as they are risk averse, careful with money, and more likely to repay their loans on time, as they are more disciplined than men. Men also feel that banks trust women more than men, and that women get faster approvals, as they comply better with terms and conditions and are generally no trouble. Women tend to do well in certain kinds of businesses such as food processing, fashion, beauty salons, and service sector, given their innate skills and abilities. The media

supports women entrepreneurs. Also, with new technologies, women can be more efficient at work, and use home appliances to reduce the burden of their household chores.

Men agree that women also have some disadvantages. Women generally divert a significant portion of their business income to household needs, which limits investment in the business. Men tend to invest a greater portion of their savings in the business, especially if their wives contribute to the household expenditures. As head of household, men make all critical decisions, especially when related to financial matters and women have far less freedom and control over economic resources and decision-making. Women are subject to greater pressures as they have to balance the business with responsibilities at home. Men are not required to engage in housework or child care, and have more time for their business and for their entertainment.

As women are generally not aggressive, they may face challenges when competition intensifies in the marketplace, or when there are conflicts with customers or service providers. Male respondents acknowledged that women are also subject to censure from society and criticized by their families: they are seen as vulnerable weak and incompetent if they fail which is discouraging and demotivating, and perceived as dominating if they succeed. Women have to struggle more than men in fighting these prejudices. Negative competition among women is also an issue: men are not as competitive among one another. As one male respondent put it: “Women are not nice to one another”. Women are particularly affected by their lack of self-confidence, are often too sensitive, and not able to take failure. Successful entrepreneurs must be able to take failure in stride. Industry is a male-dominated sphere, so women in construction, real estate, and other non-traditional sectors for women will face difficulties. But those with the determination and will power will succeed.

Legal structures include PT, SIUP, CV and UD. More than three quarters of the businesses were UDs. The remaining businesses were registered as CV. Two or three were PT with one business getting ready for transformation from CV to PT. Business registration is not a major barrier and the procedures are fairly simple. The number of taxes, the hidden costs and corruption are what inhibit entrepreneurs from formalizing their business.

Access to information to support business development. Women were interested mainly in information on vendors, new markets, and other information to boost sales. Most of the participants relied on their own resources, including networking within the community. The primary sources of information for women included their friends, family, other business women, as well as informal savings groups. Women also relied on television and print media including brochures, magazines, newspapers, and window shopping. Women were also well versed in research on the internet. More women than men indicated the use of social media and the use of the internet and websites to promote their businesses. There were some who felt that participation in networks could be harmful given the competition and potential for backstabbing.

Demand for entrepreneurship development training and mentoring. While most of the women did not indicate a need for mentoring or training, some of the women indicated an interest in it to enhance their knowledge in the sector and skill development, and learn about new technologies. About a third of the women felt they were weak in financial management and accounting, and could benefit from training. Most indicated that they had professional staff to support them. Men were interested in field trips and exposure tours.

Willingness to pay for non-financial services was limited; men and women preferred free services. There was some willingness to pay for customized training and non-financial services, depending on the benefit and quality.

Relevance of trade associations and networks depended on the type of business. In general the interest in trade associations was limited to those engaged in specific sectors, e.g. construction, fashion and beauty salons. KADIN, the construction association, was cited as

useful for providing information on projects, tendering and licensing, and offered seminars and trainings that were useful. The HARPI/Melati – Association for Bridal Make-Up offered seminars, trade shows and provided access to information on new materials, training opportunities and other relevant information that helped expand business, with several services offered free of cost. The Ministry of Cooperatives and SMEs organized trade shows, and provided information on materials and pricing for some industries. The quality and services offered by Business Women’s Associations varied by region.

Licensing for businesses was identified as a challenge in certain sectors. For instance, the women in food-related businesses indicated that obtaining certification for food products (e.g. SNI label) and the BPPOM Halal label were lengthy, complicated, often expensive, and included hidden costs. The halal label in particular was a lengthy process as it involved the submission of food samples, surveys, and long waits for approval and final certification. The lack of clarity and complexity in government policies and procedures resulted in government officers adding fees to the actual costs.

Infrastructure While access to electricity and water are not major constraints, the cost of services and, more importantly, uninterrupted regular supply are major issues in the cities, especially in Denpasar. Respondents mentioned the additional costs incurred by businesses in purchasing generators, fuel tanks for storing water, and the cost of purchasing water from tankers.

