

INDONESIAN IMPACT INVESTMENT WHOLESALE:

Unlocking Indonesia's Impact Investment Potential

Demand and Supply Landscape for the
"Missing Middle" and Strategic Options

JULY 2024

Indonesia Impact Alliance (IIA)

The Indonesia Impact Alliance (IIA) was officially launched in May 2023. It aims to advance Indonesia's development by enabling investments in impact-oriented enterprises.

The IIA is an association comprising philanthropic and investment networks, entrepreneurs, and investors united by a common goal: to facilitate collaboration and coordination among various stakeholders, increase the flow of capital into high-impact sectors and raise awareness and understanding of impact investing towards impact economy.

Ultimately, the objective of the IIA is to create a strong and robust ecosystem capable of making a significant and lasting difference in Indonesia, particularly through effective capital allocation to impact-oriented enterprises.

Impact Investing

According to the Global Impact Investing Network (GIIN), impact investing is an investment strategy that seeks to generate both financial returns and positive social and/or environmental impacts. This approach intentionally directs capital towards ventures that address critical global challenges, including renewable energy, education, healthcare, affordable housing, and sustainable agriculture.

The United Nations Development Programme (UNDP) highlights that impact investing goes beyond traditional investing by aiming to achieve measurable positive outcomes, particularly aligned with the Sustainable Development Goals (SDGs). Impact investors actively seek to support sectors that foster long-term positive change while achieving competitive financial returns.

Ultimately, the core of impact investing lies in the belief that financial success and societal benefits can coexist. By integrating social and environmental considerations into investment decisions, impact investors aim to create a more sustainable and equitable world.

Foreword

Indonesia, recognized as Southeast Asia's largest economy, is at a critical juncture in its pursuit of regional leadership and sustainable development. With a multifaceted economic landscape, the nation possesses the potential to serve as a model for the strategic implementation of the United Nations Sustainable Development Goals (SDGs). Nevertheless, realizing these objectives necessitates overcoming substantial challenges that demand well-conceived and strategic policies.

Despite considerable advancements, Indonesia continues to face significant policy and implementation gaps, particularly in the realm of financing for Micro, Small, and Medium Enterprises (MSMEs). This sector, which constitutes an impressive 96.9% of the Indonesian workforce, is indispensable for the country's economic stability and growth. Addressing the financial needs of MSMEs is not merely an economic necessity but also a social imperative, calling for substantial efforts and innovative mechanisms to close existing gaps.

A promising strategy to support MSMEs lies in the domain of impact investment. This approach directs private capital towards projects that yield both financial returns and positive social and environmental outcomes. By prioritizing sectors such as renewable energy, sustainable agriculture, and inclusive finance, impact investment can significantly contribute to the advancement of the SDGs, fostering a more inclusive and sustainable economy.

Within this framework, the Indonesia Impact Alliance (IIA) plays a pivotal role. As a non-profit organization, IIA is committed to facilitating access to financing opportunities for MSMEs, opportunities that were previously inaccessible or unattainable. By addressing these financial barriers, IIA supports the development of a more equitable financial ecosystem, enabling MSMEs to flourish and make substantial contributions to Indonesia's overall development.

This document is intended as a comprehensive resource for the impact ecosystem, encompassing impact investors, entrepreneurs, and policymakers. It seeks to elucidate the complexities of the market and present potential solutions to the challenges encountered by MSMEs. Through fostering a deeper understanding and collaborative efforts, we can collectively propel Indonesia towards the attainment of its sustainable development goals, ensuring a prosperous and inclusive future for all.



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PREFACE

Indonesia's impact investing market has evolved and grown over the past few years, with an increasing number of impact-oriented investment funds investing across a spectrum of impact and financial return goals. Despite this growth, we found that there is still a funding gap in the market for a certain type of enterprises that we categorize as missing middle impact enterprises.

This report has two aims:

- 1. To identify barriers to capital and growth of these impact enterprises that are within the purview of the IIA to address, based on a landscape of the evolving impact investment market in Indonesia; and**
- 2. To propose solutions to accelerate the flow of impact capital into missing middle impact enterprises to accelerate Indonesia's achievement of its SDGs.**

The detailed report methodology can be found in Appendix I. As an overview, the information for this report has been sourced from:

- 1. Desk research of major publications around the impact investing landscape in Indonesia;**
- 2. Primary data collection in the form of a virtual survey with entrepreneurs of impact enterprises in Indonesia. This survey aimed to learn more about their funding needs, challenges, and expectations of investors. A total of 51 impact entrepreneurs completed the survey;**
- 3. Conversations with 9 asset owners, 5 ecosystem networks and venture builders, and 17 investment fund managers who have received capital from Development Finance Institutions (DFIs) or whose investment strategies include at least one element of impact irrespective of their financial return targets, i.e., they specifically invest in one or more sectors that contribute to the SDGs; In the interests of concision, we refer to these investment funds as "impact-oriented investment funds";**
- 4. Insights from a workshop co-sponsored by the IIA and the Ford Foundation held on January 25, 2024, in Jakarta with over 70 attendees representing asset owners, entrepreneurs, impact-oriented funds, and ecosystem networks to validate and inform the preliminary findings of the research.**

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EXECUTIVE SUMMARY

COVID-19 pandemic, along with global climate change and conflicts, has impacted **food security and nutrition, health, education, the environment, peace, and security**, affecting all SDGs performances.

Indonesia, with over 270 million people, is the largest economy in Southeast Asia and one of the fastest-growing globally. Ranked fourth in population and seventh in purchasing power parity (PPP), its diverse economy spans agriculture, manufacturing, and services. The country's rich natural resources, including oil, gas, minerals, and commodities like palm oil, coal, and rubber, bolster its global market presence. Additionally, Indonesia's extensive rainforests and marine ecosystems, covering about 50% of its land, serve as crucial carbon sinks, helping mitigate climate change. As a regional leader, Indonesia's commitment to sustainable development and strategic policies significantly impact global efforts to achieve the Sustainable Development Goals (SDGs).

Despite notable efforts and some areas of improvement, Indonesia faces significant challenges in achieving the SDGs by 2030, with projections delaying progress until 2062¹. According to the Ministry of National Development Planning (Bappenas)², the COVID-19 pandemic, along with global climate change and conflicts, has impacted food security and nutrition, health, education, the environment, peace, and security, affecting all SDGs performances. There has been a slowdown in achieving targets related to poverty and hunger eradication, health, education, and other essential services. This has resulted in both delays (lags) and gaps (failures to meet indicator targets) in achieving the SDGs. Indonesia is among the countries experiencing significant delays and gaps in reaching its SDGs targets.

To bridge Indonesia's SDG financing gap, significant external impact investment capital is required. The pre-pandemic requirement for achieving the SDGs was IDR 67,000 trillion (USD 4.8 trillion³) over 10 years. This has now increased by almost 70% to IDR 122,000 trillion (USD 8.7 trillion) post-pandemic, with a financing gap of IDR 24,000 trillion (USD 1.7 trillion, equivalent to approximately USD 170 billion per year⁴). This aligns with our analysis, which indicates that Indonesia has a funding gap of USD 152.6

By channeling private capital into projects that generate financial returns and positive social and environmental impacts, sectors like renewable energy, sustainable agriculture, and inclusive finance can advance the SDGs.

¹ ESCAP: <https://www.unescap.org/kp/2024/asia-and-pacific-sdg-progress-report-2024>

² <https://sdgs.bappenas.go.id/website/wp-content/uploads/2023/11/Road-Map-SDGs-2023-2030-smill.pdf>

³ Using the exchange rate at the end of 2021: 14,100 IDR/USD

⁴ <https://sdgs.bappenas.go.id/era-baru-keuangan-berkelanjutan/>

The Proportion of Impact Investment Deals

53%



2013-2020

2020-2022

19%

We estimate that the size of this funding gap is **USD 50.8 billion annually.**

billion per year to achieve the SDGs by 2030. Financing for Micro, Small, and Medium Enterprises (MSMEs) is crucial to this effort, given that there are over 64 million MSMEs in Indonesia, employing 96.9% of the total workforce⁵. This highlights the necessity for strategic investments to support sustainable development and economic growth in the country.

Impact investment holds significant potential in this context. By channeling private capital into projects that generate financial returns and positive social and environmental impacts, sectors like renewable energy, sustainable agriculture, and inclusive finance can advance the SDGs. This approach not only provides returns to investors but also attracts new sources of capital, fosters innovation, and supports the growth of impact enterprises, thereby accelerating Indonesia's progress towards sustainable development.

Since the growth years of microfinance in the 1980s⁶ and the launch of the first impact investment fund in 2010⁷, Indonesia's impact investing ecosystem has grown significantly, mainly due to capital and investment teams from outside the country.

As a result, Indonesia today boasts a vibrant ecosystem with at least 57 funds and 11 accelerators and venture builders, fully or partially supporting start-ups and growing companies with business models aimed at advancing social and environmental goals, including the United Nations (UN) SDGs. Unlike the first generation of impact-oriented investment funds, which were typically led by non-Indonesians, the newer generation includes an increasing number of Indonesians in lead investment roles. Notably, 26% of these funds are solely invested in Indonesia.

Indonesia is one of the most dynamic markets for impact investments globally. From 2020 to 2022, it saw USD 1.44 billion in impact investment capital, making it the most active market for impact investing in Southeast Asia in terms of transaction volume. The country's growing economy and stable political climate over the past 15 years have further enhanced its attractiveness, leading to its reclassification into the upper-middle-income group by the World Bank in July 2023. Consequently, Development Finance Institutions (DFIs), which have historically been primary sources of impact investments, have decreased their investments in Indonesia.

As Indonesia's impact investment ecosystem continues to mature, fund managers are raising larger funds, leading to larger investment sizes. The proportion of impact investment deals in the USD 100,000 to USD 1 million range has dropped from 53% between 2013-2020 to 19% between 2020-2022⁸. This trend creates a funding gap in the USD 100,000 to USD 1 million range for the country's "missing middle" impact enterprises which have the potential to contribute significantly to the SDGs. These enterprises' financial needs are too large for microfinance or angel investors, too small for commercial banks, and their growth trajectories may not align with traditional venture capital models. We estimate that the size of this funding gap is USD 50.8 billion annually.

⁵ Indonesia Investments (2022). Micro, Small & Medium Enterprises in Indonesia: Backbone of the Indonesian Economy. Accessed at <https://www.indonesia-investments.com/finance/financial-columns/micro-small-medium-enterprises-in-indonesia-backbone-of-the-indonesian-economy/item9532>

⁶ <https://www.adb.org/sites/default/files/publication/27539/micro-ino.pdf>

⁷ YCAB Foundation (Yayasan Cinta Anak Bangsa) began a conditional ultra-micro finance program to pre-prosperous mothers to increase the family economy in 2010. This can be seen as one of the first efforts in impact investing in Indonesia. Obtained from: <https://www.ycabfoundation.org/archives/15556>

⁸ <https://www.angin.id/wp-content/uploads/2021/06/ANGIN-Report-Investing-in-Impact-in-Indonesia.pdf>

<https://www.intellecap.com/wp-content/uploads/2023/05/Imp-Inv-in-SEA-Update-2020-22-final.pdf>

Larger investments by impact-oriented funds have created a 'Missing Middle' capital gap for impact enterprises, specifically in the **USD 100,000 to USD 1 million funding range**.*



* This graph is not drawn to scale

Smaller investment funds of USD 30 million and below are ideally sized to finance these “missing middle” impact enterprises, with average investment ticket of USD 150,000 - USD 1 million. However, they face significant challenges in accessing asset owners: they are too small for DFIs, and the private impact investor market is opaque and fragmented globally. The capital access challenges faced by “missing middle” impact enterprises and the investment funds that could invest in them are not unique to Indonesia; they exist in many markets.

Globally, the use of blended finance—deploying catalytic capital from public or philanthropic sources to increase and catalyze private sector investment—has facilitated the flow of more impact investment and commercial capital to these enterprises. For example, the Women’s Livelihood Bond⁹ by Impact Investment Exchange pools loans made to social enterprises focused on empowering women in Southeast Asia, using concessional capital to de-risk investments and attract private capital. Similarly, the AfricaGrow Fund¹⁰, developed by Germany’s development bank, Kreditanstalt für Wiederaufbau (KfW) and Allianz, channels financial resources to African private equity and venture capital funds, which invest in small- and medium-sized enterprises and entrepreneurs in Africa. By taking subordinated positions, development finance institutions absorb higher risks, making it more attractive for private investors to participate.

While Indonesia’s public sector entities have participated in blended finance structures for large infrastructure projects, this experience has yet to be applied to smaller projects, including the missing middle impact enterprises. Expanding the use of blended finance to these smaller enterprises could unlock significant capital and drive sustainable development across the country. Moreover, impact investment wholesalers have emerged worldwide as an efficient and effective way to address market-level challenges within impact investing. These wholesalers invest in funds and other intermediaries, sometimes alongside other activities, to catalyze broader investment flows and build the market rather than dominate it.

For example, the Finance Justice Fund, a grant and lending facility managed by Opportunity Finance Network (OFN), a membership organization of over 300 impact-driven community development financial institutions (CDFIs), demonstrates this approach. The CDFIs that have received Finance Justice Fund loans and grants for technical assistance and operating support have unlocked more than USD 650 million in small business capital—more than three times OFN’s investment. This illustrates the potential of impact investment wholesalers to significantly amplify capital flow and market development. This report further highlights several examples that could be adapted to the Indonesian context.

There are other significant barriers to impact investing that need to be addressed. These barriers exist at various levels, including asset owners, investment funds, and impact enterprises. Asset owners often face challenges such as aligning investment strategies with impact goals, limited understanding of impact measurement, and perceived risks associated with impact investments. Impact investment funds may struggle with sourcing quality deals, high due diligence costs, and balancing financial returns with impact objectives. Impact enterprises, on the other hand, frequently encounter difficulties in accessing appropriate financing, building capacity, and scaling their operations. The graph below summarizes potential solutions that can address supply-side capital and capacity-building barriers.

Fund loans and grants for technical assistance and operating support have unlocked more than

**USD
650
million**

in small business capital—more than three times OFN’s investment.

⁹ <https://www.lse.ac.uk/granthaminstitute/explainers/how-can-blended-finance-help-fund-climate-action-and-development-goals/>

¹⁰ <https://www.weforum.org/agenda/2023/04/blended-finance-financial-intermediation-can-accelerate-sustainable-development/>

Indonesian Impact Investment Wholesalers as the solution to strengthen the impact investment ecosystem for missing middle enterprises and stimulate market growth.

Stakeholder	Barriers	Solution by Impact Investment Wholesalers
Asset Owner	<ul style="list-style-type: none"> • Difficulty finding impact investments that meet financial and social goals. • Perceived high risk of the early-stage enterprises. • Challenges in building diversified portfolios • Lack of standardized impact measurement and reporting 	<ul style="list-style-type: none"> • Curate and structure investment products for easy access to quality opportunities. • Provide risk mitigation strategies like guarantees, credit enhancements, and blended finance. • Offer pooled investment vehicles and diversified funds for enhanced portfolio diversification. • Standardize impact metrics and provide reliable impact reporting for better understanding and trust.
Impact Investment Funds	<ul style="list-style-type: none"> • Limited Access to funding from asset owners • Fragmented asset owners hinder smaller funds' access • Larger investment sizes (USD 10 mio) preferred by asset owners. • High Fixed Management Costs 	<ul style="list-style-type: none"> • Support & co-invest with small impact investment funds (< USD 30 mio) that can make smaller ticket size investments and are better suited to provide funding and business-building support to missing middle impact enterprises • Experiment with a shared services platform model for providing impact fund managers' portfolio companies with standardized accounting and financial reporting systems, human resources policies, and a network of vetted professionals across target investment sectors to support market-access strategies.
	<p>Faced by both impact investment funds and impact enterprises</p> <ul style="list-style-type: none"> • Capacity Building: <ul style="list-style-type: none"> • Need support to effectively manage and scale investments. • Impact Measurement and Management: <ul style="list-style-type: none"> • Lack of expertise in measuring and demonstrating impact. 	<ul style="list-style-type: none"> • Collaborate with existing venture builders and incubators such as ANGIN, Instellar, New Energy Nexus, Terratai, and/or regional platforms such as Amplifier and Co-Axis. • Co-develop with anchor investors a set of impact metrics and align with impact fund managers on a system for reporting those metrics. • Host a data collection platform that could aggregate the data into annual reports for the underlying businesses, fund managers, and investors, and provide wrap-around capacity-building support.
Impact Enterprises	<ul style="list-style-type: none"> • Mismatches of the enterprise profiles with available capital <ul style="list-style-type: none"> • Inability to meet collateral criteria for traditional bank lending • May not match the expected scalability for venture capital • Might require longer investment periods 	<ul style="list-style-type: none"> • Facilitate ways to crowd-in patient impact investment capital from private impact investors. • Target sectors that are both priorities for these investors and facing significant capital gaps in Indonesia.

To address the opportunities and barriers in the Indonesian context, we propose the establishment of an entity that integrates these solutions to strengthen market-building efforts. We would call this entity the Indonesian Impact Investment Wholesaler. This proposed wholesaler would have the following functions:

1. Efficiently aggregating and blending different types of funding from multiple sources, including grants and impact investment capital from government, philanthropy, DFIs, and private impact investors.
2. Diversifying the types of capital available to “missing middle” enterprises

An Indonesian Impact Investment Wholesaler, adapted from successful models in other parts of the world, could be an efficient way for the Indonesian government, philanthropy, and companies to collaborate and drive impact investment in Southeast Asia's largest country.

so that impact investment funds can deploy private debt, revenue-based financing, and asset-based lending, in addition to venture capital.

3. Cost-efficiently strengthening the infrastructure for smaller impact investment fund managers, enabling them to provide the necessary technical assistance to “missing middle” impact enterprises, and to track and report on the social and environmental outcomes of their investments.

