



Women-Owned MSME Survey North Sulawesi & South Sumatra, Indonesia

June 2021

Innovations for Poverty Action (poverty-action.org)
Millennium Challenge Corporation





ipa
INNOVATIONS FOR
POVERTY ACTION

1

We generate
knowledge.

2

We turn the
knowledge
into **action**.



IPA Project Objectives

Collect **demand- and supply-side data on women-owned growth-oriented businesses**, including **challenges women entrepreneurs face in accessing finance** as individuals and as business-owners.

To achieve these objectives, IPA will partner with a local financial service provider (FSP) and use analysis from survey data to:

- a) **identify barriers** women-owned businesses face in accessing finance and
- b) **develop testable solutions** that address these barriers.

The result: Co-created learning agenda with an FSP.



25 Stakeholder Interviews

January – March 2021

Government Agencies
(6)


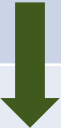
FSPs (6)

NGOs (13)

| Stakeholder | Type of Organization | Focus |
|-------------------------|----------------------|---------------|
| ADB | Government | National |
| AFTech | Government | National |
| Agrodite | NGO | Regional |
| Amartha | FSP | Regional |
| Bappenas | Government | National |
| BMGF | NGO | International |
| BTCA | NGO | International |
| CGAP | NGO | International |
| FactFin | FSP | National |
| Go-Pay, Gojek and Mapon | FSP | National |
| GSMA | NGO | International |
| JPAL | NGO | International |
| Kopernik | NGO | Regional |
| MicroSave (now MSC) | NGO | International |
| Ministry of Coops | Government | National |
| MOWECP | Government | National |
| NYU/FAI | NGO | International |
| OVO | FSP | National |
| SNKI | Government | National |
| UN (BTCA) | NGO | International |
| Women's World Banking | NGO | International |
| World Bank (CGAP, IFC) | NGO | International |



Emerging Themes: Stakeholders' Challenges

| | | | |
|---|---|--|---|
| <p>Challenge</p>  | <p>Women-owned MSMEs are perceived to have lower digital and financial literacy, and less available collateral than men</p> | <p>WMSMEs are not considered growth-oriented</p> | <p>Slow digital expansion in rural areas (for smartphones, financial transactions and credit)</p> |
| <p>1st order implication</p>  | <p>WMSMEs are not categorized as a consumer segment with specific needs or challenges</p> | <p>Products are typically created for micro-sized enterprises with a focus on sustenance, not growth</p> | <p>Low connectivity and lower population numbers</p> |
| <p>2nd order implication</p> | <p>Policy focus is usually on mitigating social barriers and meeting minimum government requirements</p> | <p>Need for more gender-disaggregated data</p> | <p>Perception that expansion requires additional customer engagement or training</p> |



Survey Research Objective

Survey of women-owned, growth-oriented small businesses in North Sulawesi and South Sumatra.

The survey seeks to:

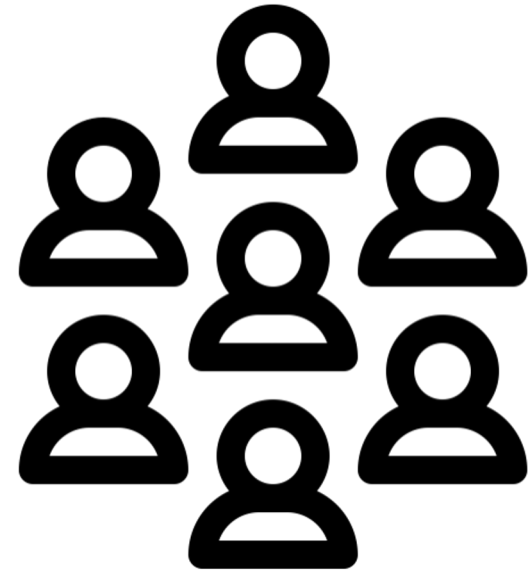
- Understand profiles about each business, motivations and challenges to becoming successful businesses and the decision to formalize, and
- Focus on understanding the use of existing financial products and services, digital literacy and digital financial literacy as well as the demand for types of financial products and services.



