

APPENDIX 3:

COUNTRY REPORT: **INDONESIA**

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ACRONYMS

ADB	Asian Development Bank
AKSI	Asosiasi Kewirausahaan Sosial Indonesia
ANGIN	Angel Investment Network Indonesia
ASEAN	Association of Southeast Asian Nations
AVPN	Asian Venture Philanthropy Network
CV	Commanditaire Vennotschap
GBG	Global Business Guide
GDP	Gross domestic product
ICA-AP	International Co-operative Alliance Asia and Pacific
ILO	International Labor Organization
JMP	Joint Monitoring Program
PLUS	Platform Usaha Sosial
PT	Company Limited
SE	Social enterprise
SSE	Skills for Social Entrepreneurs
UNDP	United Nations Development Program
UNESCAP	United Nations Economic and Social Commission for Asia and the Pacific

1. COUNTRY PROFILE – STATISTICS



Indonesia

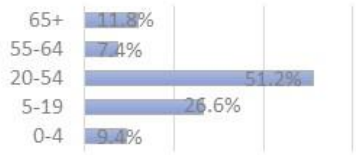
GDP per capita (2016):
3,570 USD
Lower-middle income

Annualised GDP Growth (2011-2016):
5.30%

Population (2016):
261 mil

Adult Literacy Rate (2015):
95.2%

Population Age Structure



Percentage under international poverty line (US $1.90/ day) (2014):
8.25%

Urban population (2016):
54.5%

National poverty line (2014):
~US $0.82/ day
(IDR 302,735/ mth)

Gini coefficient (2013):
0.413

Human Development Index (2015):
0.689
Ranked 113/188

2. OVERVIEW OF COUNTRY AND SOCIAL NEEDS

2.1. Overview

Indonesia is the 14th largest country in terms of land area, made up over 17,000 islands, with a population of 261 million in 2016. It has is the fourth largest population and is the largest Muslim nation globally. More than half of the nation's population resides on Java**,** its fourth largest island, where most political and economic activities occur. The country consists of over 300 ethnic groups, with the largest being Javanese (40 percent) and Sundanese (15.5 percent).

Indonesia gained independence in 1945 from the Netherlands. After World War II, Indonesia has been involved in several armed and military conflicts, such as the *Konfrontasi* (1962–1966), the invasion of East Timor (1975–1976), and the insurgency in Aceh (1976–2005). Indonesia is a democratic republic, where the president is both head of state and head of government. Its post-World War II political history is typically divided into three periods: the Sukarno era (1945–1967), the Suharto era (1967–1998), and the Reformation era (1998–present). The Reformation era saw the first popular elections for president. The current president, Joko Widodo, was sworn in as the seventh President of Indonesia in 2014 for a five-year term.

Indonesia is the sixteenth largest economy in the world and the largest economy in the region of ASEAN (the Association of Southeast Asian Nations), with a gross domestic product (GDP) of US$ 932 billion (current US$). It has a GDP per capita of US$3570, and is classified as a "lower middle income" economy by the World Bank. The largest driver of the economy is the services industry (43.7 percent), followed by industry (27 percent), and agriculture (13.5 percent). The service industry is also the largest employer in the country (44.9 percent), followed by agriculture (32.9 percent), and industry (22.2 percent).

Indonesia has enjoyed a moderately strong annual economic growth of around 5 percent in recent years. The Asian Development Bank (ADB) forecast that this growth would likely be similar in 2017 and, to be at 5.1 percent and 5.3 percent respectively (ADB 2017). Moderate growth is to be expected as the growing middle class drives domestic consumption and as infrastructure improves due to greater efforts at improving public services, but a slump in commodities prices (World Bank 2017a) puts a downward pressure on growth.

2.2. Social issues in country

The pressing needs of the population are different between the rural and urban regions, and between Java and the rest of the Indonesian islands. On Java, youth unemployment is both a current and future issue as population growth is higher than employment growth (World Bank 2017a). Rural-to-urban migration is likely to put increased pressure on food and water security on Java. On the other hand, outside of Java and in the rural regions, access to healthcare, sanitation, and electricity is more limited.

Poverty, unemployment, and inequality

Indonesia has made enormous gains in poverty reduction in the past years, but over 25 million Indonesians still live below the poverty line. Forty percent of the population (World Bank 2017b) have incomes that are only marginally above the national poverty line, and hence remain vulnerable to poverty.

Poverty is also more concentrated in the rural regions. According to the World Bank, in 2014, some 14.2 percent of the rural population was classified as poor, compared to 8.3 percent of the urban population at the national poverty line (World Bank 2017b). The poverty rate is also far higher in Eastern Indonesia, though most of the poor live on the island of Java (Aji 2015).

Population growth is also currently higher than employment growth (World Bank 2017a), which suggests higher unemployment in the future. A recent slump in commodities prices is likely to increase upward pressure on unemployment. Youth unemployment remains a concern, with 15.3 percent of the population aged between 15 and 24 years unemployed in 2016, according to the national estimate (World Bank 2017c).

Economic growth, unsurprisingly, has not benefitted Indonesians equally. At 0.40, Indonesia's Gini coefficient (a measure of inequality) is higher than in neighboring countries. Only 20 percent of Indonesians saw a rise in their economic wealth between 2005 and 2015, despite the strong economic growth (World Bank 2015.). There is therefore a need to promote more inclusive economic growth.