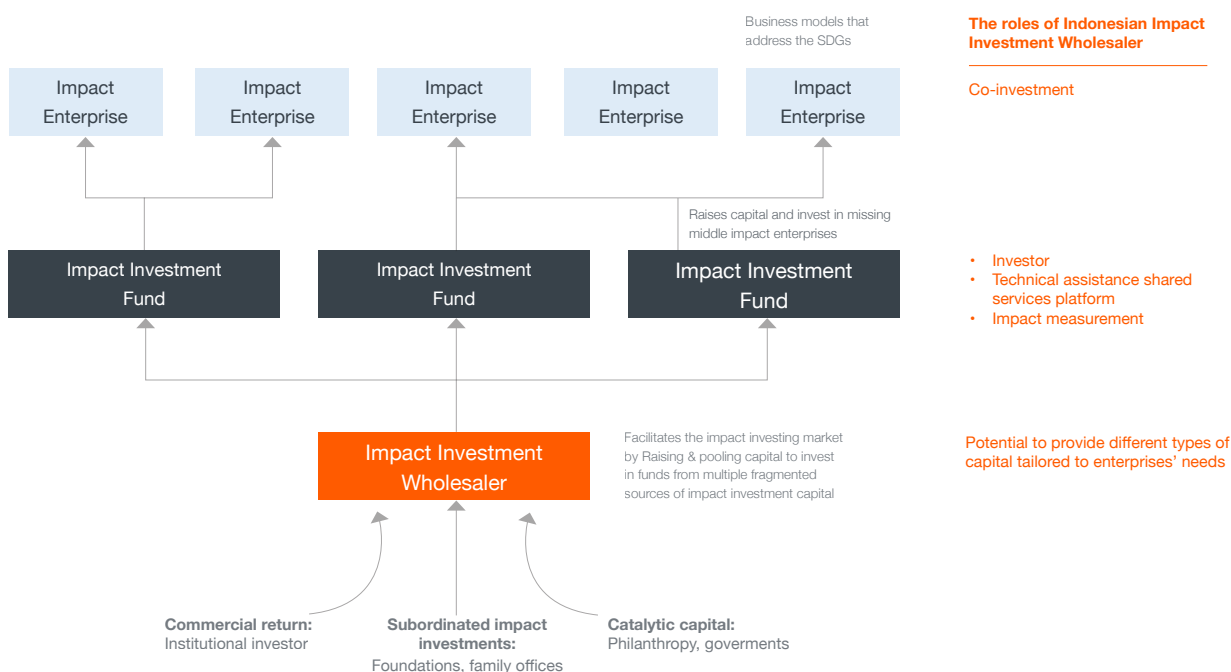
By establishing an Indonesian Impact Investment Wholesaler, we aim to create a robust mechanism that supports the growth of “missing middle” enterprises and enhances the overall impact investment ecosystem in Indonesia.

Indonesia has already been a primary destination for impact investment capital in the Southeast Asia region from global funders. Over the past ten years, the pool of local Indonesian capital has expanded due to the financial successes of the country's businesses and the growth of Indonesian philanthropy and family offices. There is also growing recognition that Indonesia's unique geographic location and natural resources can significantly contribute to climate change mitigation solutions.

These conditions create an opportune time for Indonesia's government, philanthropy, and companies to engage a range of private impact investors worldwide to invest more and support the growth of “missing middle” impact enterprises as a pathway to achieve the country's SDGs by 2030. An Indonesian Impact Investment Wholesaler, adapted from successful models in other parts of the world, could be an efficient way for the Indonesian government, philanthropy, and companies to collaborate and drive impact investment in Southeast Asia's largest country.

Indonesian Impact Investment Wholesaler

Capital aggregator, platform for shared technical assistance & impact tracking services.



1. Indonesia's Pivotal Role and Challenges in Achieving the SDGs

As a leader in Southeast Asia, Indonesia's policies and initiatives substantially impact regional development and sustainability efforts.

Indonesia: Southeast Asia's Largest Economy and Its Global Influence on the SDGs

Indonesia, with its substantial population and abundant natural resources, boasts the largest economy in Southeast Asia and is one of the world's fastest-growing markets. Home to over 270 million people, it is the fourth most populous nation globally. Ranking seventh in the world by purchasing power parity (PPP) and the 16th largest by nominal Gross Domestic Product (GDP), Indonesia's economy exerts a considerable influence on the global stage, underscoring its pivotal role in advancing the Sustainable Development Goals (SDGs)^{11,12}.

Indonesia's economic structure is diverse, encompassing agriculture, manufacturing, and services, which collectively contribute to its robust economic performance. The country's extensive natural resources, including oil, gas, and minerals, play a crucial role in its economic development. Additionally, Indonesia is a major exporter of commodities such as palm oil, coal, and rubber, further cementing its position in the global market¹³.

Beyond its economic capacity, Indonesia is one of the world's most biodiverse countries. It is home to extensive rainforests, rich marine ecosystems, and a wide variety of flora and fauna. The country's forests, which cover approximately 50% of its land area, serve as vital carbon sinks, absorbing significant amounts of CO₂ and helping to mitigate global climate change¹. Efforts to prevent deforestation and promote sustainable land use are crucial for maintaining this biodiversity and ensuring environmental sustainability¹⁴.

These factors contribute to Indonesia's significant role in achieving the world's SDGs. As a leader in Southeast Asia, Indonesia's policies and initiatives substantially impact regional development and sustainability efforts. The country's commitment to sustainable development is evident in its national strategies and international collaborations to address various social, economic, and environmental challenges¹³.

By leveraging its economic strength and natural resources, Indonesia can drive substantial progress towards the SDGs, within its borders and across the region. This makes Indonesia a pivotal player in the global effort to create a more sustainable and equitable world^{11,12}.

¹¹ <https://www.undp.org/indonesia/blog/cracking-code-accelerating-sdg-achievement-indonesia-sdg-insight-report>

¹² <https://news.un.org/en/story/2024/02/1146617>

¹³ <https://www.unescap.org/kp/2024/asia-and-pacific-sdg-progress-report-2024>

¹⁴ <https://indonesia.un.org/en/238569-united-nations-indonesia-country-results-report-2022>

Unfortunately, the Progress Towards Achieving the SDGs is Still Below the Desired Levels

Despite notable efforts and some areas of improvement, Indonesia still faces considerable challenges in meeting its SDGs targets. Like many other countries in the region and globally, Indonesia is not on track to achieve the SDGs targets by 2030¹². The report indicates a projected delay until 2062 for the Asia-Pacific region to meet these goals, underscoring the need for intensified efforts and strategic interventions. This context aligns with the broader global scenario, where no country is currently on a perfect trajectory to fully achieve the SDGs by the 2030 deadline. Therefore, the urgency for enhanced and targeted actions is a common theme worldwide, reflecting the significant challenges that all countries, including Indonesia, must address.

According to Bappenas¹⁵, the COVID-19 pandemic, along with global climate change and conflicts, has impacted food security and nutrition, health, education, the environment, peace, and security, affecting all SDGs performances. There has been a slowdown in achieving targets related to poverty and hunger eradication, health, education, and other basic services. This has resulted in both delays (lags) and gaps (failures to meet indicator targets) in achieving the SDGs. Indonesia is among the countries experiencing significant delays and gaps in reaching its SDGs targets.

Environmental sustainability is another critical area where progress has been inadequate. Indonesia's rich biodiversity is under threat due to deforestation, land degradation, and pollution. Efforts to curb these environmental issues have been met with limited success, as highlighted by various UN reports. The country's forests, which are crucial for global climate regulation, continue to face deforestation pressures, undermining both local and global environmental goals^{12,13}. Additionally, Indonesia's high rate of plastic pollution is a significant concern, affecting marine ecosystems and public health¹⁰.

Gender inequality further complicates the scenario. Women and girls in Indonesia still face higher barriers to education and employment, which limits their ability to contribute fully to the economy and societal development. This gender divide is highlighted by lower enrollment rates for girls in schools and higher rates of youth unemployment for young women compared to their male counterparts¹¹. Furthermore, women are disproportionately affected by health issues related to insufficient clean cooking fuels and poor access to reproductive health services¹⁰.

Health and well-being remain critical areas needing urgent attention. The prevalence of diseases such as tuberculosis and malaria, coupled with emerging health threats like non-communicable diseases, poses significant challenges. Indonesia's healthcare system struggles with capacity issues, particularly in rural and remote areas where access to medical services is limited¹³. Efforts to improve public health infrastructure and services are ongoing, but progress has been slow, and much remains to be done to ensure equitable healthcare access for all Indonesians¹⁰.

Women and girls in Indonesia still face higher barriers to education and employment.

Furthermore, women are disproportionately affected by health issues related to insufficient clean cooking fuels and poor access to reproductive health services.

¹⁵ <https://sdgs.bappenas.go.id/website/wp-content/uploads/2023/11/Road-Map-SDGs-2023-2030-smll.pdf>

Funding is One of The Main Issues: Indonesia's USD 150 Billion Challenge for SDGs by 2030

Indonesia
has a funding gap

USD
152.6
billion

per year to
achieve the SDGs

To address this financing gap, Indonesia has taken several strategic steps. The country has developed the Integrated National Financing Framework (INFF).

The COVID-19 pandemic has further worsened the funding gap to achieve the SDGs, making it imperative for Indonesia to strike a balance between regaining economic strength and advancing towards the SDGs¹⁶. Collaborative efforts involving the public and private sectors, financial institutions, businesses, and civil society are crucial to closing the financing gap and ensuring sustainable development.

According to Bappenas¹⁷, the pre-pandemic requirement for achieving the SDGs was IDR 67,000 trillion (USD 4.8 trillion) over 10 years. This has now increased by almost 70% to IDR 122,000 trillion (USD 8.7 trillion) post-pandemic, with a financing gap of IDR 24,000 trillion (USD 1.7 trillion, equivalent to approximately USD 170 billion per year).

This aligns with our analysis, which indicates that Indonesia has a funding gap of USD 152.6 billion per year to achieve the SDGs, with a significant portion (61%) required by MSMEs, the largest contributors to the Indonesian economy. There are 64 million MSMEs in Indonesia, accounting for almost all of the country's total business population and employing 96.9% of the total workforce. A subset of the MSME market—impact enterprises—could play a critical role in contributing to Indonesia's SDGs if they had access to appropriate capital and non-financial support to enable them to grow and scale. We estimate that the annual funding gap for middle-impact enterprises is USD 50.8 billion.

To address this financing gap, Indonesia has taken several strategic steps. The country has developed the Integrated National Financing Framework (INFF), which maps out the financing landscape, identifies SDGs financing needs, and outlines potential sources of both public and private finance. This framework aims to mobilize and align public and private finance with national sustainable development priorities, the SDGs, and the Paris Climate Accord¹⁵.

Furthermore, Indonesia has launched innovative financing instruments such as SDGs bonds and green sukuk (Islamic bonds). The country issued its first sovereign SDGs bond, raising EUR 500 million, demonstrating how both private and public investments can be mobilized for sustainable development. This approach is supported by the United Nations Joint SDG Fund, which provides technical assistance and financial support to scale these innovative financing mechanisms¹⁵.

¹⁶ https://www.undp.org/sites/g/files/zskgke326/files/2022-09/INFF%202022%20-%20250822_Final.pdf

¹⁷ <https://sdgs.bappenas.go.id/website/wp-content/uploads/2023/11/Road-Map-SDGs-2023-2030-smll.pdf>

Additionally, the ASSIST Joint Programme, launched by the UN in Indonesia, seeks to enhance multi-stakeholder collaboration and leverage various financing instruments from both government and non-government sources. This program aims to mobilize fresh investments and re-orient efforts towards accelerating SDGs achievements¹⁵.

Impact investment holds significant potential in this context. By channeling private capital into projects that generate both financial returns and positive social and environmental impacts, impact investing can play a crucial role in bridging the financing gap. Investments in sectors such as renewable energy, sustainable agriculture, and inclusive finance can drive substantial progress towards the SDGs while providing returns to investors. Leveraging the growing interest in impact investing, Indonesia can attract new sources of capital, foster innovation, and support the growth of impact enterprises, thereby accelerating its journey towards achieving sustainable development^{18,19}.

Investments in sectors such as renewable energy, sustainable agriculture, and inclusive finance can drive substantial progress towards the SDGs while providing returns to investors.

¹⁸ UN DESA: <https://desapublications.un.org/publications/financing-sustainable-development-report-2024>

¹⁹ Bappenas SDG Indonesia: <https://sdgs.BAPPENAS.go.id/strategically-financing-sdgs-gap>

2. Impact Investment as the Catalyst for Achieving the SDGs

Indonesia has the most active market for impact investing in Southeast Asia in terms of the number of impact deals with USD 1.44 billion invested.

Indonesia's Impact Investment Has Evolved into Southeast Asia's Most Active Market

Impact investment in Indonesia has been in the making for three decades (see Appendix II for a high-level summary of the ecosystem's evolution). It has been growing from a niche market to a more widely recognized and vibrant ecosystem.

Indonesia has seen a growth of impact-oriented investment funds in the past decade, primarily in venture capital. In the context of this report, we include funds that explicitly only invest in impact enterprises and those with no explicit impact goals, but have incorporated some kind of impact measurement and reporting:

- In 2014 (10 years prior to the publication of this report), there were under 15 impact-oriented investment funds with offices in Indonesia²¹.
- Today, we can identify 54 impact-oriented investment fund management firms either managing or raising 57 funds that are investing in Indonesia: 56% or 30 of which have offices in Indonesia²².
- There are now at least 10 Indonesian impact-oriented fund managers²³ that have raised at least 3 funds. Within this category of fund managers, the earliest ones include East Ventures, which started in 2009 and announced the raise of Fund 3 in 2014; and Patamar Capital, which was an early explicitly impact-oriented fund manager that started in 2011 and announced the raise of its first fund in 2015. Most of these fund managers started after 2014, with fundraising activities accelerating after 2016.
- 78% of the funds invested in Indonesia provide equity capital to portfolio companies; only 35% provide some form of debt or revenue-based financing²⁴.
- Over 44% of the 57 funds investing in Indonesia are doing so as part of a regional Southeast Asia strategy. 15 (26%) of these funds are solely invested in Indonesia.
- There are 16 funds that are focusing on Indonesia either as a single-country or regional strategy that are actively fundraising in early 2024. Their target fund sizes range from USD 10 million - USD 500 million.

²⁰ As previously described, the term "impact-oriented funds" refers to investment funds providing capital through any private financing structures, whereby the investment thesis seeks to achieve a social and/or environmental objective in addition to generating a financial return on investment

²¹ The list below is not exhaustive, but some funds that existed a decade ago include: ADM Capital, East Ventures, Gobi Partners, Golden Gate Ventures, Monk's Hill Ventures, Patamar Capital,, & YCAB Ventures

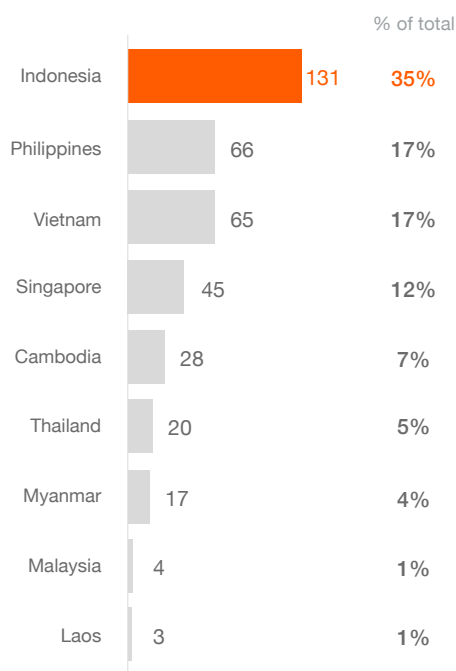
²² These figures are based off desk research and publicly available information

²³ Indonesian fund managers are fund managers with an office in Indonesia and/or investment teams composed of at least one Indonesian partner

²⁴ Percentages do not add up to 100% as some funds offer both debt and equity financing

Indonesia leads Southeast Asia in impact investing with 35% of total deals (131) and 21% of total capital deployed (USD 1,447 billion) from 2020-2022.

Impact Investing Number of Deals in SEA by country (#, 2020-2022)



Impact Investing Capital Deployed in SEA by Country (USD mio, 2020-2022)

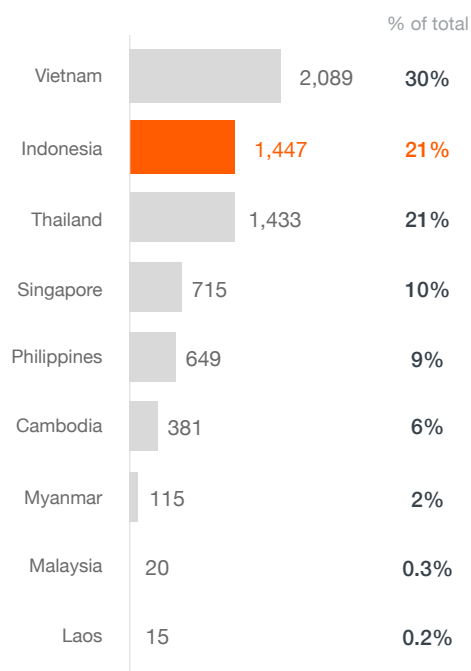


Figure 1: Impact investing in SEA

Source: Investing in Women (2023)

Impact investment has been, and continues to be, an important and much-needed source of capital for impact enterprises: Indonesia has the most active market for impact investing in Southeast Asia in terms of the number of impact deals. With USD 1.44 billion invested in 131 impact transactions in 2020-2022, as Figure 1 illustrates, Indonesia accounts for 21% of the total impact capital deployed in the region and 34% of the number of deals. Vietnam, on the other hand, has the highest impact investing capital deployed, primarily driven by investments from Development Finance Institutions (DFIs).