Methodology

Survey Sample

- **Phone survey** of 500 business owners
- Conducted **April – May, 2021**
- Sample frame primarily from 2016 Economic Census. Our firms are likely **older** and **exclude agricultural firms**
- Oversampled **small** and **medium** firms



Survey Sample: Growth Potential

We sought to measure the experience and needs of **growth-oriented** firms. Achieved this by restricting sample based on:

1. Geography
2. Business sectors
3. Individual characteristics



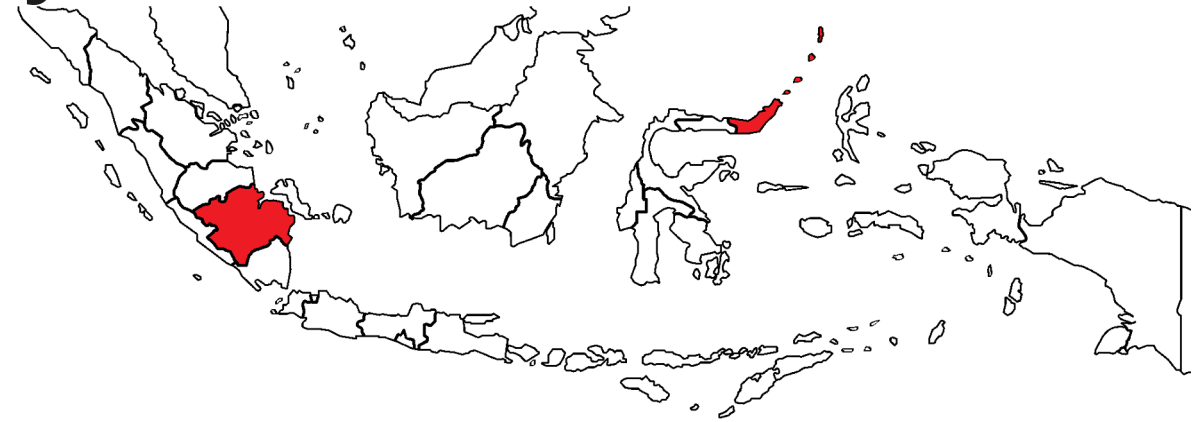
Growth potential: Geography

PROVINCES

- Approximately evenly split sample between South Sumatra and North Sulawesi
- South Sumatra: 248 enterprises
- North Sulawesi: 252 enterprises

DISTRICTS

- Restricted to urban, "growth-corridor"¹ municipalities
- Urban focus is appropriate particularly for digital financial services, as these are expected to grow in urban centers before expanding to rural areas

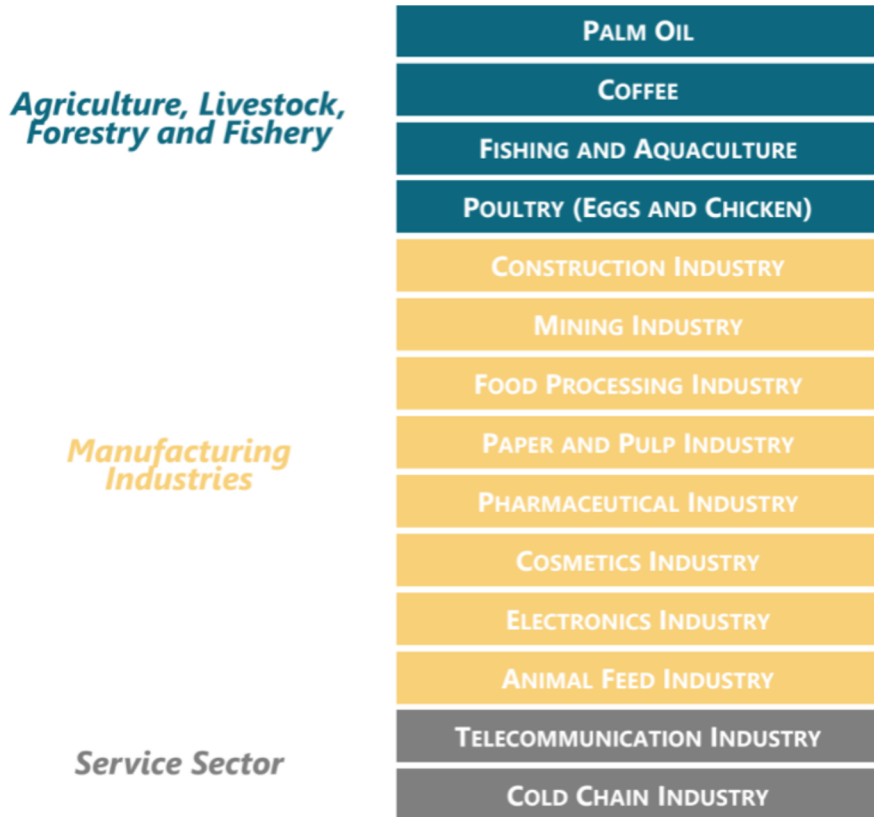


Click to add text

| District | Surveys | Percent |
|--------------|------------|-------------|
| Palembang | 164 | 33% |
| Manado | 116 | 23% |
| Bitung | 78 | 16% |
| Tomohon | 48 | 10% |
| Lubuklinggau | 39 | 8% |
| Prabumulih | 32 | 6% |
| All others | 23 | 5% |
| Total | 500 | 100% |



Growth Potential: Business Sectors



- 14 “High Growth Potential Industries” identified by Dalberg¹
- Range from agriculture to manufacturing to service.
- Sectors span value chains. For example, the coffee sector includes coffee production, wholesale, and retail.