Access to sanitation, clean water, and electricity

According to the Joint Monitoring Program (JMP) for Water Supply and Sanitation run by the World Health Organization and UNICEF (the United Nations Children's Emergency Fund), a significant proportion of Indonesians remain vulnerable to poor sanitation. Twenty-six million people remain without access to basic drinking water, and 82 million without access to basic sanitation facilities. Only 57.0 percent of the rural population and 77.3 percent of the urban population had access to basic sanitation facilities in 2015. In addition, 96.7 percent of the urban population and 81.3 percent of the rural population had access to basic drinking water (JMP n.d.). Thus, the issue seems to be more pressing for the rural population.

In 2014, approximately 6 percent of the 119-million-strong rural population remained without access to electricity (World Bank 2017d). The lack of access to electricity is likely to drive up various expenditures, for example, lighting and boiling water. It may also contribute to a lack of access to technology, limiting value-adding activities.

Health care

Various health related indicators suggest that health care in Indonesia is poor when compared to middle-income countries. Maternal mortality and stunting rates are comparatively high, and the quality of health care and education infrastructure is uneven by middle income standards (World Bank 2017a).

2.3. Social issues tackled by social enterprises

Many social enterprises in Indonesia are found in the agricultural sector, most often as cooperatives. There are over 150,000 active cooperatives (Walker and Verveer 2017), while the number of other types of social enterprises are harder to track due to the lack of a specific legal structure. While the more established social enterprises are often cooperatives, microfinance institutions, or operations of nonprofit organizations in the agricultural sector, the more recently established social enterprises are more diverse in nature and can be found over a wide range of sectors. For instance, the newer social enterprises may be involved in constructing green energy projects, distributing technological products, recycling waste, and preserving cultural heritage. Some of the most commonly tackled issues are described below:

Raising income in the agricultural sector

According to the International Labor Organization Country Office for Indonesia, people living below the poverty line are mainly in the agricultural sector (Allen 2015). This is likely due to a stagnation in agricultural productivity in the 1990s (Fuglie 2004). It is therefore unsurprising that many social enterprises are working to improve access to microfinance for farmers, to promote good business practices, and to increase the quality and quantity of yield.

Many social enterprises, including cooperatives, are established in the agricultural sector. Cooperatives are often in the form of Village Unit Cooperatives (Koperasi Unit Desa; KUD), to help farmers improve and expand farm activities, as part of the previous government's food self-sufficiency program. These cooperatives are involved in the distribution of fertilizers, facilitation of credit, and marketing of farm produce.

A significant proportion of Indonesian farmers remain at the bottom of the value chain for crops, due to the lack of processing facilities (GBG Indonesia 2017), and relatively low productivity (yield per hectare) of several major exports, such as rubber and cocoa (Indonesia-Investments 2015 and 2017). Thus, many social enterprises have successfully increased the income of farmers by helping them improve farming techniques.

Both old and new players in the social enterprise landscape can be found in this sector. While the older social enterprises tend to be involved in providing training, information, and microcredit to farmers, the newer enterprises often further incorporate business practices such as branding, marketing, value-adding, and supply chain management to increase the value of the farmers' produce, and may sell to the international market where there is more appetite for socially-conscious products. Some enterprises in this sector include Bina Swadaya, and, more recently, East Bali Cashew, Krakakoa, and AgriSocio.

Providing access to electricity to off-grid communities

As a significant proportion of the rural communities are still not connected to the electrical grid, some social enterprises have stepped in to provide the technical expertise to generate electricity. For instance, the enterprise IBEKA constructs community energy projects, such as micro-hydropower plants. It develops off-grid electrical schemes in remote areas and installs income-generating hydro schemes for on-grid communities. Another enterprise, Azzura Solar, provides solar-powered technology, particularly lighting, to off-grid communities.

Preserving cultural heritage and providing work opportunities

Some social enterprises have become market intermediaries providing declining, traditional trades with access to market opportunities in order to provide employment for local communities. For instance, both Torajamelo and Batik Fractal are committed to creating fashion designs adapted from local communities, where traditional cloth-making skills have been on the decline due to competition from cheaper alternatives from factories. Another example is JAVARA, which aims to promote indigenous food by building its market reach to extend to new local and overseas markets. Examples of its products include organically grown vegetables, gluten-free flour, gourmet salt, and coconut cooking oil.

Other social issues

Social enterprises are also involved in sectors such as water filtration, aquaculture, and waste management. Though less common, there are several successful enterprises in each of these sectors.

2.4. Potential and economic value proxy

The growing middle class, and the large Bottom-of-Pyramid market, drives a growing demand for the products of social enterprises.

The Boston Consulting Group predicts that there will be 140 million Indonesians in the middle class by 2020, with 8-9 million Indonesians entering the middle class per year (Rastogi et al. 2013). The rising middle class is likely to drive consumption of socially-conscious products, which many social enterprises in Indonesia produce.

Another driver is likely the large Bottom-of-Pyramid (BOP) markets that Indonesia has to offer, which represents opportunity for businesses and social enterprises which serves the poor directly through the goods and services. Euromonitor International, a market research agency, estimates that 56.8 million adults or a third of the adult population belonged to the bottom of the pyramid in Indonesia in 2015, and identifies Indonesia as one of the top five BOP markets for businesses which target low-income consumers, alongside with India, China, Nigeria and South Africa (Hodgson 2017).