The flow of impact investment capital to Indonesia is likely to accelerate given the attention to climate change. Indonesia has a particularly important role in climate change mitigation and adaptation due to its geographic position in the global ocean conveyor belt and abundant natural resources. The Indonesia Just Energy Transition Partnership (JETP) was launched in 2022 to mobilize USD 20 billion over the next 3-5 years. JETP has already secured a USD 1 billion guarantee from the World Bank. Indonesia has also set a number of climate targets, including through its 2022 Enhanced Nationally Determined Contributions (ENDC), to reduce up to 43.2% emissions by 2030, with an optimistic scenario of reaching net zero emissions (NZE) by 2060 or earlier.

Commercializing and scaling solutions that address climate change and Indonesia's other social development priorities, including health access and digital transformation, can be done through scalable business models that offer climate-friendly livelihood opportunities. Based on our tracking, there are currently at least a dozen climate-focused impact investment funds that are being raised that include Indonesia as a priority geography.

Indonesia has also set a number of climate targets, including through its 2022 Enhanced Nationally Determined Contributions (ENDC), to reduce up to

43.2%
emissions by 2030

with an optimistic scenario of reaching net zero emission (NZE) by 2060 or earlier.

3. Problems and Opportunities in Mobilizing Impact Investments

Problems on the Demand Side

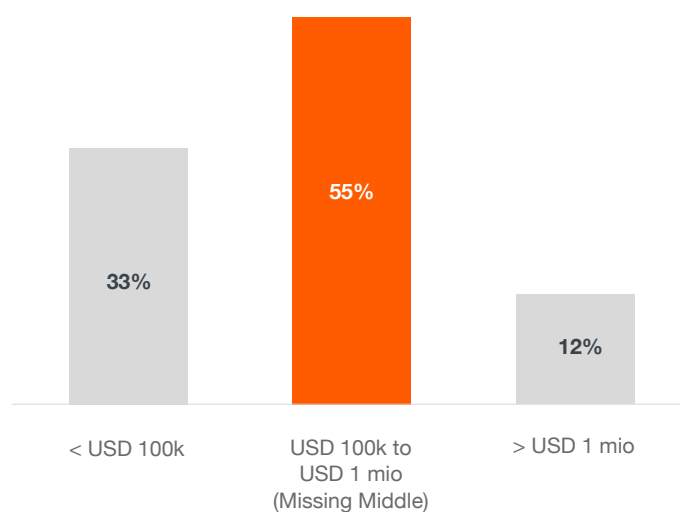
Problem 1: Limited Access to Investment, Especially in the USD 100,000 - USD 1 million Range

Our survey shows that 55% of enterprises intend to raise capital in the USD 100,000 - USD 1 million range (Figure 2). Unfortunately, this is where the most limited funding is available.

As illustrated in Figure 3, two reports on capital deployed by private impact investors in Indonesia indicate a decline in the proportion of deals in the USD 100,000 to USD 1,000,000 range, dropping from 53% between 2013-2020 to 19% between 2020-2022. Most of the impact-oriented funds we interviewed expect to primarily invest with a minimum USD 1 million ticket size, although they may opportunistically make smaller initial investments (particularly if the enterprise has potential for quick exponential growth).

The “missing middle” financing gap of USD 100,000 to USD 1 million is in high demand from impact enterprises.

Amount of Capital Impact Enterprises Intend to Raise (% of respondents)

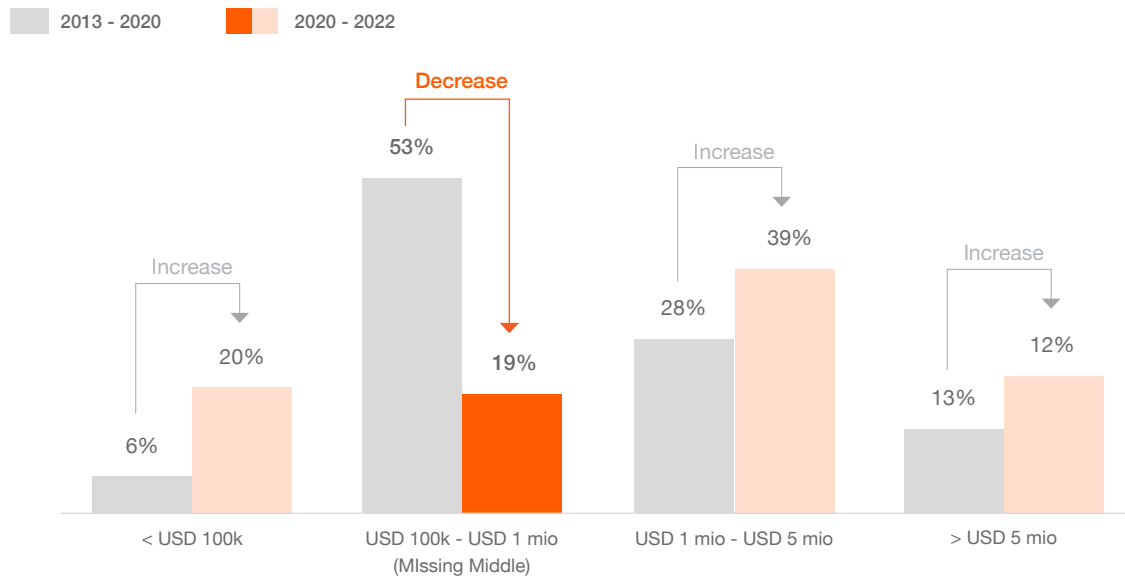


Source: IIA's Survey with Impact Enterprises

Figure 2: Amount of Capital Impact Enterprises Intend to Raise

The proportion of deals in the USD 100,000 to USD 1 million range dropped from 53% in 2013-2020 to 19% in 2020-2022.

Percentage of Private Impact Investment Capital by Ticket Size (% of total ticket)



Source: ANGIN, 2022, "Impact investing in Indonesia"
GIIN, 2018, "The landscape for impact investing in SEA-Indonesia".

Figure 3: Private Impact Investment Capital by Ticket Size

When we reviewed the range of capital providers across debt and equity that impact enterprises can access, we found that, as Figure 4 illustrates, there is limited capital in the USD 100,000 - USD 1 million range for MSMEs. This issue is particularly critical for middle-impact enterprises, defined as those that 1) generate annual revenues between USD 100,000 and USD 3 million and 2) whose business models could contribute to the country's SDGs.

In addition to the previously-mentioned increasingly larger investments being made by impact-oriented investment funds, Indonesia's debt market has not yet developed sufficiently to offer a fuller range of financing required by the country's MSMEs, including those that are impact enterprises:

- Financing from microfinance institutions (MFIs) in Indonesia typically does not exceed USD 300.
- Indonesian banks typically require collateral and at least three years of profitability. Given the development of the Indonesian banking industry, loans are available for any amount but the most cited barrier for many enterprises is the need for fixed assets as collateral, which most companies don't have at this stage.
- Indonesia's KUR (Kredit Usaha Rakyat) microcredit program for SMEs, subsidized by the Indonesian government, offers a maximum loan size of USD 35,000 (IDR 500 million²⁵).
- Although traditional venture capital firms provide funding at this range, many impact enterprises do not fit the venture capital model and, therefore, do not receive funding.
- Fintech companies are an increasing source of capital, but this capital is limited, with a maximum loan limit of USD 142,000 (IDR 2 billion) per borrower.

²⁵ <https://kur.ekon.go.id/kebijakan-kur>

Larger investments by impact-oriented funds have created a 'Missing Middle' capital gap for impact enterprises, specifically in the **USD 100,000 to USD 1 million funding range**.*



* This graph is not drawn to scale

Figure 4: Sources of Capital for Impact Enterprises in Indonesia

Problem 2: The Need for Investors and Investment Structures that Match the Profile of Impact Enterprises

Our database of impact-oriented investment funds that are actively deploying to Indonesia shows that the majority (55%) of them utilize venture capital equity strategy. Most of them seek commercial rates of return (20% net IRR or higher), which can only be achieved by investing in hyper-growth companies. This investment approach may not be suitable for most missing middle impact enterprises, although most of them could be commercially viable. There is an opportunity to develop innovative financing structures other than equity/venture capital that fit the enterprises' characteristics and return profile.

In our survey, more than three-quarters (78%) of impact entrepreneurs expressed that it was very important to have “an investor who is willing to be patient and wait longer for returns in this industry.” This, in turn, means that impact-oriented investment fund managers may need longer investment time horizons. Fund managers must also provide more hands-on business-building support to increase their investees' likelihood of success.

Additionally, due to the fixed costs associated with managing any investment fund, regardless of whether social and/or environmental considerations are included in the strategy, the operating expenses for impact-oriented investment funds with USD 30 million or less in capital are proportionally higher than those of larger funds. With an average fund management fee of 2% annually, these smaller funds will only have USD 600,000 per year to cover all fund operations.

Furthermore, the additional technical assistance costs associated with supporting missing middle impact enterprises contribute to the increased management fees, further amplifying the proportional cost burden on smaller funds compared to their larger counterparts.

There are abundant opportunities to diversify beyond impact-oriented venture capital and private equity into impact-oriented private credit/debt financing structures, including revenue-based or asset-based financing.

Problem 3: Insufficient Pipeline of Talent at Portfolio Companies

Fund managers report an insufficient pipeline of adequately qualified senior operations and financial talent to fill management teams outside of major urban centers. Entrepreneurs – especially in emerging sectors – also require significant strategic guidance and support. All impact-oriented investment fund managers who were interviewed cited their strategy of pairing capital with intensive support for entrepreneurs and their management teams.

Some of the more comprehensive support services included support around finance and accounting, marketing, communications, human resources management, and corporate legal. Other financing providers for impact enterprises, such as banks, fintech firms, and MFIs, typically do not provide the business support advisory services needed by small and growing

businesses, especially in emerging sectors - highlighting the need for impact investment fund managers to provide such support.

Additionally, to attract impact investment, companies often need to comply with rigorous impact measurement standards. This compliance can impose an added resource burden on the companies, as they must allocate time, personnel, and financial resources to meet these measurement requirements.

From 2020 to 2022, the median size of investments from Development Finance Institutions (DFIs) that invest in Indonesia has been approximately

**USD
18.9
million**

Entrepreneurs in Indonesia are unsure how to report financial and impact performance and may not have the necessary competencies to do so.

Problems on the Supply Side

Problem 1: Challenges in Reaching Smaller Funds

From 2020 to 2022, the median size of investments from Development Finance Institutions (DFIs) that invest in Indonesia has been approximately USD 18.9 million²⁶. These DFIs have historically been the largest sources of impact investment capital in the country, and remain to be a key source of funding for impact-oriented funds. They typically prefer their capital to represent less than 15% of a fund, making smaller funds too small for DFIs' interest.

Conversely, private impact investors have made numerous impact investments in Indonesia. The median size of these private investments has been USD 1.56 million²⁷, which is well-suited for smaller funds. However, the challenge lies in the fragmented and globally dispersed community of private impact investors, making it difficult for smaller funds to access this capital.

Problem 2: Lack of Capacity among Emerging Fund Managers

In ecosystems with emerging fund managers, asset owners often cite the lack of fund management experience or investment track record as a barrier to investment. Our hypothesis is that most of the funds investing in Indonesia have senior investment team members and/or Investment Committee members with prior direct investment experience, including in a pilot smaller fund or as angel investors. If not, many fund managers also had adjacent experience, either as entrepreneurs themselves or supporting impact enterprises in accelerators and venture incubators.

Nonetheless, for first-time or "emerging" fund managers, there could be significant value in strengthening their capacities to

1. Develop and implement impact investment theses in emerging sectors such as sectors that could affect oceans, climate mitigation and adaptation,
2. Operate as unified teams,
3. Adapt investment fund models and financial structures from other geographies with similar financing challenges, and
4. Optimize portfolio construction based on the local context.

²⁶ Investing in Women (2023). Impact Investing in Southeast Asia, update 2020-2022. Obtained from: <https://investinginwomen.asia/knowledge/impact-investing-in-south-east-asia-update-2020-2022/>

²⁷ GIIN (2018). "The landscape for impact investing in SEA-Indonesia"; Platform Usaha Sosial Survey Report: "Understanding the State and Profile of Social Enterprise in Indonesia".

Problem 3: Lack of Commonly Agreed Impact Measurement

What we have heard consistently is that asset owners are increasingly concerned about “impact washing.” This is particularly the case for sectors and geographies with no standardized and comparable sets of metrics. On the other hand, fund managers and entrepreneurs express the practical and costly challenges associated with different asset owners having different impact priorities and metrics. Entrepreneurs in Indonesia are unsure how to report financial and impact performance and may not have the necessary competencies to do so²⁷. Concrete expectations around impact and who should bear the cost of measuring it are not consistently communicated by asset owners or impact-oriented investment funds managers to entrepreneurs²⁸.

Problem 4: Regulatory and Policy Barriers

Unclear and burdensome regulatory requirements for fund management firms to both attract outside investors and invest in Indonesian companies have led only about 20% of impact-oriented firms investing in Indonesia to be domiciled in Indonesia. Unlike Singapore, Indonesia does not offer tax incentives for impact-oriented fund managers investing in climate change or other emerging sectors. This lack of incentives makes raising and deploying capital for Indonesia’s climate-focused and other impact-focused initiatives more challenging.

In order to accept foreign investment, Indonesian companies need to meet specific minimum capital requirements. The Indonesia Investment Coordinating Board (BKPM) mandates that foreign investment companies must have a minimum paid-up capital of IDR 10 billion (approximately USD 700,000).

As a result, many asset owners and fund managers prefer to invest and domicile their funds offshore, in locations such as the Cayman Islands, the British Virgin Islands, and increasingly, Southeast Asia-focused funds: Singapore. According to our estimates, approximately half of regional impact-oriented funds investing in Indonesia are domiciled in Singapore.

When it comes to activating local capital to flow to MSMEs, there are favorable policies within Indonesia, but these are not always enforced. Since 2007, the Indonesian government has established a successful subsidized loan program for MSMEs called Kredit Usaha Rakyat (KUR). In 2023, the estimated KUR disbursement was USD 16 billion²⁹, with an increasing target of USD 19 billion in 2024. KUR is a low-interest rate loan program disbursed mostly through state-owned banks. The government provides an interest rate subsidy for the partner banks, ensuring the effective interest rate paid by debtors is kept lower than the market.

The Indonesia Investment Coordinating Board (BKPM) mandates that **foreign investment companies must have a minimum paid-up capital of IDR 10 billion (approximately USD 700,000).**

²⁸ ANGIN (2022). “Impact investing in Indonesia”

²⁹ Pusat Analisis Keparlemenan Badan Keahlian Setjen DPR RI (2024). PENURUNAN PENYALURAN KREDIT USAHA RAKYAT TAHUN 2023. Obtained from: https://berkas.dpr.go.id/pusaka/files/Isu_sepekan/Isu%20Sepekan---III-PUSLIT-Januari-2024-241.pdf

Bank Indonesia as the central bank has announced the requirement for banks to disburse at least

25%

of their loans to MSMEs in 2023, gradually increasing to 30% by 2024.

While KUR has been considered successful in broadening access to debt financing for MSMEs, the maximum loan size is USD 35,000 (IDR 500 million). As mentioned above, in our survey of the missing middle enterprises, we identified a need for larger financing of more than USD 100,000, unmet by debt capital providers.

Beyond KUR, in 2021, Bank Indonesia as the central bank has announced the requirement for banks to disburse at least 25% of their loans to MSMEs in 2023, gradually increasing to 30% by 2024³⁰. Based on the total credit disbursed in 2023, we estimate that there is potentially USD 135.2 billion of credit available to MSMEs, if lenders fulfill the requirement to disburse 30% of their loans to MSMEs.

However, the enforcement mechanism for this requirement remains unclear, and there is also no explicit penalty for banks with exposures below the stipulated threshold.

Opportunities to Catalyze and Expand Impact Investment

Recognizing the gaps and challenges faced by MSMEs in accessing adequate financing, particularly the need for larger funding beyond the current KUR loan limits, it becomes evident that there are significant opportunities to expand impact investment in this sector. By addressing these unmet needs through innovative financial mechanisms and targeted support, we can not only bridge the financing gap but also drive sustainable growth and development for MSMEs. This paves the way for exploring various strategies and initiatives that can catalyze and expand impact investment, ensuring that MSMEs have the necessary resources to thrive.

Opportunity 1: Presence of Intermediaries Providing Financial and Technical Assistance

There are at least 11 incubators³¹, accelerators and venture builders supporting impact enterprises located in Indonesia or Southeast Asia region that focus on social, environmental, and/or SDGs. A few of these enterprise-support intermediaries are themselves raising investment funds of USD 50 million or less. They expect to take approximately two years to do so as it is challenging to identify investors willing to take the additional risk inherent in start-ups and emerging fund managers and to invest in smaller funds of less than USD 50 million.

As these enterprises strive to grow, they encounter significant problems and opportunities in mobilizing impact investments. These enterprise-support intermediaries are helping missing middle impact enterprises address the following challenges, articulated in survey responses received in early 2024 from 51 impact enterprises:

³⁰ The Business Times (2021). Indonesia tells banks to give 30% of loans to small firms. Obtained from: <https://www.businesstimes.com.sg/companies-markets/banking-finance/indonesia-tells-banks-give-30-loans-small-firms>

³¹ International Finance Corporation (2014). Indonesia Market Study: Movable Assets-based Financing to Micro, Small and Medium Enterprises. Obtained from: <https://documents1.worldbank.org/curated/en/797491477989942442/text/109548-WP-Indonesia-Market-Study-Movable-Assets-based-Financing-to-MSMEs-PUBLIC.txt>

- Funding-related challenges: 1 in 3 of the respondent impact enterprises need help in identifying sources of capital. When they do identify funding, 1 in 3 enterprises feel that the cost of capital is high. Moreover, 1 in 4 feels there is an absence of impact investors in the sector they operate in.
- Non-funding challenges include human capital capacity building, market expansion, and legal and regulatory barriers.