Growth Potential: Individual Characteristics

What individual characteristics of a business owner predict the firm's growth?

Striver Index originally developed by Mastercard Foundation in Mexico¹.

Strivers are "*people who control their destiny and consider themselves capable of achieving significant objectives on their own.*"

To be considered a striver, respondent must provide the "striver" response for at least 4 of the 6 questions.

| Question | Striver response & percent |
|---|---|
| 1. Agree/disagree: My business would be better off if I had more financing and technical support. | Agree (96%) |
| 2. Agree/disagree: My business would be better off if I had a larger network of friends or acquaintances to advise and support me. | Disagree / Neutral (9%) |
| 3. Agree/disagree: I control the destiny of my business. | Agree (98%) |
| 4. Who is the head of the household? | Business owner identifier herself (25%) |
| 5. I decided to pursue this business activity because it suits my personality and passions. | Agree (99%) |
| 6. Even if the opportunity arose to have a formal job, I would continue my current work. I prefer economic independence and being my own boss. | Agree (98%) |



Women MSMEs Profile*

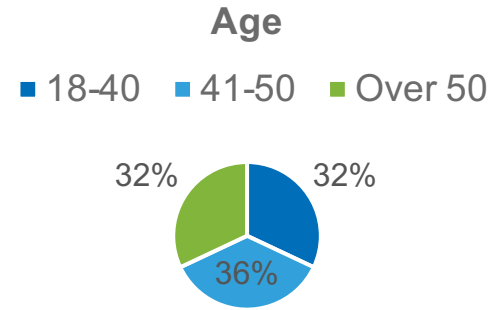
Who are the Strivers (Women MSME Owners)?

Strivers are middle-aged, mostly married and have some education



Owner

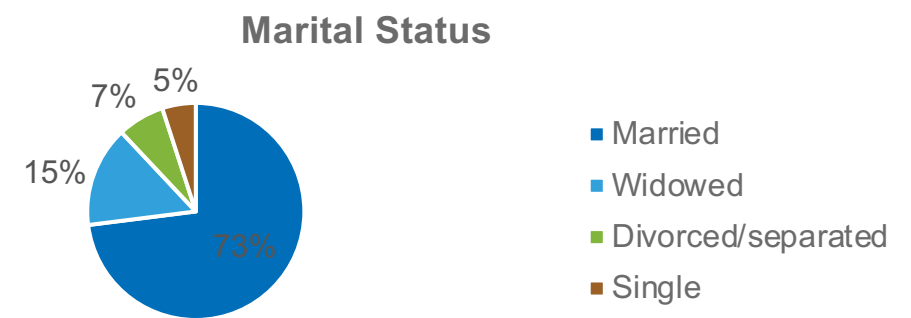
46
Average
Age



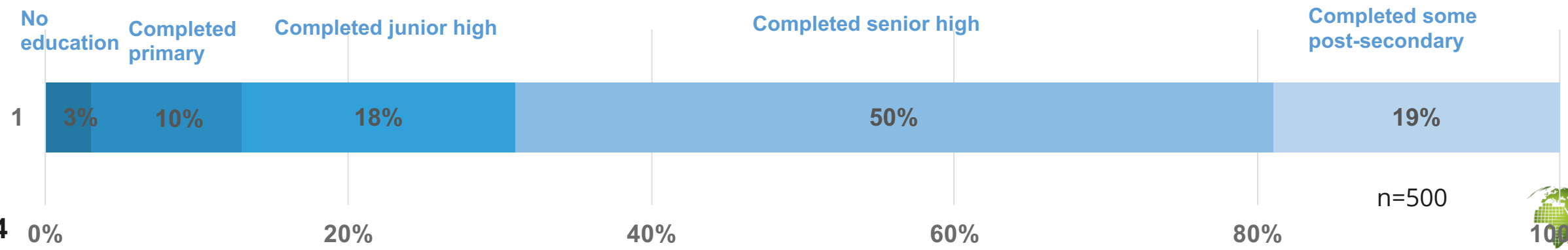
70% Muslim
30% Protestant
5% Catholic
1% Buddhist

23% Minahasa
13% Palembang
13% Malayu
11% Java

73%
Married



69%
Have completed at least senior-high level education



100%

What Firms Do These Strivers Operate?