The microfinance market in Indonesia is also estimated to contain 203 million potential clients, or 81.5 percent of the population (KPMG 2015), who earn less than $US4.50 per day.

3. OVERVIEW OF SOCIAL ENTERPRISE SECTOR AND HISTORY

3.1. Overview

The social enterprise landscape is a mix of both local and foreign players. Legally, there are 200,000 registered cooperatives that contribute 1.7 percent to GDP, which is considered a low contribution relative to the number of cooperatives (Abdillah and Nurmayanti 2016).

While there is no comprehensive survey on the number of social enterprises (excluding cooperatives) in Indonesia, a report by Yulius, Siregar, and Tampubolon (2015) identified 454 social enterprises, and a further 1400 "aspiring SEs" which fulfil some but not all of four criteria of a social enterprise the report employed. Another report (ANGIN [Angel Investment Network Indonesia] and UNDP 2016) identified over 300 social enterprises, of which 80 percent have been in operation only for five years or less, suggesting a rapid emergence of the sector since 2012. ANGIN and UNDP (2016) further observed that the number of social enterprise enablers have grew from 1 in 2010 to 62 in 2016, and that non-monetary type of support has increased by more than 300 percent from 2015 to 2016. Most recently, through our interview in October 2017 with Platform Usaha Sosial (PLUS),[1] the number of SEs which fits PLUS's criteria was around 840. These observations suggest that the Indonesian social enterprise sector is young but rapidly expanding, though the different numbers may also be driven by different definitions of SEs.

Our interviews also reveal that awareness of Social Entrepreneurship is relatively strong in Jakarta, with many SEs identifying themselves as such. However, there are also many SEs in other region of the country which may not be aware of the term, and therefore of the support available for them.

As there is no legal definition or official regulation on social enterprises by the government, the interaction between the sector and the government is limited, and the sector is operating without much intervention from the government. However, the sector has recently gained more attention from the government and several politicians have been invited as guests to recent conferences on social entrepreneurship.

[1] Kaitlin Shilling (Capacity Builder/Network Provider) in discussion with Kua Qiu Quan, October 4, 2017.

3.2. Timeline of major events

Year	Major Event
1947	The Central Organization of Indonesian People's Co-operative (SOKRI) was formed, which has now become Dewan Koperasi Indonesia (DEKOPIN) or The Indonesian Co-operative Council (ICA-AP 2017).
1965	As Suharto rose to presidency, ties with Western countries were boosted, and foreign aid was welcomed. However, the cooperative was the only community-based organization allowed, and it was highly regulated (Pratono et al. 2016).
1983	Ashoka Indonesia was founded in 1983 as the second country office after India (Ashoka n.d.).
1999	After the resignation of Suharto, the central government delegated authority to local governments, through Law No 22/1999 and Law 25/1999. These laws allowed civil society organization to become more involved in development planning activities (Usman 2002).
2007	A loan from the World Bank allowed the government to establish PNPM Mandiri, the largest community-based development program in the country, which provided opportunity for emerging social enterprises (Pratono et al. 2016).
2009	Indonesia's first social enterprise association (AKSI) was established with the goal of building networks for Indonesian social enterprises.
2010	AKSI organised the first national meeting for local social enterprises, which gained attention from the national government (Pratono et al. 2016).
2010	The British Council, together with the Arthur Guinness Foundation, started the Community Entrepreneurs Challenge which aimed to support community-based social enterprises through providing seed-funding and capacity-building (British Council Indonesia n.d.).
2012	Angel Investment Network Indonesia (ANGIN), the first and largest network of impact investor and high net-worth individuals in Indonesia, was formed.
2017	Platform Usaha Sosial (PLUS), a platform for social entrepreneurs to collaborate and build their business capacity, was launched in January 31.

3.3. Government policies

Policy framework

As the legal definition and regulation of social enterprise are absent, the sector has grown without much interaction with and intervention from the government. However, the government has recently recognized the social enterprise sector in its Mid-Term Development Plan (RPJMN), and the Ministry of Cooperatives intends to promote cooperative and entrepreneurship training (Pratono et al. 2016).

Legal framework

There are four legal forms which businesses can register themselves as: limited corporation, cooperative, foundation or societal organization. Further, there are several subtypes of limited corporation that businesses can register themselves as. As there is no specific law yet in Indonesia that regulates social enterprise, the most relevant regulations related to social enterprise are the Cooperative Law and the Private Limited Law.

According to a study by the International Comparative Social Enterprise Models (Pratono et al. 2015), most social enterprises in Indonesia choose a non-profit model and register under the legal form of a foundation, an association or a cooperative. The majority of observed organization utilize their entrepreneurial activities as a means to fund their social programs.

The status of the enterprise limits its operation. For instance, adopting a foundation and association form requires the enterprise to be non-profit. A foundation however, is entitled to tax benefits. The owner of a limited corporation must be a local. More details on each legal form can be found in Annex 2.

Tax exemptions and incentives

As social enterprises do not have a particular legal status, they do not enjoy tax exemptions.