Table 14: Composition of focus group discussions

	JAKARTA			PADANG			DENPASAR			TOTALS
	GP 1	GP 2	GP3	GP 1	GP 2	GP 3	GP1	GP 2	GP 3	
PARTICIPANTS										
Participants	8	8	8	8	8	8	8	8	8	72
Women	8	8	0	8	8	0	8	8	0	48 (67%)
Men	0	0	8	0	0	8	0	0	8	24 (23%)
AGE RANGE										
20-29	0	0	3	0	1	2	1	0	5	T=12 (17%) W= 2 M=10
30-39	3	3	4	2	1	3	5	8	1	T=30 (42%) W=22 (31%) M=8 (11%)
40-49	2	5	1	5	4	2	2	0	2	T=23 (32%) W=18 (25%) M=5 (7%)
50-59	1	0	0	1	1	1	0	0	0	T=3 (4%) W=2 M= 1
Age not specified	2	0	0	0	1	0	0	0	0	T=3 W=3
EDUCATIONAL STATUS										
Primary	0	0	0	0	0	4	0	4	1	T=9 (13%) W= 8 M= 1
Secondary	0	0	0	1	1	4	8	4	7	T=25 (35%) W=14 M= 11
High school	2	1	1	4	5	0	0	0	0	T=13 (18%) W=12 M=1
University	6	7	4	3	2	0	0	0	0	T=22 (31%) W=18 M=4
Diploma	0	0	3	0	0	0	0	0	0	T= 3 M=3
MARITAL STATUS										
Single	0	0	0	0	0	1	0	0	1	2
Married	8	8	7	8	8	7	8	8	7	69 (96%)
Widowed/Divorced	0	0	1	0	0	0	0	0	0	1
HOUSEHOLD SIZE										

1 to 4	4	4	3	3	4	3	2	6	5	T=34 (47%) W=23 M=11
5 to 7	4	4	5	5	4	5	6	2	3	T=38 (53%) W=25 M=13
CREDIT HISTORY IN PAST 12 MONTHS										
Women with loans	8	0	0	8	0	0	8	0	0	24
Men with loans	0	0	4	0	0	4	0	0	4	12
SUB-SECTOR DISTRIBUTION OF BUSINESSES										
Services	4	4	5	5	6	4	1	2	2	T=33 (46%) W=22 (31%) M=11 (15%)
Trade/retail	2	4	2	2	0	2	5	5	4	T=26 (36%) W=18 (25%) M=8 (11%)
Manufacturing/ production	1	0	1	1	2	2	2	1	2	T=12 (17%) W=7 (10%) M=5 (7%)
PAID EMPLOYEES										
Under 19	2	4	4	4	7	6	5	5	8	T=45 (63%) W=27 (36%) M=6 (8%)
Above 19	4	4	4	3	0	2	3	3	0	T=23 (32%) W=17 (24%) M=6 (8%)
No information	2	0	0	1	1	0	0	0	0	T=4 W=4

Note: Percentages are calculated on the total number of participants.

Annex 5 – References

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Annex 6 – List of Persons Interviewed

Table 15: List of persons interviewed

Institution	Persons Met
Asia Foundation	Erman A. Rahman, Senior Director for Programs
Association for Women in Small Business Assistance	M. Firdaus, Deputy Director
Commonwealth Bank	Widjojo, Head of SME Banking
Bank Danamon	Amalia Safitri, Head of Portfolio Management - Integrated Risk Management, Self-Employed Mass Market
Bank Mandiri	Sumedi, Department Head of Micro Agent Banking - Micro Banking Group
BNI	Siwi Peni, Division Head for SME & Commercial Business Risk Division Nurwidya Subijantara, Assistant Vice President
BRI	Agus Rachmadi, Head of BRI Microfinance International Cooperation Razaq Manan Ahmad, Microfinance Specialist
BTPN	Tjhiu Fen, SME Business Development Head Vonny, SME Customer Engagement Head
Bank Indonesia	Noviarsano M, Head of MSME's Programs Implementation Division Yufrizal, Team Leader, MSME's Program Cooperation and Coordination Division Meliana Rizka, Manager, SME Development Department
Bappenas	Leonardo A.A. Teguh Sambodo, Deputy Director for SME Supporting System
Depok MSME Association	Ridwan, MSME's Center Officer
IFC	Rubin Japhta, Senior Operations Officer Yopie Fahmi, Operations Officer Nyoman Yogi, Operations Officer Prashant Murthy, Associate Operations Officer
Inotek	Setyowati Rahayu, Business Development Manager Ivi Anggraeni, Program Officer
Ministry of Cooperative and SMEs	Tamim Saefudin, Deputy Assistant for Financial Program Pristiyanto, Staff
MSME Support Center (PLUT KUMKM), Ministry of Cooperative and SME	Wahyudi, PLUT Officer
Oxfam	Henny Soelistyowati, Value Chain and Enterprise Development Coordinator
TNP2K	Michael Joyce, Advisor on Mobile Banking
University of Indonesia, SME Center	Eugenia Mardanugraha, Director Eko Budi W, Community Development Manager
University of Trisakti, Center for Industry and SME Studies,	Tulus Tambunan, Head of Center for Industry, SME & Business Competition Studies
USAID	Anastasia de Santos, Economist Thomas J. Cody III, Senior Alliance Builder Morgan Courtney, Alliance Builder Maureen Laisang, Gender Specialist