These intermediaries are already embedded in the impact ecosystem and are in a good position to provide direct funding to the enterprises they work with, and can effectively do so without managing large funds. Given the challenges of raising and running small investment funds, there is an opportunity for aggregation to help them access funding from key institutional impact investors such as DFIs or Multilateral Development Banks (MDBs).

Opportunity 2: Untapped Local Debt Capital

As previously mentioned, the growth of impact-oriented funds are primarily venture capital funds making equity investments. For debt capital, Indonesia's banking, microfinance institutions (MFIs), and fintech players could be a larger source for missing middle impact enterprises.

With the growing scale and maturity of microfinance institutions and fintech companies lending to SMEs in Indonesia, wholesaler funds are increasingly being established to pool capital from DFIs and private impact investors. Some Development Finance Institutions (DFIs) have invested through financial intermediaries such as mid-tier banks, large microfinance lenders, and fintech companies so that these intermediaries can, in turn, increase their lending to missing middle SMEs, often requiring such investments to include social and/or environmental impact considerations. Examples include DFC's USD 100 million loan portfolio guarantee to Bank Sahabat Sampoerna to support the expansion of financing to MSMEs and women-owned and women-led enterprises in Indonesia³², and FMO's USD 15 million senior secured loan to PT. Tirta Rindang Unggul Ekatama Finance ("True Finance") to lend to inclusive businesses³³.

As the examples below illustrate, some of these investments into financial institutions are part of a blended finance structure to deepen the development impact, such as reaching women-led enterprises and providing more growth capital.

There is an opportunity to facilitate existing Indonesian financial intermediaries to provide loans for missing middle impact enterprises through blended finance structures.

³² DFC (2023). DFC Makes More Than \$9.1 Billion in Financial Commitments for Fiscal Year 2023. Obtained from: <https://www.dfc.gov/media/press-releases/dfc-makes-more-91-billion-financial-commitments-fiscal-year-2023>

³³ FMO (2023). PT Tirta Rindang Unggul Ekatama Finance. Obtained from: <https://www.fmo.nl/project-detail/62829>

Spotlight: Blended finance funds investing in Indonesia through financial institutions

Lendable MSME Fintech Credit Fund³⁴

Lendable MSME Fintech Credit Fund is a closed-ended debt fund, dedicated to providing debt facilities to early and mid-stage fintech companies across Africa (50%) and Asia (50%).

It will focus on fintech companies that supply credit, working capital, remittances, and payment solutions to MSMEs. Examples of investments in Indonesia include Amarth, Workmate, Validus and KoinWorks.

It has raised over USD 110 mio, with a blended finance structure as per below:

Debt	First Loss Equity	Grants
<ul style="list-style-type: none"> • USD 100+ mio from DFC • BIO • FMO • JICA • Ceniarth • Calvert Impact Capital 	<ul style="list-style-type: none"> • USD 8.2 mio - USD 4 mio from EMIIF (DFAT) • USD 4.2 mio from FSD Africa 	<ul style="list-style-type: none"> • USD 0.375 mio from FSD Africa

Women's World Banking Capital Partners II (WWBCP Fund II)³⁵

The WWBCP Fund II is a USD 100 mio blended fund that aims to close the 9% gender gap in women's access to financial services in developing markets

It invests in financial service providers such as microfinance institutions, specialty finance companies, and SME finance providers that in turn on-lend or sell financial products to women-owned enterprises. It has invested in Amarth in Indonesia. Its blended finance structure is per below:

Risk sharing lenders	Commercial Equity	First Loss Equity	Technical Assistance
<ul style="list-style-type: none"> • USD 25 mio (DFC provided senior debt at minimum return of 4%) 	<ul style="list-style-type: none"> • USD 50-60 mio, from DFIs such as JICA • EIB; and impact investors such as Soros Economic Development Fund - target annual returns of 15-18% 	<ul style="list-style-type: none"> • USD 20 mio, from development agencies such as EU, BMZ, USAID 	<ul style="list-style-type: none"> • USD 5-10 mio

³⁴ <https://fsdafrica.org/investment/lendable-msme-fintech-credit-fund/>

<https://lendable.io/news/lendable-closes-on-110m-emerging-market-fintech-fund-with-commercial-and-public-investors/>

³⁵ <https://www.convergence.finance/api/file/843dca64d0e3ef4f88badc9af889c9bc:e97fb632c2c505d14e47c15d2e942debcde184d7c91672165c53afd786e7093dc93543f2e44c2d8a648660dd379a1d322be645d955ad3a10f65c27852a9e47c7071c203396aa31473229b0f9513d86853a08d9f05fc329e00678d2ab0cf9a311ce8d6c7d528c77c320a9327f48e56be5203e702ae2a979936db3d9deb3feca80a73d709253053d0dfbc4938d75d4ba243c7e53910c9239a8014d042c66a492f2>

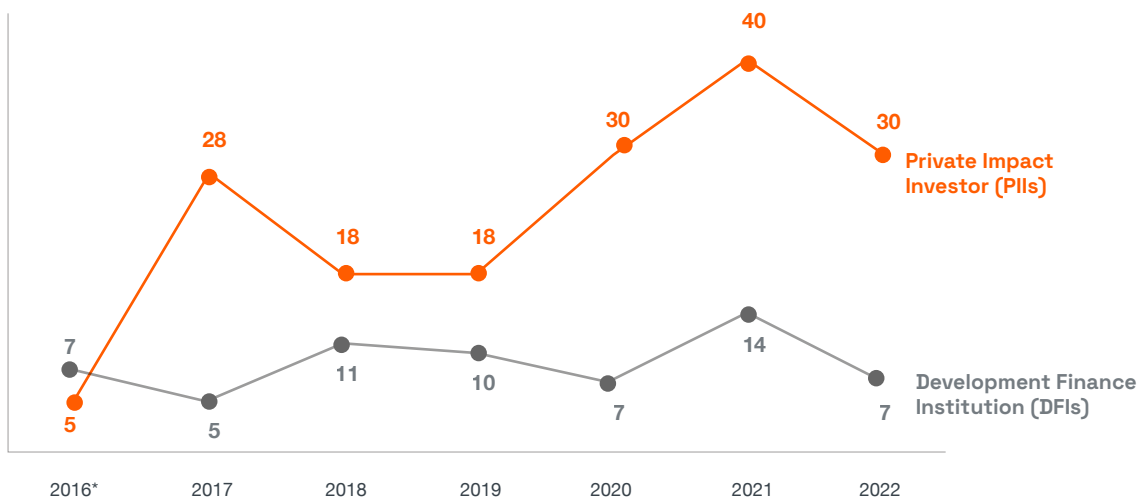
Opportunity 3: Catalytic Capital to Crowd in More Private Impact Investment Capital

Development Finance Institutions (DFIs) have historically been the largest source of impact capital in terms of transaction size and quantity. However, as illustrated in Figure 5, while DFIs continue to lead dollar volume, private impact investors—many funded by DFIs—are now becoming the backbone of capital allocation. The number of investments from private impact investors has now surpassed those from DFIs.

As Figure 6 indicates, Indonesia has accounted for the largest number of private impact investment transactions relative to other ASEAN countries: it accounts for about 44% of total private impact investor deals in the region by volume and over 56% by value. We estimate that only 43% of these private impact investors have a regional presence in Southeast Asia.

The number of investments from private impact investors has now surpassed that of DFIs in Indonesia.

Number of Impact Investment Transaction in Indonesia (#)



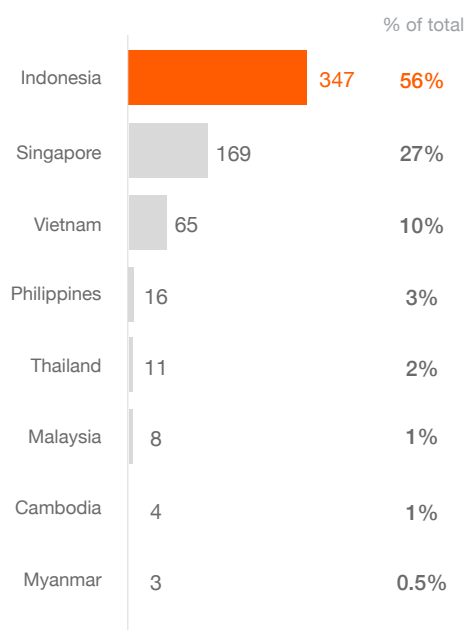
The 2016 data is an average of the 10 years from 2007 to 2016

Source: Investing in Women (2023)

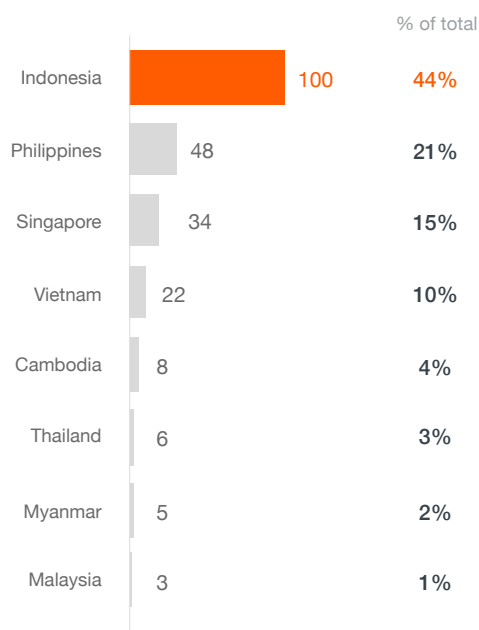
Figure 5: Number of Impact Investment Transactions in Indonesia

Indonesia has accounted for the largest number of private impact investment transaction relative to other ASEAN countries

**Capital Deployed by PII in SEA
by country (USD mio, 2020-2022)**



**Number of Deals by PII in SEA
by Country (#, 2020-2022)**



Source: Investing in Women (2023)

Figure 6: Private Impact Investments in SEA between 2020-2022

The increasing interest from private impact investors in Indonesia represents a promising source of impact investment capital. It is more efficient for DFIs to fund private impact investors, especially at the early stages, rather than intervening directly. However, unlike DFIs, which are highly concentrated, with fewer than 10 having invested in Indonesia between 2020 and 2022, the market of private impact investors is highly fragmented. Moreover, private impact investors are also dispersed globally: available data indicates that only 43% of the private impact investors that have invested in Indonesia have a presence in the region. They include impact investment funds focusing on emerging markets, foundations, corporations, family offices, wealth advisors, and financial institutions.

Moreover, most private impact investors globally seek commercial levels of financial return (see Figure 7)³⁶. This is particularly the case in Indonesia, where 89% of impact investors target commercial returns³⁷. According to a GIIN survey, foundations and endowments are the only category of impact investors where over half of those organizations are willing to accept below-market financial returns to accomplish their social and/or environmental objectives. Approximately 44% of DFIs are willing to accept below-market financial returns.

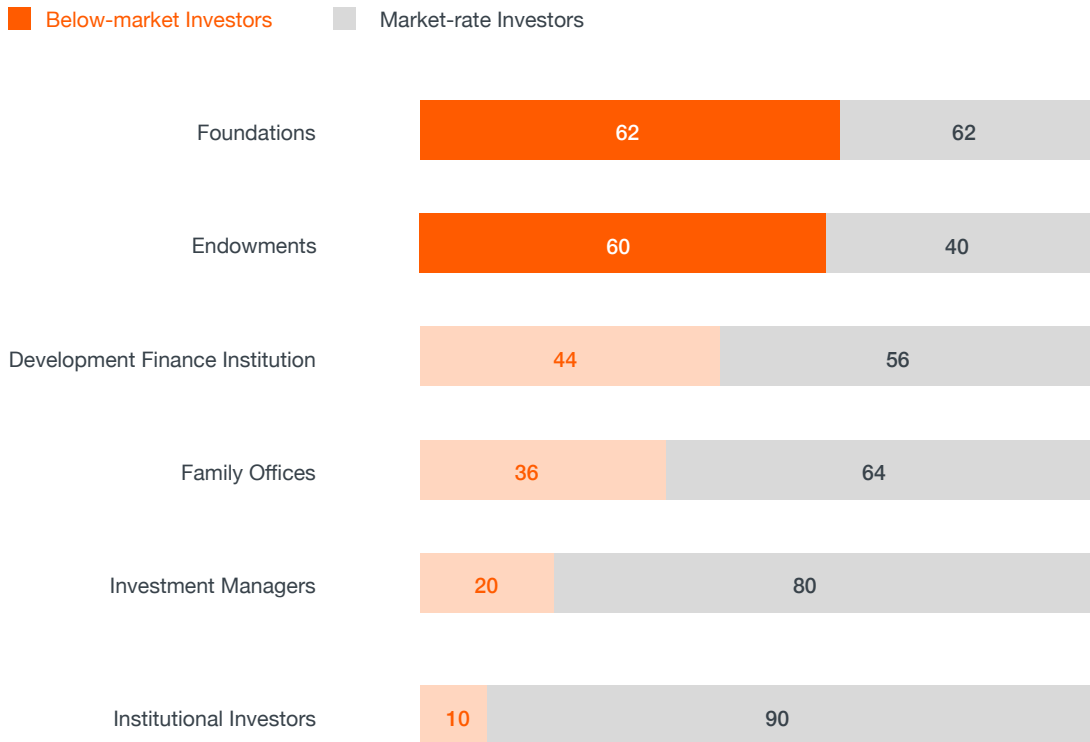
To address the missing middle financing gap, catalytic capital, i.e., capital willing to accept greater financial risk and potentially below-market financial returns, will be an essential component of blended finance structures to crowd in a wider source of capital. There is an emerging Indonesian philanthropic sector and other local sources of capital that could potentially be unlocked for impact investments.

³⁶ Hand, D., Sunderji, S., Pardo, N. (2023) 2023 GIINsight: Impact Investing Allocations, Activity & Performance. The Global Impact Investing Network (GIIN). New York

³⁷ ANGIN (2022). "Impact investing in Indonesia"

Foundations and endowments are the only impact investors where most accept below-market returns for social and environmental goals.

Target Financial Returns by Organization Type (%)



Source: GIIN (2023)

Figure 7: Target Financial Returns by Organization Type³⁸

³⁸ Hand, D., Sunderji, S., Pardo, N. (2023). GIINSight: Impact Investing Allocations, Activity & Performance. The Global Impact Investing Network (GIIN), New York

Spotlight: Emerging sources of impact capital in Indonesia

<p>Philanthropy</p>	<p>The World Giving Index 2023 ranks Indonesia as the most giving country in the world where 82% of adults surveyed donated money to others³⁹.</p> <p>Data from Filantropi Indonesia also point to close to a 30% increase in philanthropic funding between 2018 and 2020, with USD 974 mio of philanthropic funding utilized in 2020. There are ample opportunities to mobilize some of the philanthropic capital for impact investments, following early adopters such as YCAB Foundation starting YCAB Ventures, providing loans alongside grants to impact enterprises.</p> <p>Globally, foundations also allocate parts of their endowment to impact investing. While there is no estimate on the extent to which philanthropic organizations in Indonesia are active in impact investing, estimates from other countries give a sense of the potential. For example, 5% of the primarily U.S.-based foundations surveyed in 2024⁴⁰ invest their assets for impact.</p>
<p>Family offices</p>	<p>Indonesia is ranked as part of the top 10 fastest-growing markets of Ultra High Net Worth (UHNW) individuals⁴¹, defined as having a net worth of over USD 30 mio.</p> <p>This translates to an estimated 1,479 UHNW individuals residing in Indonesia³⁹. The 2023 Forbes list of Indonesia's 50 Richest rose 40% to a record USD 252 bio in 2023, up from USD 180 bio in 2022⁴⁰. There is also significant Indonesian wealth overseas, especially in Singapore, which has become the regional destination for Indonesian family offices. Singapore now has 1,400 family offices⁴¹, and research from 2022 shows that impact investing is increasingly embraced by Singapore-based family offices as an extension of their long-term philanthropic support of social and environmental causes⁴².</p>
<p>Corporate Venture Capital</p>	<p>Historically, Corporate Venture Capital (CVC) was the driving force of venture capital investments in Indonesia, which include the early movers of MDI Ventures, Global Digital Prima (GDP) Ventures, Sinar Mas Digital Ventures (SMDV), Mandiri Capital, and Argor Capital (formerly known as Go-Ventures).</p> <p>These CVCs differ from traditional VCs – in addition to financial return, the investments are intended to contribute to the parent company's strategic priorities. For CVCs, impact investments present an opportunity to shift social responsibility of an organization from traditional CSR, to be part of the core strategy of the business. CVCs could also encourage disruptive innovation in the face of market-wide challenges (including social or environmental challenges) that might not be clearly defined within the current operating strategy that could help future-proof the company's core business, whilst expressing social responsibility within the corporate strategy⁴³. There is potential to move more CVC into the impact investments space. Notably, Mandiri Capital is already managing the Indonesia impact-oriented investment funds, established in 2021 by the Indonesian chapter of APEC Business Advisory Council (ABAC).</p>

³⁹ AF (2023). CAF World Giving Index. Accessed at: <https://www.cafonline.org/about-us/research/caf-world-giving-index>

⁴⁰ Kanebridge News (2024). Only 5% of US foundations invest for impact, study finds. Accessed at: <https://kanebridgenews.com/only-5-of-us-foundations-invest-for-impact-study-finds/>

⁴¹ Knight Frank (2023). Singapore, Malaysia, and Indonesia rank as part of the top 10 fastest-growing UHNW markets. Accessed at: <https://www.knightfrank.com/blog/2023/05/18/singapore-malaysia-and-indonesia-rank-as-part-of-the-top-10-fastestgrowing-uhnw-markets>

⁴² Statista (2024). Number of ultra high net worth individuals (UHNW) in Indonesia from 2016 to 2023, with a forecast for 2028. Accessed at: <https://www.statista.com/statistics/785123/indonesia-number-of-uhnwis/>

⁴³ Forbes (2023). Wealth Of Indonesia's 50 Richest On Forbes List Rises 40% To Record US\$252 Billion. Accessed at: <https://www.forbes.com/sites/forbespr/2023/12/06/wealth-of-indonesias-50-richest-on-forbes-list-rises-40-to-record-us252-billion/?sh=527aeb253609>

4. Blended Finance and Impact Investment Wholesalers: A Global Best Practice Solution

In order to derive a solution to finance missing middle impact enterprises, given present opportunities in the Indonesian impact investing ecosystem, we would like to draw on best practices from across the world. In particular, we have seen that where there are robust ecosystems of impact investment intermediaries and latent sources of impact investment capital, blended finance and wholesaler models have played important roles.