Currently, some social enterprises are established as foundations, and can receive grants which are non-taxable. Should they convert to private companies, they may lose non-taxable income rights on grant (ANGIN and UNDP 2016), and for this reason they may choose to remain registered on foundations and continue their dependency on grants.

Schemes to encourage consumption and investment in SEs

ANGIN and UNDP (2016) have identified several government-related investment schemes which are applicable, though not specific, to social enterprises. Examples of such schemes are the Kredit Modal Kerja Permanen (KMKP) and Kredit Usaha Kecil (KUK), which are bank loans available for small businesses.

Other programs which are applicable to social entrepreneurs are the 'Creating new Entrepreneurs Program' by Indonesia's Central Bank, which is an entrepreneurship training program which provides seed capital and mentoring, and the Kredit Usaha Rakyat (KUR) scheme, under which the government guarantees 70 percent of loans made. However, there are several requirements to apply for microloans, such as requiring six months' operation, and certain collaterals depending on the type of loans (ANGIN and UNDP 2016).

Marks, labels, and certification

Certifications and impact evaluation are not popular among Indonesian social enterprises. Global impact metrics are barely used due to the low demand in the market and high cost associated (ANGIN and UNDP 2016). Social performance data beyond financial information are rarely collected due to the lack of third-party assessment resource.

There are several eco-labels which certifies various types and magnitude of environmental sustainability that products contribute to (Ecolabel Index n.d.). However, these labels are not awarded by official authorities.

4. ECOSYSTEM

A majority of the ecosystem only emerged in the past five years. ANGIN has documented a significant increase in the types and number of enablers since 2010. To give a sense of the rapid development, only 1 enabler was observed to be operating in 2010, but in 2016, a total of 62 enablers have been identified (ANGIN and UNDP 2016).

Thus, with the exception of few organizations such as Ashoka Indonesia, most players have only entered the sector in recent years. In addition, as one of the ecosystem player interviewed noted, it is likely that the role of each player is evolving over time with the growth of the sector, A non-exhaustive list summarizes the current involvement of these ecosystem players. .

Categories of Ecosystem Players	**List of Organizations**
1. Policy Makers	There is no government department or unit focused on social enterprises. The most relevant ministries are the Ministry of Cooperatives and Small Medium Enterprises. BEKRAF, the creative economy agency, is providing some support to social enterprises (SEs), though it does not target SEs specifically.
2. Professional and Support Services Providers	Ashoka Indonesia British Council Boston Consulting Group (BCG) PwC pro-bono consulting Impact Hub Jakarta
3. Capacity Builders *a) Incubator/accelerators*	UnLtd Indonesia Kinara impact accelerator Endeavor Indonesia Platform Usaha Sosial (PLUS) YCAB Foundation ~~Ciputra GEPI Incubator~~ ~~Kolaborasi~~
b) Educators of social entrepreneurship/ awareness builders	British Council Ashoka Indonesia Endeavor Indonesia Social Enterprise for Economic Development (SEED) Program conducted by School of Business and Management ITB in partnership with the Asia Research Center of the University of St. Gallen.
c) Facilitators of learning and exchange platforms for social enterprises	Platform Usaha Sosial (PLUS) Asosiasi Kewirausahaan Sosial Indonesia (AKSI) Jakarta Social Entrepreneur

4. Research Institutes	Dedicated local research institutes are absent. Regional and international organizations such as International Comparative Social Enterprise Models (ICSEM), Institute for Social Entrepreneurship in Asia (ISEA), and Asian Venture Philanthropy Network (AVPN) have contributed to the literature on the sector.
5. Network Providers	Angel Investment Network Indonesia (ANGIN) Platform Usaha Sosial (PLUS)
6. Fund Providers	ANGIN Kinara Indonesia Crevisse Partners YCAB Ventures Kitabisa, Igrow (Crowdfunding Platforms) Patamar capital Kinara Mercy Corps Social Ventures There are multiple regional and international grant providers and investors active in Indonesia.
7. Competition Organizers	DBS Social Ventures UnLtd Indonesia (last held in 2016) Danone Young Social Entrepreneur (last held in 2015) British Council and Arthur Guinness Foundation (Community Entrepreneur challenge, last held in 2014) Singapore International Foundation
8. Conference	ASEAN Conference on Social Entrepreneurship Sankalp Southeast Asia Summit

5. SOCIAL ENTERPRISES

5.1. Sector of activities

ANGIN and UNDP (2016) observed that out of over 300 observed social enterprises, agriculture represented the largest portion (55 percent), followed by Financial Services (20 percent), Healthcare (10 percent), Education (10 percent), and Fishery/Aquaculture (5 percent). While these percentages are not representative of the social enterprises within the entirely country, they provide a snapshot of the landscape, which reflects the nature of the economy.

The concentration of the social enterprises in the agricultural sector is unsurprising given that agriculture is the second largest labor employer, and many farmers are living on a subsistence income. The relatively low productivity of the sector represents growth potential for social enterprises (SEs).

5.2. Beneficiaries

The largest group of beneficiaries appear to be farmers who benefit from the distribution of farm inputs and the marketing of produce by the cooperatives, and other activities such as value-adding facilitated by other social enterprises.

Another major group of beneficiaries appear to be women. Social enterprises, such as JAVARA, provide work opportunities and training for marginalized women.

5.3. Geographical reach, urban/rural

Yulius, Siregar, and Tampubolon (2015) observed that out of over 450 entities which meet its definition of social enterprises, 46 percent are concentrated in Java. This figure is corroborated by the findings from interviews with ecosystem players, who commented that the attention and interest for SEs are mainly concentrated in Jakarta.

5.4. Types of social enterprises

Total Number of SEs	Number of Cooperatives	Number of Microfinance Insitutions	Number of Other Forms of SEs
Over 800,000	Over 200,000 (Abdillah and	Up to 600,000 (KPMG 2015)	840[2]

[2] Kaitlin Shilling (Capacity Builder/Network Provider) in discussion with Kua Qiu Quan, October 4, 2017.

	Nurmayanti 2016)		

Cooperatives are the most common social entrepreneurship model, with over 200,000 registered cooperatives in the country (Abdillah and Nurmayanti 2016). The reason is most likely because in the Suharto era (1965–1998), all community-based organizations were disallowed except cooperatives, and cooperatives were promoted as development agents during the Suharto era. Microfinance institutions are also among the oldest social enterprises (Suradisastra 2006).

While there are over 200,000 legally-registered cooperatives (Abdillah and Nurmayanti 2016), the number of active cooperatives is just over 150,000 (Walker and Verveer 2017). Many cooperatives struggled financially to adapt to open market competition (Suradisastra 2006) when the economy opened up, though the number of cooperatives has risen due to new profit opportunities.

Credit cooperatives are the most active cooperative type in Indonesia (ICA-AP 2012). There are also other cooperatives involved in banking for civil servants, and co-operative marts (for example, SB Mart).

While there are no collective data on the business model(s) adopted by the social enterprises in Indonesia, individual social enterprises commonly serve as market intermediaries and market linkages and also provide employment and training to local communities.

5.5. Revenue stream and markets

No information found in research.

5.6. Legal forms

Under Indonesian law, there is no clear legal structure available that meets all the needs of a social enterprise, and social enterprises are not recognized as a legal entities. There is no single legal entity which has the legal privileges to receive donations, income from commercial activities, equity or debt investments, and private ownership (British Council et al. 2018).

A social enterprise in Indonesia may take one of these legal structures: Sole proprietorship, partnership, firm, CV, Foundation, Association, Cooperative, or PT. These structures may be further divided based on whether their owners are fully liable for business debts and obligations or not, and if profit-making is allowed or not. For instance, a foundation or association is a nonprofit entity, and must use its income primarily to finance social activities (British Council et al. 2018). Descriptions of these legal structures can be found in Annex 2.

In addition, a 2013 law recognizes “microfinance institution” as a legal form (LKM/Lembaga Keuangan Mikro), which can register as a cooperative or a limited liability company (Thomson Reuters et al. 2015).

5.7. Business life cycle

Yulius, Siregar, and Tampubolon (2015) observed that most Indonesian social enterprises are in the seed and early/venture stage (76 percent), while only 24 percent are in the growth and mature stage. Eighty percent of the observed social enterprises are five years old or younger, highlighting the nascence of the SE sector.

5.8. Size of social enterprises

No information found in research.

5.9. Social finance

ANGIN and UNDP (2016) detailed the social finance landscape in Indonesia. The information in this section summarizes the key findings of the report.

Overview

ANGIN and UNDP (2016) observed that the Indonesian social finance ecosystem is slowly transitioning to a growth-oriented stage. An estimated US$20 million was newly invested in 2015 into social enterprises, bringing total invested capital up to US$43 million.

The social finance sector is developing quickly and funding comes from a variety of sources: high net-worth individuals, angel investors, impact investment funds, crowdfunding, venture capitalists, government schemes, and international multilateral organizations. The largest sources of funding are from impact investors, banks, and international multilateral organizations.

Another report (Yulius, Siregar, and Tampubolon 2015) observed that key investors in social enterprises in Indonesia still have relatively small portfolios, and their Indonesian fund sizes are only a small percentage of their overall global fund size.

Type of funding

ANGIN and UNDP (2016) observed that there is a mismatch between the type of funding sought by social enterprise and the type of funding available to social enterprises. While most impact investors are offering equity financing schemes, several social enterprises observed for this study required loans instead. Compared with equity investments, a loan poses similar risks since most loans are uncollateralized, difficult to enforce in case of non-repayment, and face risk of currency fluctuation. Thus, a loan is as risky as an equity transaction to impact investors, though social entrepreneurs may be unwilling to trade off equity ownership.

Other challenges in social finance

ANGIN and UNDP (2016) outlined several key challenges which impede more social finance from being deployed in Indonesia:

- The limited number of compelling social enterprise business models operating at scale and creating sufficient value to attract impact investors

- The limited number of successfully funded social enterprises, hence the case for impact investing in Indonesia is unproven
- The lack of local investors who are knowledgeable about the Indonesian context
- The limited number of impactful capacity building structures, with most mentorship focused on business-building instead on sector-specific problem-solving

6. CHALLENGES AND OPPORTUNITIES

6.1. Challenges

Talent acquisition and retention

Talent acquisition and retention is a challenge for social enterprises in the fast-growing Indonesia economy. They have to compete with normal enterprises to get and retain talent. According to Yohanes Sugihtononugroho, chief executive officer at the crowdfunding platform Crowde, it is "hard to find people of quality" (Sugihtononugroho 2017). Likewise, Kaitlin Shilling, the director at Platform Usaha Sosial (PLUS), concurs that from what she observed, talent acquisition and retention "is definitely an issue" and that "talent across the board is a challenge for everyone" (Shilling 2017).