Blended Finance: A Catalyst for Scaling Impact Investment

Blended finance refers to the deployment of “catalytic capital from public or philanthropic sources to increase private sector investment in sustainable development”. Convergence’s recent Data Brief on Leverage Ratios⁴⁴ found that for each USD 1 of concessional finance, USD 4.1 of commercial finance is mobilized, with approximately USD 2.3 provided by Multilateral Development Banks (MDBs).

Blended finance vehicles aimed at addressing financing challenges often include:

1. Grants to:
 - a) Strengthen the public goods component of the ecosystem (i.e., standardizing impact metrics, technical assistance and capacity building for emerging fund managers and business owners, and supporting the operating costs of impact-oriented intermediaries) to facilitate the connection between supply and demand for capital;
 - b) Provide first loss or credit enhancement to de-risk and attract investments from commercial or impact investors who need financial risk mitigation to either protect the principal or increase the likelihood of a financial return on investment.
2. Flexible, patient capital that could be repaid, either on concessionary or commercial terms, depending on the target investment sectors most relevant to the SDGs and regions;
3. Investment guarantees to de-risk and attract investments from commercial or impact investors seeking financial risk-adjusted returns.

⁴⁴ 34 Convergence (2023). Best practices for donor governments engaging in blended finance. Accessed at: <https://www.convergence.finance/api/file/cbec61fae19e5db99c58f8d806fec55-2cb3eb1e7a7e78b6419e63da8d81a2e75ae1a935fc9da5cda318cbdbea53e3c30361668afe8af9f785a5ac5a191e2e7c276ee87a5544d47b57f94126aed9d22c4dea88c687fae41658e238edd6c2af1432572a870a8a1832a8963126104bb977f58217b0a779a82eeb02d5e88ff45bb0236a741fa6b9f1bdb6d912884fc872803a5f8e4949c878b826208d784a411fd7081f4cd28f5e5f91a1d515e5d53cb300bc534673e645986c1e2df33a8aaf7e571475484ea929b66461440>

Blended finance is a powerful structuring approach that can blunt market-level challenges. Based on a study by Convergence⁴⁵ of 28 blended finance transactions, blended finance can enable positive development impact as well as positive financial returns. Commercial investments in the case study transactions yielded market-rate or better risk-adjusted returns:

- **Equity**
Seven of eight equity returns (realized) observations exceeded 10% internal rate of return (IRR), with most falling within 11-15% IRR (four observations) and two observations between 16-20% IRR.
- **Debt**
40% of observations were between 1-5% IRR, 40% between 6-10% IRR, and 20% over 10% IRR.

Blended finance has been utilized in infrastructure projects by Indonesian public entities, but it has not yet been applied to financing for missing middle impact enterprises. For instance, PT Sarana Multi Infrastruktur (PT SMI), a state-owned enterprise specializing in infrastructure financing, has pioneered a comprehensive blended finance approach to support sustainable development projects in Indonesia. PT SMI operates under three main business pillars: Financing and Investment, Project Preparation, and Advisory Services. Through these pillars, PT SMI has established the SDG Indonesia One (SIO) platform, a blended finance initiative designed to overcome the financial challenges faced by SDG-oriented projects.

However, a 2024 report by four social investor networks: AVPN, Latimpacto, AVPA, and Impact Europe, highlighted challenges in the broader implementation of blended finance in emerging markets. Some foundations and family offices are hesitant to be the soft layer in blended transactions, perceiving their first-loss or upfront capital as paving the way for mainstream investors to gain greater returns, effectively subsidizing private gains. To realize the potential of blended finance in Indonesia, it is crucial to build blended finance expertise within the local impact investing ecosystem and demonstrate the positive developmental benefits of being catalytic to local foundations and family offices. This approach can help bridge the gap in financing for missing middle impact enterprises, leveraging PT SMI's successful model to inspire broader application.

More details on blended finance and case studies are included in Appendix III.

⁴⁵ Convergence (2023). Evaluating the Impact of Blended Finance: Convergence's Case Study Portfolio Revisited. Accessed at: <https://www.convergence.finance/resource/evaluating-the-impact-of-blended-finance-convergences-case-study-portfolio/view>

Impact Investment Wholesalers: Addressing Barriers to Unlock Sustainable Growth and Innovation

According to the Global Steering Group of Impact Investment (GSG Impact), impact investment wholesalers aggregate different types of impact-driven capital from a range of impact-driven asset owners such as foundations, DFIs, MDBs, family offices, and government. They then use this capital to invest into impact investment funds and other intermediaries, sometimes co-invest directly into impact enterprises with their intermediary investees, and provide technical assistance and support. These functions can help develop a broader impact investment market⁴⁶.

In 2023 alone, several countries, including Australia, Canada, Ghana, Nigeria, and Spain, have committed to injecting a combined USD 1.5 billion into local wholesalers and fund of funds. This approach is inspired by Big Society Capital, the UK's impact investment wholesale fund, which has been instrumental in scaling financing solutions for UK social enterprises, start-ups, and SMEs, helping to channel USD 11 billion to UK SMEs.

An impact wholesaler can deploy capital along the spectrum from pure grants to those seeking lower- or market-rate returns. Regardless of the specific financial instruments used, their primary mission is to scale blended finance solutions by combining public finance with charitable and/or private sector funding.

Spotlight: Global examples addressing the missing middle through wholesaler structures

South Korea

According to GSG Impact, one of the latest wholesalers in Asia is Korea Social Value and Solidarity Foundation (SVS), in South Korea⁴⁷. It has been operating since 2019.

- Collaborating with 19 social finance intermediaries (SFIs) across the country, SVS has provided equity and loans to 257 organizations.
- Through the catalytic capital provided by SVS, USD 60 mio (KRW 84 bio) has been invested in the past 4 years – a leverage ratio of 5.2. SVS expects an IRR of 4.54% on its overall portfolio (6.98% for equity investments; 0.64% for soft loans). Soft loans refer to loans given with next-to-no or no interest with extended grace periods, offering more leniency than traditional loans.

⁴⁶ GSG Impact (2024). Responsible Investor: In the story of impact investment, wholesalers play a starring role. Obtained at: <https://gsgii.org/2018/09/responsible-investor-in-the-story-of-impact-investment-wholesalers-play-a-starring-role/>

⁴⁷ <https://www.svsfund.org/en/board/36>

Opportunity Finance Network's (OFN) Finance Justice Fund⁴⁸ is a grant and lending facility managed by OFN, a membership organization of over 300 impact-driven community development financial institutions (CDFIs).

CDFIs are impact-driven financial intermediaries: many manage loan and venture capital funds. The Finance Justice Fund is a blended finance fund of funds capitalized with USD 270 mio in grants and long-term below market loans from Twitter, the MacArthur Foundation, the W.K. Kellogg Foundation, Charles Schwab Bank, JP Morgan Chase, Bank of America, and others.

- **Since 2021, the Finance Justice Fund has deployed over USD 210 mio in loans and grants to over 100 of its CDFI members, including USD 8 mio in climate-focused investments.**
- **40% of Finance Justice Fund investments have been deployed to members with less than USD 25 mio in assets, reinforcing OFN's commitment to capitalize members that often have the greatest capital need to reach deeper into communities.**
- **The CDFIs that have received Finance Justice Fund loans and grants (for technical assistance and operating support) unlocked more than USD 650 mio (i.e., more than 3x of OFN's investment) in small business capital across 27,000 small businesses, financed 14,000 owner-occupied housing units, and created or retained nearly 120,000 jobs.**

Another example is the USD 90+ mio California Rebuilding Fund⁴⁹. This is a blended finance facility launched in 2020 to provide low-cost, flexible loans to help California's missing middle companies recover from the economic effects of the COVID pandemic.

The facility is composed of:

- **USD 25 mio anchor commitment (including a partial loan guarantee) from the State of California's Infrastructure & Economic Development Bank to address the capital and advisory needs of the state's small businesses in the missing middle segment.**
- **USD 57 mio in senior and subordinated loans from commercial banks such as Bank of America and Wells Fargo and impact investors such as Visa, Grove and other foundations.**
- **USD 8 mio from 12 community development financial institution lenders that underwrote the loans, provided technical assistance, or connected business owners to business support services.**
- **Over the fund's initial two years, 1.425 loans were awarded; 86% of borrowers had annual revenues less than USD 1 mio; and 87% of borrowers had 10 or fewer employees.**

⁴⁸ <https://www.ofn.org/current-initiatives/finance-justice-fund/>

⁴⁹ <https://www.calloanfund.org/>

Based on our interviews, we also found that the fund of funds model resonates with a range of impact-oriented fund managers in Indonesia. During our interviews with them, fund managers articulated the value of fund of funds as follows:

“Fund of funds could be helpful to empower different types of smaller funds versus one larger monolithic investment intermediary, including co-investment function, taking chances on people with new ideas, provide some kind of technical assistance via grants.”

“A fund of funds like this for Indonesia can play a leadership role in co-developing structures that align incentives, particularly for concessionary capital and optimally balance competing interests between concessionary capital providers and commercial investors.”

While many asset owners have not traditionally favored investing in fund of funds given the higher fees and more complicated structures, others see the importance of investing in them to build the ecosystem and to address the missing middle. Based on our interview with a DFI:

“We are re-considering our traditional approach on not investing in early-stage fund managers, or not investing in fund of funds because of the fee issues. We realized that in the missing middle space, you need fund managers in the market who are doing more hand holding and lower ticket size investments, and working with concessionary donor capital on blended finance models and venture debt models to get the capital to these businesses.”

Moreover, there are also different ways of structuring the fund of funds to reduce fees. As an example, the Medical Credit Fund⁵⁰ uses a cost-share structure to fund capacity-building support for investees. While it is not a fund of funds, this is still a relevant example for considering ways of reducing fees. It is a nonprofit impact investment fund that provides loans to healthcare facilities in partnership with local financial institutions. Smaller loan clients currently receive capacity building free of charge, and larger loan clients are charged a capacity-building fee as a percentage of the total amount of loans.

⁵⁰ Global Impact Investing Network (2024). Medical Credit Fund Report: Beyond Investment: The Power of Capacity-Building Support. Accessed at: <https://thegiin.org/medical-credit-fund/>

5. Indonesian Impact Investment Wholesaler: A Proposed Solution for Indonesia in Achieving SDGs

Putting the Solutions Together

There are now a sufficient number of impact-oriented investment funds investing in Indonesia, and the global and regional landscape of private impact investors has likewise grown enough to warrant a wholesaler to more efficiently connect the demand and supply of impact-oriented capital in Indonesia.

An impact investment wholesaler brings a range of capital providers, unlocking capital to address entrenched financing challenges faced by missing middle impact enterprises as a pathway to achieve the SDGs. The timely opportunities that can be capitalized upon include:

- **Growing maturity of Indonesian ecosystem of funds:**

As we already outlined, there is a vibrant ecosystem of impact-oriented funds and other intermediaries.

- **Indonesia as a hotspot for climate investing:**

As climate finance gathers momentum across the world, given Indonesia's unique position, it is likely to see an inflow of capital interested in climate mitigation and/or adaptation. In 2018-19, Indonesia received 24% of total climate finance in Southeast Asia, after Vietnam (32%) and the Philippines (31%)⁵¹. In recent years, Indonesia's attraction as a climate investment destination has grown, and as of 2022, Indonesia has become the world's largest recipient of environmental grants from the multilateral Global Environment Facility – over USD 100 million will be given to the Indonesian government from 2023-2026⁵².

- **Wealth creation in Indonesia:**

Over the past decade, Indonesia has maintained 5% growth year on year except during the pandemic⁵³. The boom in demand for green energy technology has benefited and will continue to benefit Indonesia, given its reserves of nickel. There is a high degree of optimism for Indonesia's economic growth, which has created substantial wealth in the country. While the involvement of Indonesian philanthropic organizations in impact investment is still relatively nascent, there are local sources of wealth that can be untapped and leveraged for impact investment.

Based on the capital, talent and impact measurement barriers, as well as wider supply-side challenges discussed throughout this report, Figure 8 summarizes what the potential solutions could be.

⁵¹ ADB (2023). Climate finance landscape of Asia and the Pacific. Accessed at: <https://www.adb.org/sites/default/files/publication/901611/climate-finance-landscape-asia-pacific.pdf>

⁵² Earth Journalism (2022). Indonesia to Receive Largest Amount of GEF's Climate Finance Funds. Accessed at: <https://earthjournalism.net/stories/indonesia-to-receive-largest-amount-of-gefs-climate-finance-funds>

⁵³ Financial Times (2024). In charts: how the Joko Widodo era remade modern Indonesia's economy. Accessed at: <https://www.ft.com/content/66a490e3-9268-4d8d-b7df-d2f901cd0fde>

Indonesian Impact Investment Wholesalers as the solution to strengthen the impact investment ecosystem for missing middle enterprises and stimulate market growth.

Stakeholder	Barriers	Solution by Impact Investment Wholesalers
Asset Owner	<ul style="list-style-type: none"> • Difficulty finding impact investments that meet financial and social goals. • Perceived high risk of the early-stage enterprises. • Challenges in building diversified portfolios • Lack of standardized impact measurement and reporting 	<ul style="list-style-type: none"> • Curate and structure investment products for easy access to quality opportunities. • Provide risk mitigation strategies like guarantees, credit enhancements, and blended finance. • Offer pooled investment vehicles and diversified funds for enhanced portfolio diversification. • Standardize impact metrics and provide reliable impact reporting for better understanding and trust.
Impact Investment Funds	<ul style="list-style-type: none"> • Limited Access to funding from asset owners • Fragmented asset owners hinder smaller funds' access • Larger investment sizes (USD 10 mio) preferred by asset owners. • High Fixed Management Costs 	<ul style="list-style-type: none"> • Support & co-invest with small impact investment funds (< USD 30 mio) that can make smaller ticket size investments and are better suited to provide funding and business-building support to missing middle impact enterprises • Experiment with a shared services platform model for providing impact fund managers' portfolio companies with standardized accounting and financial reporting systems, human resources policies, and a network of vetted professionals across target investment sectors to support market-access strategies.
	<p>Faced by both impact investment funds and impact enterprises</p> <ul style="list-style-type: none"> • Capacity Building: <ul style="list-style-type: none"> • Need support to effectively manage and scale investments. • Impact Measurement and Management: <ul style="list-style-type: none"> • Lack of expertise in measuring and demonstrating impact. 	<ul style="list-style-type: none"> • Collaborate with existing venture builders and incubators such as ANGIN, Instellar, New Energy Nexus, Terratai, and/or regional platforms such as Amplifier and Co-Axis. • Co-develop with anchor investors a set of impact metrics and align with impact fund managers on a system for reporting those metrics. • Host a data collection platform that could aggregate the data into annual reports for the underlying businesses, fund managers, and investors, and provide wrap-around capacity-building support.
Impact Enterprises	<ul style="list-style-type: none"> • Mismatches of the enterprise profiles with available capital <ul style="list-style-type: none"> • Inability to meet collateral criteria for traditional bank lending • May not match the expected scalability for venture capital • Might require longer investment periods 	<ul style="list-style-type: none"> • Facilitate ways to crowd-in patient impact investment capital from private impact investors. • Target sectors that are both priorities for these investors and facing significant capital gaps in Indonesia.

Figure 8: Potential Solutions to Missing Middle Gap in Indonesia

In summary, the proposed solution can be seen as a set of functions to strengthen the impact investment ecosystem for missing middle enterprises and spur market growth by:

- Facilitating the efficient aggregation of capital from a geographically dispersed market of private impact investors to missing middle impact enterprises through smaller funds with a base in Indonesia.
- More cost-efficiently strengthening the infrastructure for smaller fund managers to provide the necessary technical assistance support to missing middle impact enterprises and track and report on the social and environmental outcomes from their investments. Such an overarching entity currently does not exist in Indonesia and speaks to the idea of a “Wholesaler” entity, as described by GSG Impact⁵⁴.

“Wholesalers invest into funds and other intermediaries, sometimes alongside other activities, while drawing in investment from other organizations – from foundations, philanthropists, and institutional investors – thus catalyzing wider investment flows. They seek to develop a broad impact investment market – to ‘build a market’ rather than ‘be the market.’”

Global Steering Group for
Impact Investment (GSG Impact)

Indonesian Impact Investment Wholesaler Role to Solve the Barriers

Figure 9 below conceptualizes what an Indonesian Impact Investment Wholesaler could look like. Its primary purpose would be to strengthen the existing ecosystem of intermediaries, particularly those that primarily work with missing middle impact enterprises so that it can build the market and crowd in private capital. A wholesaler for Indonesia will need to provide capital for four functions:

1. Investment into funds,
2. Any direct investments into impact enterprises,
3. Fund management costs (including impact measurement and management), and
4. Capacity building of impact enterprises. When tackling the regulatory and policy barriers, it is hoped that the wholesaler can lead by example and shape policy directions.