Customer acquisition and market development

Acquiring new customers to scale and sustain business is daunting for many social enterprises. Shilling elaborates that "figuring out how to actively and effectively scale" is a challenge observed for SEs in Indonesia (Shilling 2017). This point is supported by Sugihtononugroho, who explains that "sometimes when we focus on impact … it is unscalable to a certain point" (Sugihtononugroho 2017).

Access to financial support

Access to financial support is one of the top challenges in Indonesia due to a mismatch of needs and expectations between the social enterprises and impact investors.

For Sugihtononugroho, one difficulty is that the majority of investors "see crowdfunding as a financial technology…(investors) value our (Crowde's) project in terms of how much money we disbursed, instead of how big an impact we (Crowde) give to the farmers" (Sugihtononugroho 2017).

However, Shilling observes that "there is quite a lot of funding available" and that there are "a lot of people are looking to make investment in SEs" (Shilling 2017). The access to financial support thus seems to be limited because, as Shilling explains, "a lot of what social entrepreneurs and other entrepreneurs need are other more traditional types of financing…loans for working capital…not high-risk money. It's low risk money" (Shilling 2017).

Business registration

According to Mohan, Harsh, and Modi (2017), the legislative environment for entrepreneurs and investors is highly bureaucratic and expensive. Shilling likewise remarks that business registration is difficult generally in Indonesia: "If you want to be legally set up, that's quite difficult. Not because you are a social enterprise, but just because it is still difficult to set up a business properly here…and get a bank account and tax ID and all of that" (Shilling 2017). Further, she elaborates that "a lot of the same challenges that regular businesses face are

faced by SEs as well, challenges around finding really talented people, distribution, production…all those challenges have not gotten that much easier" (Shilling 2017).

6.2. Opportunities

Strong presence of impact investors

According to the ANGIN/UNDP (2016) report, there is a ready pool of impact investors in Indonesia waiting for scalable impact investment deals at ticket sizes of over one million dollars. This is similarly observed by Shilling, who notes that there are many potential sources funding available, especially in "non-traditional money…[such as] venture capital money, angel investment, money grant, convertible debt" (Shilling 2017). Such sources have "different funding sizes…[there is] quite a bit available under 50,000 [US$]…maybe a gap between 50,000 and 250,000, and there is quite a lot available over 250,000 and 500,000 dollars. A lot of people are looking to make investment in SEs" (Shilling 2017). Thus, SEs willing and able to take on such investment would greatly benefit from the strong presence of impact investors.

Improved ecosystem in Jakarta

Mohan, Harsh, and Modi (2017) observed that the improved quality of incubation support has made the establishment of new SEs easier. Likewise, Shilling observes that, as compared to five years ago, "there is a stronger community…Impact Hub Jakarta is now open, and they provide a lot of support to Jakarta-based enterprises…[there are] more co-working spaces across Indonesia, over 100 across Indonesia now, and they provide support to social entrepreneurs and regular entrepreneurs, so it is definitely easier now…[though] starting a business is never easy" (Shilling 2017). Sugihtononugroho however mentions that the development of SE ecosystem is largely confined to Jakarta (Sugihtononugroho 2017).

7. RECOMMENDATIONS

Creating an enabling environment for businesses

Indonesia is ranked 72nd in the World Bank's 2018 Ease of Doing Business Index. In the sub-index for starting a business, it ranked 144th (World Bank 2018). The number of procedures as well as the time and cost involved in starting a business can be rather significant compared to other economies. Creating an enabling environment for businesses will go a long way to develop the social enterprise sector.

To Shilling, the main recommendation to support the SE sector is to make the general business environment more conducive, and to "make it easier for them (businesses) to register…to file their taxes…to import or export" (Shilling 2017). Shilling remarks that improving sector-specific issues faced by businesses in general would assist the social enterprises working in them. She believes that "a lot of the issues that need to be addressed are pretty fundamental issues that would help the social entrepreneurship ecosystem…(which) also help businesses grow in general, and that has to do a lot with policy harmonization at the national or sub national level" (Shilling 2017).

Policy support for social enterprises

Currently there is limited policy support for social enterprises in Indonesia. Policy support to introduce benefits for social enterprises can be considered. Support can also be given to encourage social procurement among government agencies and boost social investment from impact investors.

ANNEX 1: MAIN PLAYERS OF THE SOCIAL ENTERPRISE ECOSYSTEM

Descriptions of the organizations are quoted from their websites and/or indicated sources.

1. Professional and Support Services Providers

Ashoka Indonesia

https://www.ashoka.org/en/country/indonesia

Ashoka Indonesia was founded in 1983 as the second country office after India. Ashoka Indonesia has selected and supported around 180 Ashoka Fellows from across Indonesia working on various fields including: health, education, environment, economy, and civic participation.

British Council

https://www.britishcouncil.id/en/programmes/society/social-entrepreneurs

British Council's Skills for Social Entrepreneurs (SSE) is a global program that supports social enterprises. SSE provides aspiring and practicing social entrepreneurs as well practitioners for NGOs (nongovernmental organizations), community leaders, development workers and young people with skills training and professional mentoring along with access to U.K. (United Kingdom) expertise, global peer networks, and funding opportunities that enable them to build successful social enterprises.

Impact Hub Jakarta

https://jakarta.impacthub.net

Impact Hub Jakarta is a co-working space, a business incubator, a social enterprise builder, and a community of impact-minded people. In addition to providing co-working space, Impact Hub Jakarta runs networking events, workshops, incubation programs amongst its many programs.

2. Capacity Builders

UnLtd Indonesia

http://unltd-indonesia.org/

UnLtd Indonesia identifies and nurtures early-stage social enterprises and aspiring social entrepreneurs. The selected individuals and social enterprises are assisted through a process consisting of mentoring, training or workshops, and networking.

Kinara Indonesia

http://kinaraindsonesia.com/id

Kinara Indonesia was established in 2011 as a venture capital firm focused on growing sectors within emerging markets. Kinara supports early stage entrepreneurs: for instance, in corporate governance, access to markets, and alternative business financing. Since 2016, Kinara has been managing Indonesia's first impact business acceleration program which has resulted in 11 businesses working in the food security sector.

Endeavor Indonesia

http://endeavorindonesia.org/mission/

Endeavor Indonesia was established in early 2012 to build a strong entrepreneurial ecosystem in Indonesia through High-Impact Entrepreneurship. High-Impact Entrepreneurs are selected for their work which benefit their society beyond creating jobs and economic. Some of Endeavor's investees include JAVARA and East Bali Cashews.

PLUS

http://usahasosial.com/

Platform Usaha Sosial (PLUS) provides an online collaborative space for social entrepreneurs in Indonesia to connect, learn, share, and create more meaningful impact to the community and environment. It aims to grow the community for social entrepreneurs across Indonesia, providing them with learning resources and opportunities to connect to training, funding, and other support through an online platform. PLUS is a result of collaboration between Boston Consulting Group, ANGIN, and several local organizations.

YCAB Foundation/Ventures

http://www.ycabfoundation.org/en/about-us/our-story/

YCAB Foundation invests in its business units and co-operative to run its education-linked microfinance to cover not only its operational and administration costs, but also to give birth to new programs. YCAB Ventures was set up to facilitate the growth of young SEs through offering training and funding for SEs (Mohan, Harsh, and Modi 2017).

Kolaborasi

http://kolaborasi.co/aboutus/

Kolaborasi runs an incubation program lasting three to six months, which provides routine guidance, workshops and bootcamps, connection and community, and facilities in Bandung and Jakarta.

Asosiasi Kewirausahaan Sosial Indonesia (AKSI)

AKSI was established in 2009 with the goal of building networks for Indonesian social enterprises. AKSI organized the first meeting and conference of social entrepreneurs in Indonesia (Pratono et al. 2016).

Jakarta Social Entrepreneur

Jakarta Social Entrepreneur is a community of individuals involved in the social enterprise ecosystem, sharing id eas, best practices, success stories, and networks (ANGIN and UNDP 2016).

3. Network Provider

ANGIN (Angel Investment Network Indonesia)

http://angin.id/

ANGIN is Indonesia's largest network of high-net-worth individuals in Indonesia who pool resources together to engage in early stage investment and mentoring. ANGIN invests in early stage high-impact businesses that aim to provide economic inclusion to marginalized societies.

4. Fund Providers

Crevisse Partners

http://www.crevisse.com

Crevisse Partners is an impact venture firm from South Korea, driving impact investment to solve social problems through innovative business and technology. It runs a global impact accelerating program called Remake City, Jakarta.

Patamar capital

http://patamar.com/about-us/

Patamar Capital invests in scalable businesses that improve the livelihoods of the working poor. It invests in Asia's fastest growing economies, including India, Indonesia, Viet Nam, and the Philippines. It was formerly known as Unitus Impact Partners.

Mercy Corps Social Ventures

https://www.mercycorps.org/innovations/social-venture-fund

Mercy Corps, a global humanitarian aid agency, launched the Social Venture Fund (SVF) in 2015. It invests in early stage impact investors in both Indonesia and Kenya. Some examples of Indonesian social enterprises in which it has invested include Vasham and Wobe.

ANNEX 2: TYPES OF LEGAL ENTITIES

Types of companies recognized under the laws of Indonesia

Descriptions are quoted from indicated sources.

Legal Entity	Description
Sole Proprietorship	A sole proprietorship is a company established by one entrepreneur, who acts as the owner and manager and is solely liable for any losses or debts that may arise from the sole proprietorship's business activities. It cannot be founded by a foreign citizen and is not allowed to collect public donations.
Partnership	A partnership is an entity in which two or more individuals pool their resources and share profit and loss. Partners are personally liable for the partnerships' obligations, and they cannot be foreign citizens or entities. Similar to sole proprietorships, a partnership is not allowed to collect public donations.
Firm	A firm is a special form of partnership, where the company name may adopt the name of one or more of the partners, with or without additional wording.
Limited Partnership (CV [Commanditaire Vennootschap])	A limited partnership is comprised of active and silent partners. Active partners manage the CV and are personally liable for the obligations of the CV, while silent partners contribute funding, goods, or manpower for the CV, are not involved in the CV's management, and are only liable to the extent of their contribution. CVs cannot be founded by foreign investors or collect donations from the public.
Foundation	A foundation is intended to pursue social, religious, or humanitarian goals. It is not allowed to directly engage in business activities as its main activities. It enjoys certain tax exemptions but is obliged to publish its sources of funding. Indonesian laws treat local foundations and foreign foundations differently. A foundation can receive foreign grants from donors and conduct fundraising from the public if it is established by a local entity. The registration process is relatively simple for a foundation.
Association	An association is a legal entity consisting of individuals and which is established to pursue certain social, religious, or humanitarian purposes and does not distribute profit to its members. Compared to other legal entities, an association is not thoroughly regulated