⁵⁴ GSG Impact (2024). Responsible Investor: In the story of impact investment, wholesalers play a starring role. Obtained from: <https://gsgii.org/2018/09/responsible-investor-in-the-story-of-impact-investment-wholesalers-play-a-starring-role/>

Indonesian Impact Investment Wholesaler

Capital aggregator, platform for shared technical assistance & impact tracking services.

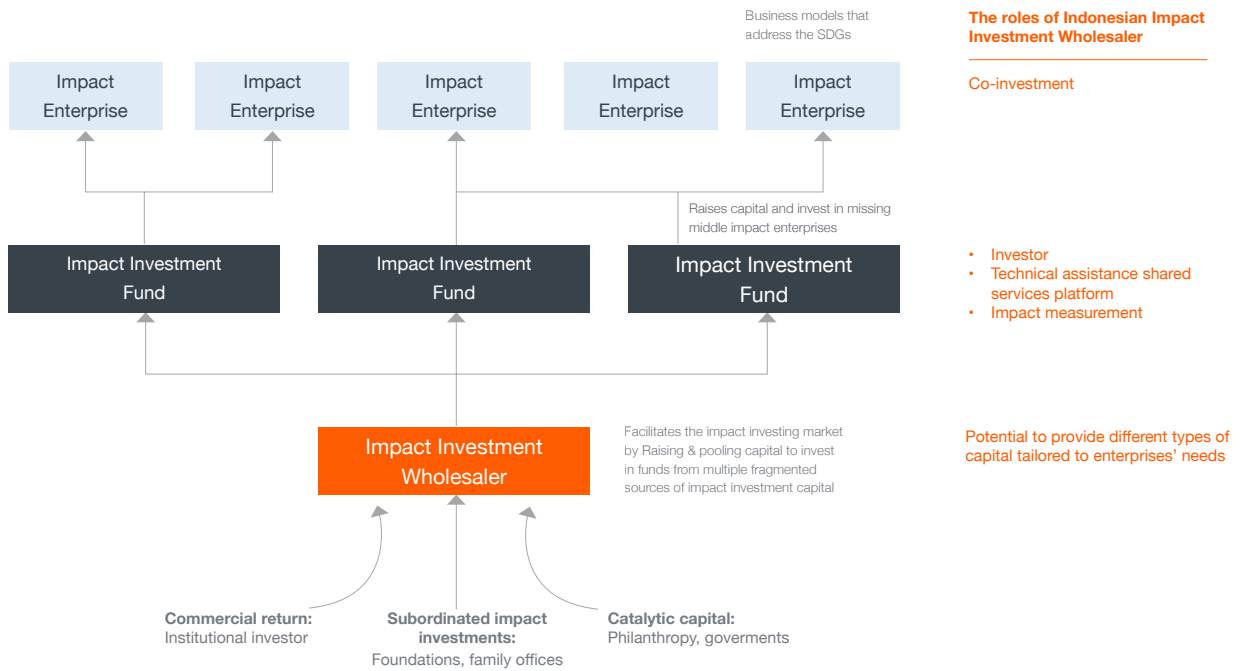


Figure 9: Indonesian Impact Investment Wholesalers

The Indonesian Impact Investment market focuses on funds in the catalytic and transitional stages.

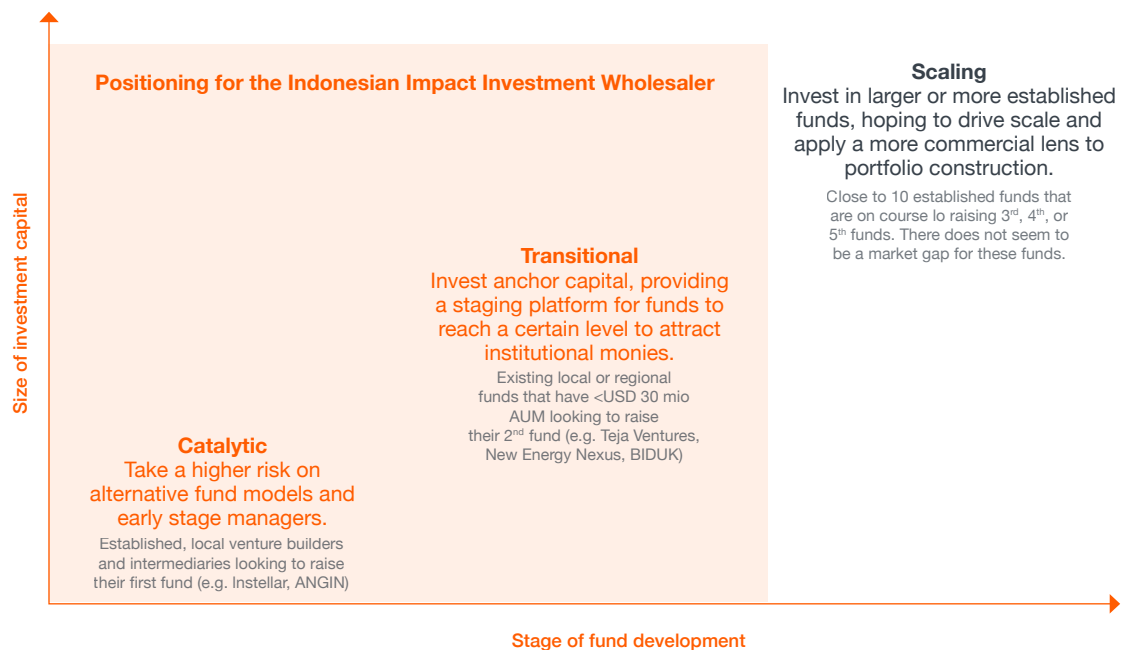


Figure 10: Stages of Fund Development Targeted By the Indonesian Impact Investment Wholesaler

The fund of funds function is crucial to support the smaller funds that are optimally sized (below USD 30 million) to finance missing middle companies. According to the Collaborative for Frontier Finance (2023)⁵⁵, funds of funds can be characterized based on where they invest along the various stages of fund development. We have made use of these definitions to hypothesize where a Wholesaler with a fund of funds function could optimally invest within the Indonesian context, as illustrated in Figure 10.

Underlying this approach of investing across the catalytic and transitional fund managers is also a recognition that a healthy ecosystem of impact investment funds is diverse.

Blended finance structures can be deployed in three ways to mitigate perceived and actual financial risks associated with an evolving ecosystem of missing middle impact enterprises, particularly in emerging sectors that could contribute to climate-related SDGs:

1. **At a fund of funds level:** The fund of funds itself could receive investment capital from catalytic and other funding sources willing to provide flexible, higher financial risk-taking capital so that commercial sources can be leveraged. It could include credit enhancement mechanisms such as guarantees and/or first-loss tranches to incentivize Indonesian private impact investors. There could also be uses of catalytic capital to address any currency risks when raising capital from foreign investors.
2. **At a fund level:** When the fund of funds invests in funds, similar blended mechanisms can also be mobilized in the underlying investment funds to de-risk or enhance returns for commercial investors.
3. **At an enterprise level:** While a fund of funds may not be investing directly into enterprises, it could still work proactively with fund managers to ensure that blended finance is appropriately deployed by the fund managers at a deal level through capacity building/technical assistance.

To get an Indonesian Impact Investment Wholesaler launched, we would propose that it:

1. Be anchored by a partnership of Indonesian and global philanthropy and governments as catalytic capital, and
2. Crowd in Indonesian and global private impact investors.

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⁵⁵ Collaborative for Frontier Finance (2023). Africa Fund of Funds Platforms. Obtained from: <https://static1.squarespace.com/static/59d679428dd041c165f9855/t/6579adf52eddbc2c9e5b1f95/1702473238883/231106+CFF+African+Fund+of+Funds+Report.pdf>

Conclusion and Call to Action

Indonesia has the opportunity “to build on strong economic fundamentals to deliver faster, greener, and more inclusive economic growth.”⁵⁶ Impact investment capital, particularly if available through a wider range of structures beyond venture capital, can play an important role in fostering more inclusive economic growth and making greater progress towards the SDGs.

Indonesia has significant comparative advantages to build on, including a vibrant impact investing ecosystem. It is already the primary destination for private impact investors in Southeast Asia. On the other hand, as in other parts of the world, there remain significant capital gaps for missing middle impact enterprises, including in the types of capital available and in emerging sectors that could contribute towards climate adaptation and mitigation, and ocean preservation.

Indonesia also has experience in blended finance, which allows it to draw and adapt to the MSME sector. An Indonesian Impact Investment Wholesaler could be a way to build on this base of advantages and experience by efficiently harnessing capital from multiple sources to scale missing middle impact enterprises to be an engine for accelerating progress toward the country’s SDGs.

As the landscape in this report indicates, a growing, active, and global private impact investor market has already been investing in Indonesia and could be further incentivized to do so.

The IIA stands ready to facilitate and, if necessary, co-sponsor the development and adaptation of existing blended finance models for the Indonesian context.

We welcome any potential partnership with other stakeholders to:

- 1. Co-develop an initial business plan for the pilot of the Indonesian Impact Investment Wholesaler that will include a proposed organizational structure, preliminary impact investment thesis, and target sectors.**
- 2. Fund the design, feasibility, and proof-of-concept stage of the blended finance facility.**
- 3. Identify partners, organizational structure, and a team with the requisite experience.**

If you are interested in collaborating with us to bring this proposal into reality, please contact the IIA Secretariat at

info@impactalliance.id

⁵⁶ World Bank Country Director for Indonesia and Timor-Leste Satu Kahkonen upon publication of the World Bank’s semi-annual Indonesia Economic Prospects report in December 2023.

Appendix 1: Methodology & Limitations

Report Methodology

Desk Research

1. Literature Review

We conducted desk research on prominent literature reporting trends and insights into the impact investing landscape in Indonesia. The review aimed to understand how to best mitigate and support the missing middle, guided by the following questions:

- What are the demand-side gaps for impact investment intermediaries and impact-driven enterprises in Indonesia?
- Besides capital, what are the most significant barriers facing impact-oriented intermediaries and enterprises?
- What does the landscape of potential funders look like (commercial, concessionary, and grant capital)?
- What are the types and availability of capital?

The review encompassed 16 publications from various ecosystem players in Indonesia.

2. Developing Database of impact-oriented investment funds in Indonesia

The team compiled a database of known impact-oriented investment funds in Indonesia through desk research and conversations with fund managers. This list was supplemented with information from third-party data sets such as CrunchBase.

To be included in the list, funds had to demonstrate an intent to create social or environmental impact, in addition to seeking financial returns, and explicitly state an intention to invest in Indonesia. A smaller subset of fund managers was chosen for a more in-depth look at impact-oriented investment funds focused or based in Indonesia. Information about these funds and their deals over time was gathered from online reports and third-party data sets.

Primary Data Collection

1. Survey

Desk research revealed little up-to-date information about the challenges faced by Impact Enterprises in Indonesia, particularly regarding funding. Consequently, a survey was conducted to answer the following questions:

- What are the funding needs and challenges faced by impact enterprises?
- What are the expectations enterprises have of investors?

Using a convenience sample, the survey reached out to prospective impact enterprises through IIA, KEM, and personal networks. A total of 51 Indonesian Impact Entrepreneurs completed the survey, which was live for five weeks. The collected data was cleaned and analyzed for reporting.

2. Conversations with Key Ecosystem Players

Conversations were held with 17 impact-oriented investment funds managers, 9 asset owners, and 5 ecosystem networks and venture builders. These discussions covered organizational backgrounds, investment strategies, challenges faced and anticipated, and interests in Indonesia. Detailed notes were taken for analysis and sense-making.

3. Workshop Convening

A workshop was held on January 25, 2024, in Jakarta, with over 70 attendees representing asset owners, entrepreneurs, impact-oriented investment funds, and ecosystem networks. The workshop aimed to validate and inform the preliminary findings of the research, co-sponsored by the IIA and the Ford Foundation. These preliminary findings were based on desk research, surveys with Impact Entrepreneurs, and conversations with key ecosystem players.

Report Limitations

While the methodology employed in this report aimed to provide a comprehensive understanding of the impact investing landscape in Indonesia, several limitations should be acknowledged:

Desk Research Limitations:	Literature Scope	Database Completeness
	The literature review was based on 16 publications, which may not fully capture all existing insights and trends. There is a potential for selection bias in the chosen literature, which could influence the findings.	The database of impact-oriented investment funds was compiled from desk research and third-party data sets like CrunchBase. This approach might have excluded smaller or less-documented funds, leading to an incomplete representation of the investment landscape.
Survey Limitations:	Sample Size and Representativeness	Response Bias
	The survey reached 51 Indonesian Impact Entrepreneurs using a convenience sampling method. This sample size may not be fully representative of the broader impact enterprise ecosystem in Indonesia, and the convenience sampling approach could introduce bias, limiting the generalizability of the findings.	Survey responses may be influenced by the respondents' perceptions and willingness to share challenges and expectations, which could result in response bias.
Primary Data Collection Limitations:	Scope of Conversations	Interviewee Selection
	Conversations with 17 impact-oriented investment funds managers, 9 asset owners, and 5 ecosystem networks provide valuable insights but may not fully capture the diversity of perspectives within the impact investing ecosystem.	The selection of interviewees may have introduced bias, as the focus was on those more accessible or willing to participate, potentially omitting critical viewpoints.
Workshop Convening Limitations:	Participant Diversity	Validation of Preliminary Findings
	While the workshop had over 70 attendees, the representation might not encompass all relevant stakeholders in the impact investing ecosystem, particularly those who could not attend due to logistical or other constraints.	The workshop aimed to validate preliminary findings. However, these findings are still subject to the limitations of the initial data sources and methods, which may affect the robustness of the validation process.
General Limitations:	Temporal Relevance	Geographical Focus
	The data collected and analyzed reflects the state of the impact investing landscape at specific points in time. The dynamic nature of the ecosystem means that findings may quickly become outdated as new trends and developments emerge.	While the study focuses on Indonesia, regional variations within the country could mean that some findings are not applicable to all areas or sub-sectors of the impact investing ecosystem.

Acknowledging these limitations is crucial for interpreting the findings and recommendations of this report.

Appendix 2: Timeline of Impact Investing Developments in Indonesia

<p>1960 - 1989</p> <p>The beginning of microfinance</p>	<p>Initial setup of Indonesia’s major microfinance institutions</p> <p>1969 Bank Rakyat Indonesia (BRI) mandated to disburse agricultural credit through Bimbingan Massal (Bimas) program.⁵⁷</p> <p>1970 Koperasi Bina Swadaya Nusantara (KBSN) started a technical assistance program for marginalized communities, forming community savings and credit programs, adopting Association for Social Advancement (ASA) Bangladesh’s system.⁵⁸</p> <p>1976 Indonesia Credit Union (formerly named Credit Union Counseling Office) began operations.⁵⁹</p> <p>1984 BRI expanded microbanking program and distribution network to become a full-service rural bank, targeting microenterprises and the mass market through the Kredit Umum Pedesaan (Kupedes) program.⁵⁷</p>
<p>1990 - 2009</p> <p>The development of philanthropic and finance industries towards impact investment</p>	<p>Founding of major philanthropic organizations that later expanded beyond grantmaking and utilized lending/investment structures in their operations</p> <p>1993 Yayasan Dompét Dhuafa (DD) founded as a faith-based philanthropy focused on health, education, economy, social, proselytizing (dakwah), and culture. Later expanded to a social enterprise group including hospitals, travel, construction, and more.⁶⁰</p> <p>1994 KEHATI Foundation (formerly known as the Indonesia Biodiversity Foundation / Yayasan Keanekaragaman Hayati Indonesia) founded to support biodiversity conservation programs in Indonesia.⁶¹</p> <p>1999 YCAB Foundation (Yayasan Cinta Anak Bangsa) founded, marking the beginning of YCAB Social Enterprise Group.⁶²</p> <p>Founding of more microfinance institutions utilizing Grameen-style group lending method</p> <p>2003 PT Mitra Bisnis Keluarga Ventura (MBK), translated as “Family Business Partners,” launched to provide finance services to low-income women through working capital and financial inclusion with the mission of poverty reduction and women empowerment.⁶³</p> <p>2004 Koperasi Mitra Dhuafa (KOMIDA), formerly Yayasan Mitra Dhuafa, established as a savings and loan cooperative to help low-income women invest in business capital, applying Muhammad Yunus’ Grameen Bank method.⁶⁴</p> <p>Initial setup of Indonesian government financial institution to support infrastructure projects</p> <p>2009 PT Sarana Multi Infrastruktur (PT SMI) chartered by the Ministry of Finance of Indonesia as a state-owned enterprise focused on infrastructure financing.⁶⁵</p>

⁵⁷ https://ash.harvard.edu/wp-content/uploads/2024/02/bri_microbanking_paper.pdf

⁵⁸ <https://www.trubusbinaswadaya.co.id/keuangan-mikro/>

⁵⁹ <https://www.credituniondayalestari.org/page/sejarah-credit-union-di-indonesia>

⁶⁰ <https://www.dompetchdhuafa.org/en/about-us/>

⁶¹ <https://kehati.or.id/en/history/>

⁶² <https://www.ycabfoundation.org/who-we-are/about-ycab-foundation>

⁶³ <https://www.mbk-ventura.com/index.php>

⁶⁴ <https://mitradhuafa.com/tentang-kami/>

⁶⁵ <https://mitradhuafa.com/sistem-yang-digunakan-ksp-mitra-dhuafa-mampu-menjadi-obat-kemiskinan/>

⁶⁵ <https://ptsmi.co.id/pt-smi-at-glance>

<https://ptsmi.co.id/milestones>

Launch of the first green index fund in the Indonesian Stock Exchange, the first of its kind in Southeast Asia

2009 KEHATI Foundation established a green index fund called SRI-KEHATI following the principles of Sustainable and Responsible Investment (SRI), United Nations' Principles for Responsible Investment (PRI), and Environmental, Social, and Governance (ESG).⁶⁶

The beginning of programs explicitly supporting Indonesian impact enterprises, spurring the growth of impact financing⁶⁷

2010 Social enterprise-related programs by the British Council in Indonesia, including the Community Entrepreneurs Challenge by British Council and the Arthur Guinness Fund

2013 NGO Transformation to Social Enterprise.

2016 Investing in Women (IW) by the Department of Foreign Affairs and Trade (DFAT) Australia started in Indonesia and other Southeast Asian countries with AUD 102 million funds for 7 years.