	under Indonesian law. It is not allowed to engage in business, but can invest in a PT (limited liability corporation, see below), and can conduct fundraising from the public.
Cooperative	A cooperative is a jointly-owned and democratically-controlled enterprise, established by a group of individuals to improve the welfare of its members and the local community. It may obtain capital from equity, debt capital, or capital participation from its members. The registration process is relatively simple for a cooperative.
Limited Liability Corporation (PT [Perseroan Terbatas])	A PT is the most common type of business in Indonesia, established to make profit. It is able to access a wide variety of options for financing and raising funds, but is more complex and expensive to set up. It is not allowed to solicit public donations.

(Extracted from British Council et al., 2018, *ASEAN Social Enterprise Structuring Guide*, 50–76.)

ANNEX 3: PROMINENT SOCIAL ENTERPRISES

This annex provides examples of the range of social enterprises operating in Indonesia.

Example 1: Bina Swadaya

Bina Swadaya, established in 1967, aims to contribute to the socio-economic development of Indonesia's rural poor and their communities by empowering them directly through education and training. The firm had created a publishing business and started *Trubus*, an agricultural magazine that is currently a market leader on the subject, in response to the strong demand for agricultural education and knowledge dissemination. Bina Swadaya also diversified its publication segments to topics like gardening, health issues, language, education, lifestyle, children, religion, and vocational and small business skills. To date, 1,500 agricultural book titles and 2,300 books on other topics have been published by the firm. Bina Swadaya is financially self-sustaining with 100 percent earned revenue, and had an annual budget of US$2.3 million in 2010 (Schwab Foundation 2010).

Example 2: IBEKA

IBEKA was founded in 1993 and partners rural communities that possess abundant water resources to construct micro-hydro plants that produce electricity. IBEKA seeks to engage the community in its operations. It adopts community management methods for all of its micro-hydro plants, from the development of management plans to the setting of tariffs and training of local villagers in operation and maintenance procedures. Once these systems have been constructed, they are community owned and operated (Schwab Foundation 2012).

Although IBEKA relies on grant funding to construct its projects, it has also developed innovative funding mechanisms to maintain the micro-hydro systems. IBEKA lobbied the Indonesian government to set regulations that require the national electricity company to purchase excess electricity from grid-connected systems. Four of the IBEKA-constructed systems are now connected to the grid and capable of selling excess electricity, with the proceeds going to a community social development fund. IBEKA has installed 61 micro-hydro plants, 51 of which are off-grid and supply electricity to approximately 10,000 households. The four plants connected to the grid provide electricity to an additional 1,500 households (Ashden n.d.).

Example 3: JAVARA

JAVARA is a social enterprise that sells over 600 artisanal products and works with 50,000 small holder farmers across Indonesia to preserve Indonesia's food biodiversity. The company

intervenes along supply chains to strengthen suppliers' production capacity and improve workplace safety, and markets products nationally and internationally, securing premium prices for the farmers and processors. JAVARA is financially self-sustaining with 100 percent earned revenue and had an annual budget of US 1.7 million in 2014 (Schwab Foundation 2014).

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Some figures have been rounded to two decimal places.

Key Statistics	Source
GDP per capita	World Bank. 2017. "GDP per Capita (Current US$)." http://data.worldbank.org/indicator/NY.GDP.PCAP.CD.
GDP growth over past 5 years (annualized)	Adapted from World Bank. 2017. "GDP per Capita (Constant 2010 US$)." http://data.worldbank.org/indicator/NY.GDP.MKTP.KD.
Population	World Bank. 2017. "Population (total)." http://data.worldbank.org/indicator/SP.POP.TOTL.
Population age structure	ASEAN Stats. 2016. *ASEAN Community in Figures 2016.*
Percentage of population living in urban areas	World Bank. 2017. "Urban Population (% of Total)." http://data.worldbank.org/indicator/SP.URB.TOTL.IN.ZS.
Adult literacy rate	ASEAN Stats. 2016. *ASEAN Statistical Leaflet Selected Key Indicators 2016.*
Number of people living under international poverty line (US$1.90 per day)	World Bank. 2017. "Poverty Headcount Ratio at $1.90 a Day (2011 PPP) (% of Population)." http://data.worldbank.org/indicator/SI.POV.DDAY
National poverty line	Aji, Priasto. 2015. *Summary of Indonesia's Poverty Analysis*. ADB Papers on Indonesia No. 4. Manila: ADB. https://www.adb.org/publications/summary-indonesias-poverty-analysis.
Human Development Index	United Nations Development Program. 2016. Human Development Reports. http://hdr.undp.org/en/composite/HDI.

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