2018 First report mapping the social enterprise landscape.

Founding of impact enterprises support organizations leading to a robust and vibrant ecosystem, arguably the most complete in Southeast Asia

2014 UnLtd Indonesia established as the first social enterprise incubator in Indonesia.⁶⁸

2015 Founding of Platform Usaha Sosial (PLUS) to support the social enterprise ecosystem in Indonesia.⁶⁹

2016 Angel Investment Network Indonesia (ANGIN) started operations, becoming the first and largest network of investors in Indonesia.⁷⁰

2017 Instellar founded as an impact advisory firm.

Establishment of formal government and international organizations support on sustainable finance

2015 Sustainable Finance Roadmap Phase I 2015-2019 by the Indonesia Financial Services Authority (OJK).⁷¹

2016 Establishment of SDGs Secretariat at the Ministry of National Development Planning with the support from the UNDP Indonesia.⁷²

2018 Establishment of the United Nations Development Programme (UNDP) Innovative Financing Lab to work on collaborative solutions in financing the Sustainable Development Goals (SDGs).⁷³

2010 - 2019
The growth of impact investing ecosystem and sustainable finance schemes

⁶⁶ <https://kehati.or.id/en/index-sri-kehati/>

⁶⁷ <https://www.britishcouncil.id/en/programmes/society/social-entrepreneurs/community-challenge>
<https://internasional.kompas.com/read/2010/03/25/17012734/index.html>
<https://www.tribunnews.com/bisnis/2013/09/17/arthur-guinness-fund-british-council-gelar-kompetisi-kewirausahaan-sosial-berbasis-komunitas>
<https://swa.co.id/read/67796/cetak-sosiopreneur-arthur-guinness-british-council-gelar-cec-wave-iv>
<https://www.dfat.gov.au/publications/development/investing-women-phase-2-2019-23-mid-term-review-and-management-response>
<https://www.dfat.gov.au/sites/default/files/investing-women-phase-2-2019-23-mid-term-review.pdf>

⁶⁸ <https://instellar.id/history-en/>

⁶⁹ <https://usahasosial.com/about/>

⁷⁰ <https://www.angin.id/about-angin>

⁷¹ <https://www.ojk.go.id/sustainable-finance/id/Lists/Agenda%20Nasional/Attachments/43/01.%20Roadmap%20Keuangan%20Berkelanjutan.pdf>

⁷² <https://sdgs.un.org/partnerships/support-roll-out-sdgs-indonesia>

⁷³ <https://innovativefinancinglab.org/en/about-us/about-innovative-financing-lab>

Landmark sustainable finance transactions and blended finance initiatives by Indonesian government agencies

- 2018 PT SMI started its sustainable finance and blended finance initiatives with the first issuance of IDR 500 billion green bond.⁷⁴
- 2018 SDG Indonesia One (SIO), a blended finance scheme platform combining public and private funds.
- 2019 Badan Pengelola Dana Lingkungan Hidup (BPDLH/Indonesia Environment Fund) was established under the Ministry of Finance.⁷⁵

Initial transactions by impact-focused investment funds into Indonesian companies

- 2010 Grassroots Business Fund investment into PT Social Entrepreneur Indonesia.⁷⁶
- 2012 Patamar Capital and Omidyar Network investment into Mapan (formerly PT RUMA).⁷⁶
- 2015 LGT Venture Philanthropy investment into Krakakoa (formerly Kakoa).⁷⁷
- 2016 Aavishkar Capital investment into PT Bali Seafood International.⁷⁸
- 2016 Mercy Corps Social Ventures co-investment into PT Vasham Kosa Sejahtera alongside Patamar Capital.⁷⁹
- 2016 Garden Impact Investments Pte Ltd investment into DANAdidik (PT Pasar Dana Teknologi).⁸⁰

2020 - Now
The rise of multi-stakeholders initiatives for impact investing & sustainable finance

Adoption of impact standards and reporting by most Venture Capital funds actively investing in Indonesian companies

- 2022 Venture Capital funds became signatories of UN Principles for Responsible Investment (PRI), e.g., East Ventures, AC Ventures, Openspace Ventures, Patamar Capital, etc.⁸¹
- 2022 Venture Capital funds started to track and report ESG and impact, e.g., Openspace Ventures, Monk's Hill Ventures, East Ventures, AC Ventures, etc.⁸²

Regulatory establishment of policies and taxonomies supporting impact enterprises and sustainable finance

1. The ASEAN issued taxonomy for Southeast Asia jurisdiction⁸³:

- 2021 ASEAN Taxonomy for Sustainable Finance version 1.
- 2023 ASEAN Taxonomy for Sustainable Finance version 2.
- 2024 ASEAN Taxonomy for Sustainable Finance version 3 for Transportation and Construction Sectors.

⁷⁴ <https://documents1.worldbank.org/curated/en/85678155137277380/First-Corporate-Green-Bond-in-Indonesia-Supporting-Indonesia-s-Efforts-to-Fight-Climate-Change-Case-Study.pdf>
<https://ptsml.co.id/sdg-indonesia-one>

⁷⁵ <https://bpdh.id/about-us>

⁷⁶ Private information

⁷⁷ <https://www.angin.id/wp-content/uploads/2019/09/2-Social-Finance-and-Social-Entrepreneurship-in-Indonesia-INS-SF-Report2-ANGIN-ilovepdf-com-pressed.pdf>

<https://dailysocial.id/post/kakoa-chocolate-bukukan-pendanaan-dari-angin-dan-igt-venture-philanthropy>

⁷⁸ <https://www.techinasia.com/rise-of-impact-investing>

<https://usahasosial.com/organization/pt-bali-seafood-international-north-atlantic-seafood/>

⁷⁹ <https://patamar.com/mercy-corps-social-venture-fund-closes-investment-vasham/>

⁸⁰ <https://en.dailysocial.id/post/danadidik-dapatkan-investasi-tahap-awal-dari-garden-impact-investmen>

⁸¹ <https://www.unpri.org/private-equity/starting-up-responsible-investment-in-venture-capital/9162.article>

<https://www.unpri.org/searchresults?qkeyword=¶metrics=WVSECTIONCODE%7c1018>

⁸² <https://www.unpri.org/pri-blog/pri-launches-venture-capital-collaboration-to-strengthen-esg-take-up/8592.article>

<https://east.vc/news/press-release/ev-indonesias-first-venture-capital-firm-to-sign-un-pri/>

<https://www.openspace.vc/insights/openspace-releases-sustainability-report-2022>

<https://www.monkshill.com/esg>

⁸³ <https://asean.org/wp-content/uploads/2021/11/ASEAN-Taxonomy.pdf>

<https://asean.org/asean-sectoral-bodies-release-asean-taxonomy-for-sustainable-finance-version-1/>

<https://asean.org/wp-content/uploads/2023/03/ASEAN-Taxonomy-Version-2.pdf>

<https://asean.org/asean-taxonomy-board-releases-asean-taxonomy-for-sustainable-finance-version-3-for-transportation-and-construction-sectors/>



Figure 11: Timeline of Impact Investing Developments in Indonesia

⁸⁴ [https://ojk.go.id/id/berita-dan-kegiatan/publikasi/Pages/Roadmap-Keuangan-Berkelanjutan-Tahap-II-\(2021-2025\).aspx](https://ojk.go.id/id/berita-dan-kegiatan/publikasi/Pages/Roadmap-Keuangan-Berkelanjutan-Tahap-II-(2021-2025).aspx)
<https://www.ojk.go.id/id/berita-dan-kegiatan/publikasi/Documents/Pages/Roadmap-Keuangan-Berkelanjutan-Tahap-II-%282021-2025%29/Roadmap%20Keuangan%20Berkelanjutan%20Tahap%20II%20%282021-2025%29.pdf>
<https://www.ojk.go.id/keuanganberkelanjutan/en/publication/details/library/2352/taksonomi-hijau-indonesia-edisi-1-0-2022>
https://www.ojk.go.id/keuanganberkelanjutan/BE/uploads/siaranpers/files/file_8ef04400-9a1b-430a-ba66-88f11a126877-27032024132325.pdf

⁸⁵ <https://peraturan.bpk.go.id/Details/196126/perpres-no-2-tahun-2022>
<https://peraturan.bpk.go.id/Home/Download/189972/Perpres%20Nomor%20%20Tahun%202022%20-%20Lampiran%20I.pdf>

⁸⁶ <https://bkpm.go.id/storage/file/pdf/1675557745.pdf>

⁸⁷ <https://www.worldbank.org/en/news/feature/2022/07/21/indonesia-s-first-sustainability-bond-by-a-non-bank-financial-institution-focus-es-on-green-and-inclusive-development>

⁸⁸ <https://sdginvest.jointsdgfund.org/sites/default/files/2022-02/Indonesia%20Impact%20Fund%5B4%5D.pdf>
<https://indonesiainvestmentfund.com/the-story>

⁸⁹ <https://www.impactalliance.id/about-iaa>

Appendix 3: Overview of Blended Finance Structures

Blended Finance refers to the deployment of “catalytic capital from public or philanthropic sources to increase private sector investment in sustainable development”⁹⁰. Missing middle impact enterprises operating in sectors that could contribute to the SDGs in Indonesia need a spectrum of capital that would be typical for blended finance vehicles, including:

1. Grants to:

- Strengthen the public goods component of the ecosystem (i.e., standardizing impact metrics, technical assistance and capacity building for emerging Fund Managers and business owners, supporting impact-oriented intermediaries) to facilitate the connection between supply and demand for capital;
- Provide first loss or credit enhancement to de-risk and attract investments from commercial or impact investors who need financial risk mitigation to either protect principal or increase the likelihood of a financial return on investment.

2. Flexible, patient capital that could be repaid, either on concessionary or commercial terms, depending on the target investment sectors most relevant to the SDGs and regions;

3. Investment Guarantees would be another way to de-risk and attract investments from commercial or impact investors seeking financial risk-adjusted returns.

4. Investment capital for:

- The fund management entity’s team and infrastructure. Upfront capital to support a fund management team and associated infrastructure could be in the form of grants, and/or equity capital into, or bridge loans to, the fund management company. Once the fund begins operating with invested capital, annual management fees assessed on either committed or invested capital will cover the fund’s ongoing management costs. At times, warehousing lines of credit may also be needed upfront to provide bridge financing to make underlying investments - particularly for first-time or emerging fund managers to provide tangible examples of the fund’s portfolio companies - if capital from investors is delayed pending the execution of legal documents.
- Investments through the investment fund into enterprises that meet the Fund Managers’ investment criteria.

⁹⁰ Convergence (2024). Blended Finance. Obtained from: <https://www.convergence.finance/blended-finance>

Blended finance is a powerful structuring approach that can overcome market-level challenges. Based on a study by Convergence of 28 blended finance transactions, it is clear that blended finance has enabled positive development impact as well as positive financial returns:

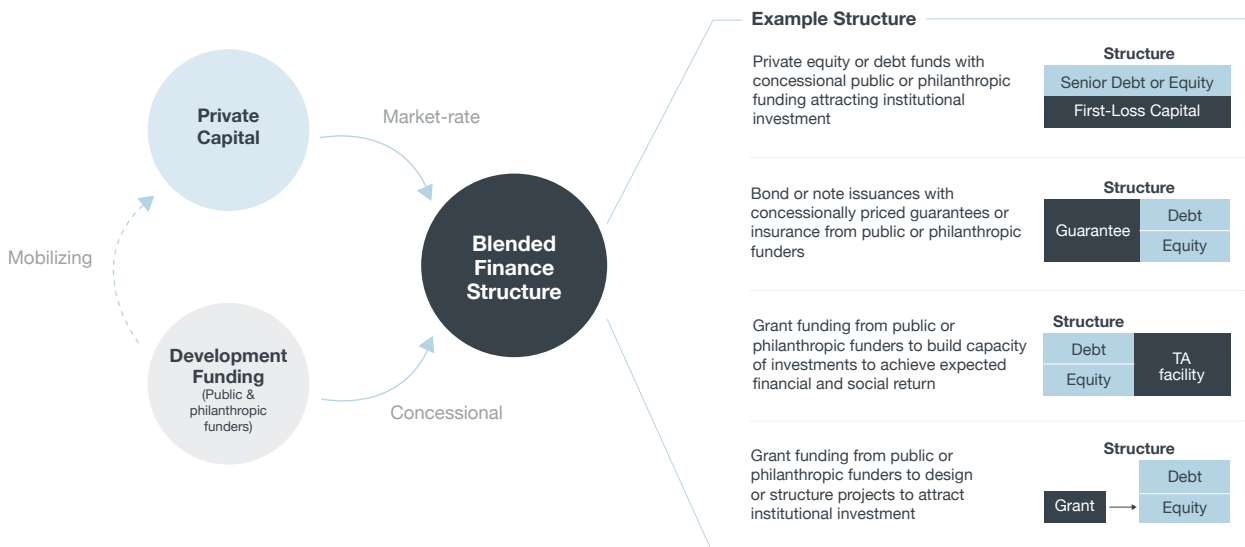
5. No case study respondents achieved lower than expected development impact, while nearly 75% of respondents found the impact tracking and measuring experience was as initially expected in terms of complexity and resource intensity.
6. Commercial investments into case study transactions yielded market-rate or better risk-adjusted returns
 - **Equity:** Seven of eight equity returns (realized) observations exceeded 10% internal rate of return (IRR), with most falling within 11-15% IRR (4 observations) and two observations between 16-20% IRR.
 - **Debt:** 40% of observations were between 1-5% IRR, 40% between 6-10% IRR, and 20% over 10% IRR.

Blended finance is a powerful structuring approach that can overcome market-level challenges. Based on a study by Convergence of 28 blended finance transactions, it is clear that blended finance has enabled positive development impact as well as positive financial returns:

Blended Finance Structures

The graphic below illustrates examples of existing blended finance structures. Examples of wholesaler approaches, i.e. investments into intermediaries or funds versus direct investments into enterprises for each structure, are explained below.

Typical Blended Finance Mechanics and Structures



Source: Convergence(2023)⁹¹

Figure 12: Typical Blended Finance Structures

⁹¹ Convergence (2023). State of Blended Finance 2023. Accessed here: <https://www.convergence.finance/resource/state-of-blended-finance-2023/view>

Role of Concessional Capital

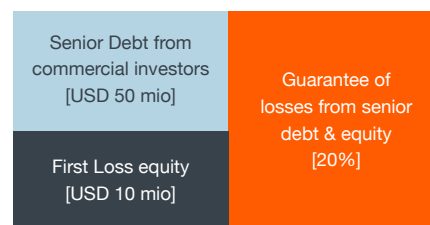
Concessional capital (concessionally priced capital within the capital stack) can be deployed across the four blended finance archetypes to enhance expected financial performance of blended finance investments without jeopardizing impact potential:

1. Concessional capital can occupy the junior position of a transaction's capital stack to absorb initial losses and reduce downside risk for more senior private sector investors, without seeking commensurate returns.
2. It can also rank pari passu with senior investors but be priced below-market to improve the borrower's credit quality and reduce counterparty risk.
3. Concessional guarantees and risk insurance lower the financial risk of credit events (defaults) at pricing or on terms that are financially viable for emerging impact-oriented investment funds structures.
4. Concessional capital may also refer to grants, such as technical assistance (TA) and design-stage grants used to improve investee processes and transaction design respectively.

Specific Approaches

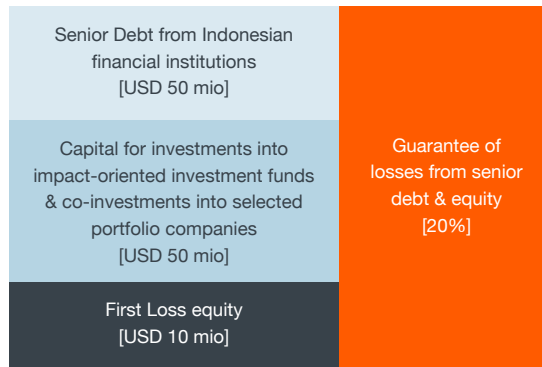
With the goal to address a number of the identified capital and talent barriers, and to diversify and increase the different types of capital available to missing middle impact enterprises, a potential adaptation of existing Blended Finance approaches in Indonesia could include the following building block components to address specific barriers:

1. To attract more capital from private impact investors, one or two financial de-risking mechanisms could be part of the structure: a partial guarantee and/or a first loss layer and/or return enhancement in the capital stack.
2. The partial loan guarantee and first loss layer could also be used to incentivize commercial sources of debt capital to provide a wider range of debt financing products to missing middle impact enterprises. Lending commitments from Indonesian financial institutions and fintech companies could be part of the capital mobilized in this layer.
 - This approach of engaging with, leveraging capital from, and building the lending experience of local financial institutions and fintech in Indonesia is an adaptation of strategies already being used by other wholesaler types of funds described in Section IV.



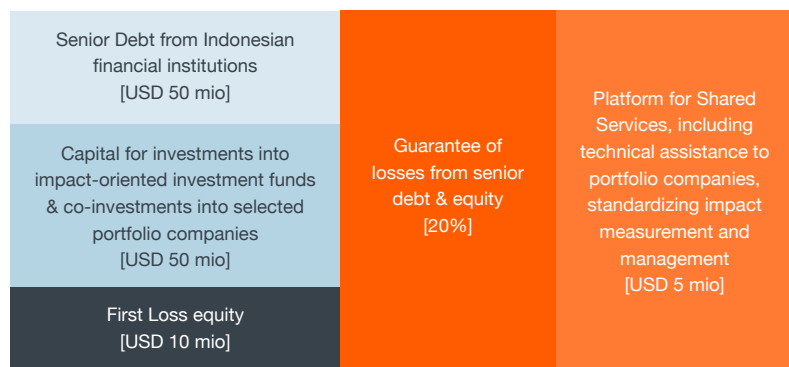
* The numbers shown are intended to be illustrative

3. Catalyze impact-oriented investment funds to specifically focus on missing middle impact enterprises with a fund of funds function that would provide capital to invest in funds and make co-investments into selected portfolio companies.



* The numbers shown are intended to be illustrative

4. Provide shared services to fund managers such as impact measurement and management, and access to legal and human resources experts so that Fund Managers can devote more of their time to supporting their portfolio companies to success.



* The numbers shown are intended to be illustrative

The following mini case studies provide brief descriptions of common elements of blended finance structures that could potentially be relevant in the Indonesian context, including a combination of the structures depicted in the graphic above, and a description of how concessional capital was deployed.

Moreover, all of the blended finance vehicles described below received grant funding⁹² from foundations and/or DFIs' development finance research institutions to design and structure the vehicle to attract institutional investment.

⁹² Convergence offers grants for feasibility studies, design and proof of concept through design funding windows based on specific impact themes, e.g. gender-responsive climate finance and SDG impact finance. This grant funding is particularly targeted to local organizations based in developing countries.

Case Studies

Use of Guarantees to Expand Financial Products: IIX Women's Livelihood Bond

Issued in 2017, IIX's USD 8 million Women's Livelihood Bond (WLB) is the first of a series of six bond issuances to pool loans to financial institutions and social enterprises lending, or providing financial services, to women in emerging economies. The WLB matured in 2021 and repaid principal plus an annual return of 5.65% to senior investors after facilitating access to capital and financial services to over 453,000 low-income women in Southeast Asia.

1. Underlying investees were two microfinance institutions providing financial products and services to women in Southeast Asia.
2. 60% of the senior tranche came from Asian investors from DBS' private banking network, and the remainder from a European institution with a track record of investing in MFI and one US family office with a history of impact investing.
3. Using a grant from DFAT, USAID's DCA program provided a 50% pari passu guarantee in favor of IIX to reimburse 50% of any losses incurred if the borrowers did not make their repayments.
4. IIX provided a USD 500,000 first-loss tranche in the form of a subordinated loan to the issuer to further protect senior investors from any potential losses after the debt service reserve fund was exhausted and only to the extent not covered by the guarantee.

Fund of funds with concessionary funding to attract local pension funds: Ci-Gaba Fund of Funds in Ghana

In early 2023, Impact Investing Ghana (IIGh), which represents the National Advisory Board for Impact Investing, began the operational setup of the Ci-Gaba Fund of Funds, which aims to unlock USD 75 million in local and international funding. It aims to have a structure whereby 30% of the capital will be junior debt, activating the other 70% from commercial investors, i.e. local Ghanaian pension funds. The fund's blended vehicle structure strategically combines philanthropic funding with local, commercial funding. By using blended finance, the fund seeks to ensure returns are safeguarded, appealing specifically to local pension funds and addressing the risk perceptions of investors who may be reluctant to engage with innovative structures.

Use of concessional debt, technical assistance and incentive grants to expand SME investments in climate change: EBRD's Green Value Chain Facility

EBRD has developed a Green Value Chain (GVC) Facility to demonstrate how blended finance can address market barriers and enable SMEs to invest in high-performing and environmentally-friendly technologies. In the case of Morocco, they created a structure to extend credit to participating financial institutions for on-lending to local SMEs for climate-focused investments, acting as a wholesaler. The structure includes:

1. EBRD provided EUR 62.2 million commercial finance
2. Green Climate Fund (GCF) funded concessional debt of EUR 16.7 million
3. The EU provided EUR 6 million in forms of incentive grants, to facilitate the uptake of high performing green technologies
4. The Republic of Korea funded technical assistance to ensure that the SMEs' green investments are properly implemented. It also ensures that participating financial institutions have capacity to design products aimed at financing energy performance improvements commercially and sustainably.

Appendix 4: Summary of Impact-oriented Investment Funds in Indonesia

Most Investment Funds Do Not Have a Discernible Theme

Proportion of funds with a specific thematic area (%)

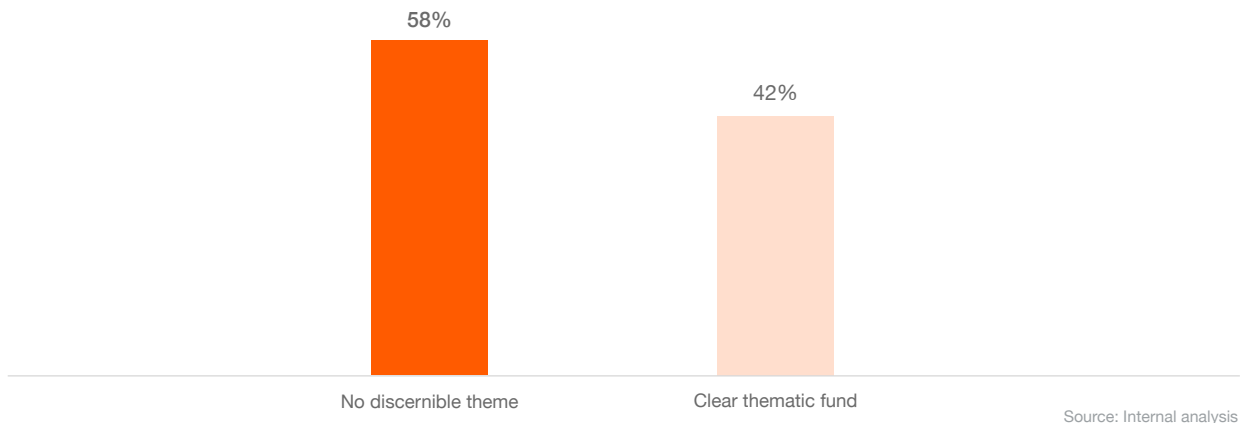


Figure 13: Proportion of Funds Investing in Indonesia With a Specific Thematic Area

Diverse Sectors Attract Impact Investment, Led by Climate Resilience

Sectors of interest for funds (Number of Sectors Funded)

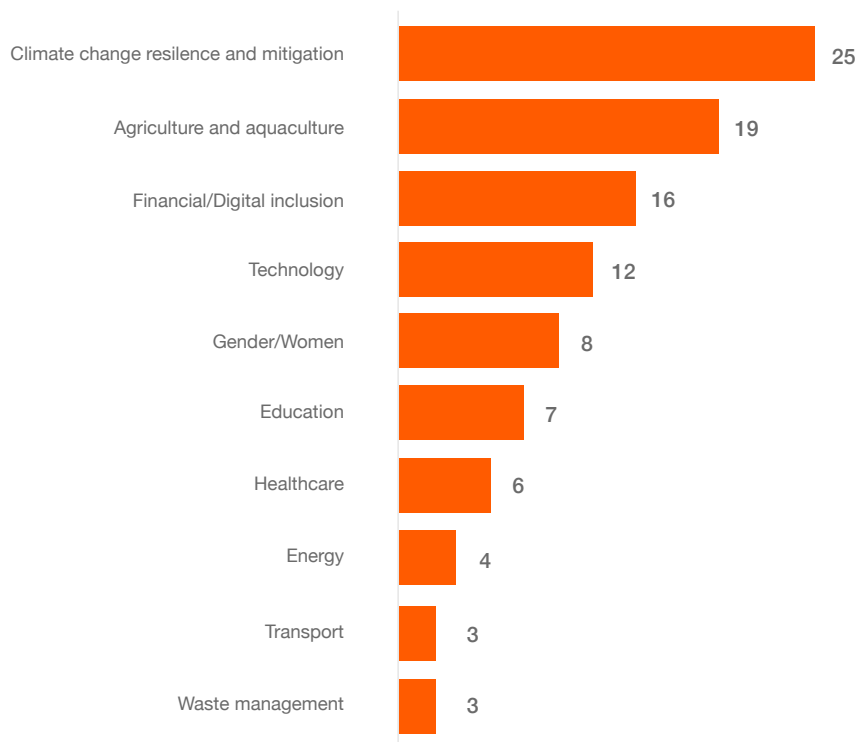


Figure 14: Sectors of Interest for Funds

Equity Still Dominates Asset Classes in Impact Investment Funds

Type of Asset Classes for Funds (%)

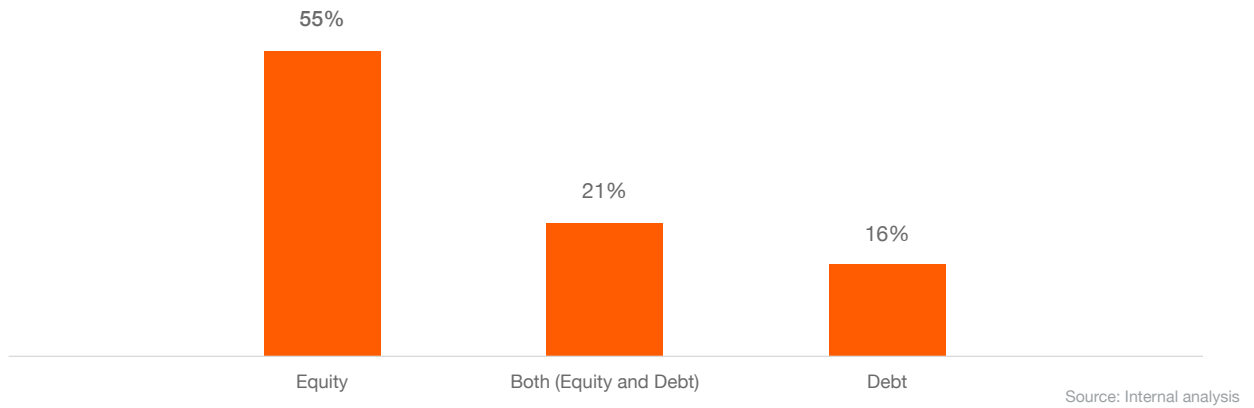


Figure 15: Type of Asset Classes for Funds

Strong Focus on Asia and Indonesia in Impact Investing

Geographical Focus for Funds (%)

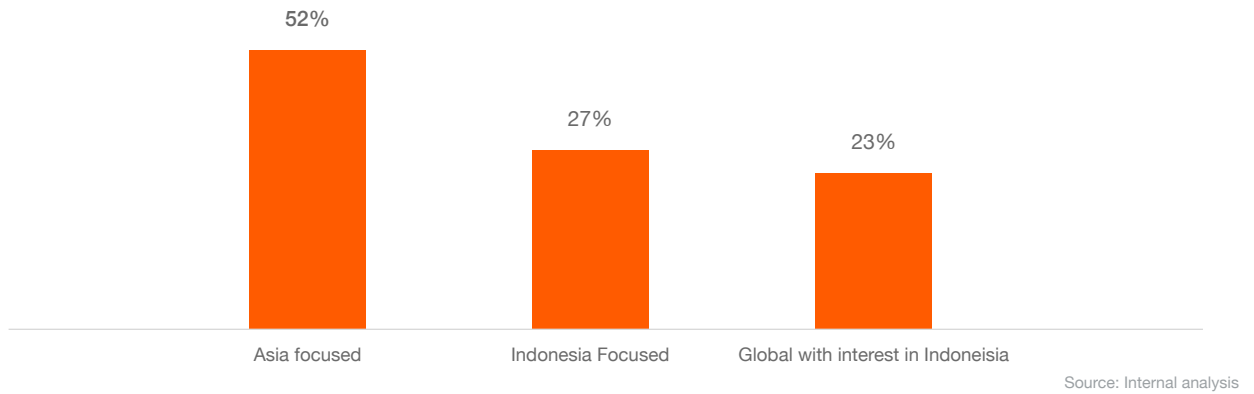


Figure 16: Geographical Focus for Funds

Early-Stage Investments Dominate Impact-Oriented Investment Funds

Stage Financed by Funds (%)

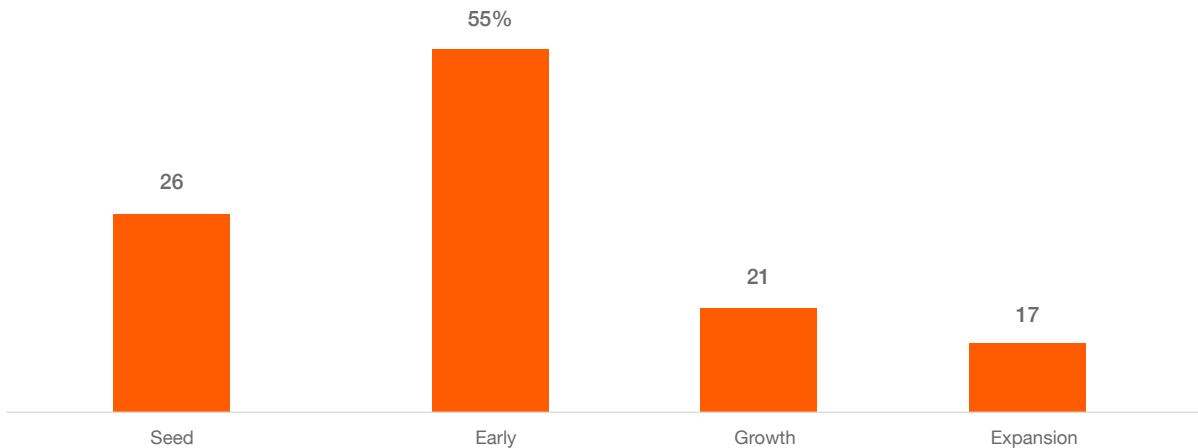


Figure 17: Stage Financed by Funds

Key Definitions

Blended Finance	According to Convergence, blended finance is the deployment of catalytic capital from public or philanthropic sources to increase private sector investment in sustainable development.
Catalytic Capital	According to Tideline’s report (2019), catalytic capital is defined as debt, equity, guarantees, and other investments that accept disproportionate risk and/or concessionary returns relative to a conventional investment in order to generate positive impact and enable third-party investment that otherwise would not be possible.
Impact Investing	According to Global Impact Investing Network (GIIN), impact investments are investments made with the intention to generate positive, measurable social and environmental impact alongside a financial return. Impact investing, as a practice and a field, challenges the long-held views that social and environmental issues should be addressed only by philanthropic donations, and that market investments should focus exclusively on achieving financial returns.
Impact-oriented Investment Funds	Financial intermediaries that make equity, debt or other financial investments into privately-held companies with the goal of obtaining a financial return on investment and furthering one or more environmental, social and/or UN Sustainable Development Goals (SDGs). They have diverse financial return expectations, from market-competitive and market-beating returns, to below market-rate returns.
Impact Investment Wholesaler	According to Global Steering Group for Impact Investment (GSG Impact), Impact Investment Wholesalers invest into funds and other intermediaries, sometimes alongside other activities, while drawing in investment from other organizations – from foundations, philanthropists, and institutional investors – thus catalyzing wider investment flows. They seek to develop a broad impact investment market – to “build a market” rather than “be the market”.
Micro, Small, Medium Enterprises (MSMEs)	According to Kementerian Keuangan Republik Indonesia (the Indonesian Ministry of Finance), MSMEs are defined as companies with revenue below USD 3 million (IDR 50 billion).
Impact Enterprises	Enterprises whose business models could contribute to the country’s SDGs.
Missing Middle Impact Enterprises	According to World Economic Forum, globally there is a “missing middle” of impact investment, centered on investment sizes of USD 10,000 - USD 500,000. In the Indonesian context and in this report, the IIA considers “missing middle” as enterprises requiring between USD 100,000 - USD 1 million for their next stage of growth. For the purpose of this report, we refer to impact enterprises with between USD 100,000 - USD 3 million in annual revenues that require between USD 100,000 - USD 1 million in capital for their next stage of growth, as “missing middle impact enterprises”.

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Table of Abbreviations

Abbreviation	Definition
BMZ	Bundesministerium für wirtschaftliche Zusammenarbeit und Entwicklung (Germany's Federal Ministry for Economic Cooperation and Development)
CDFI	Community Development Financial Institutions
DFC	The United States International Development Finance Corporation
DFI	Development Finance Institutions
EBRD	European Bank for Reconstruction and Development
EIB	European Investment Bank
EU	European Union
GSG	Global Steering Group for Impact Investment
GVC	Green Value Chain
GIIN	Global Impact Investing Network
FMO	Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V. (Dutch Development Bank)
IIA	Indonesia Impact Alliance
IFC	International Finance Corporation
IRR	Internal Rate of Return
JETP	Just Energy Transition Partnership
JICA	Japan International Cooperation Agency
KEM	Koalisi Ekonomi Membumi (Earth-Centered Economy Coalition)
KfW	Kreditanstalt für Wiederaufbau (Germany Investment and Development Bank)
KUR	Kredit Usaha Rakyat (People's Business Credit Programme in Indonesia)
MDB	Multilateral Development Bank
MFI	Microfinance Institution (Cooperation and Development)
MSMEs	Micro, Small, Medium Enterprises
NZE	Net Zero Emissions
OFN	Opportunity Finance Network
OJK	Otoritas Jasa Keuangan (Indonesia Financial Services Authority)
PII	Private Impact Investor
PLUS	Platform Usaha Sosial (Social Enterprises Platform)
PT SMI	PT Sarana Multi Infrastruktur (A special mission vehicle for development financing under the Ministry of Finance of Indonesia)
RE	Renewable Energy
SDGs	Sustainable Development Goals
SME	Small, Medium Enterprises
SGB	Small, Growing Businesses
USAID	United States Agency for International Development

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