Firms are experienced and diverse



Firm

12 years

Average age of business

48%

Of firms have expanded the scope of their business

70%

Operate out of the owner's residence



Size

75% Micro (1-4 employees)

22% Small (5-19 employees)

3% Medium (20-99 employees)

43%

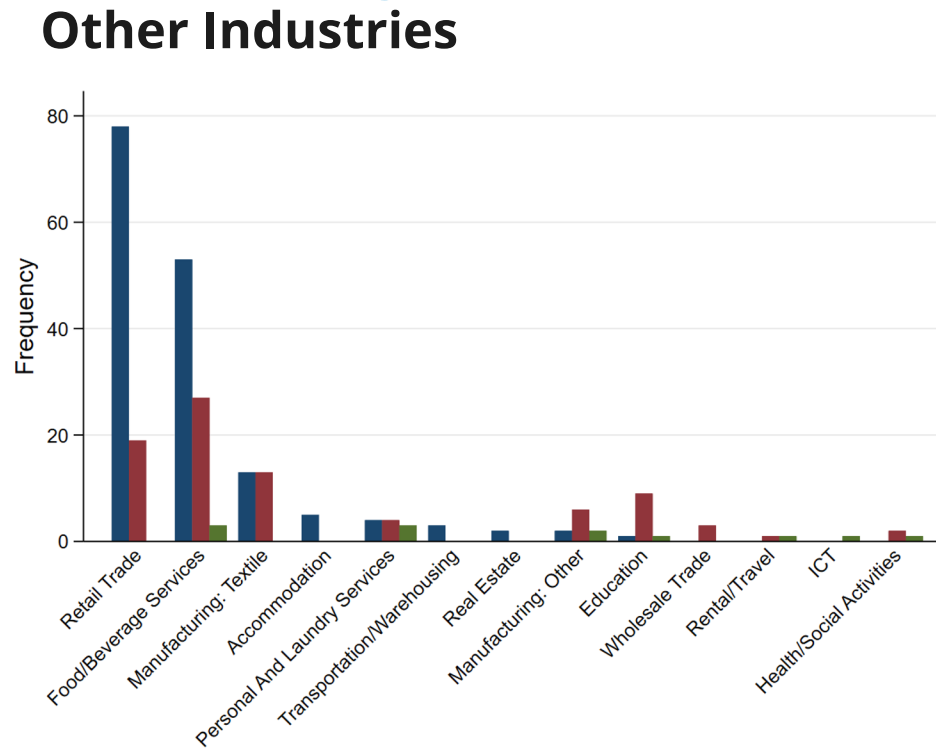
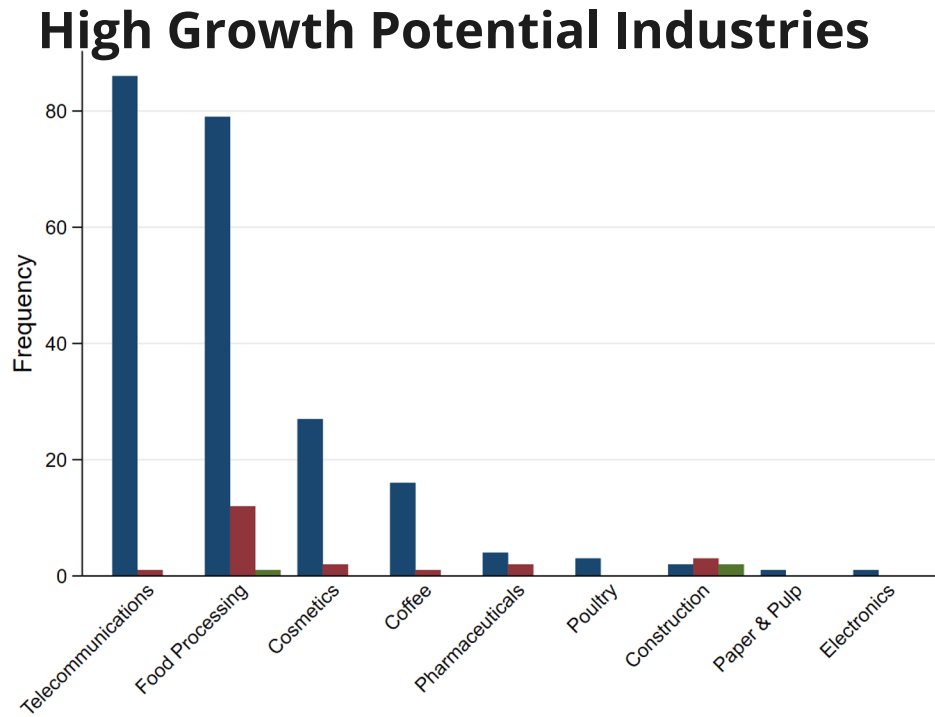
Of firms are formally registered

(85% of these reported the formalization process was very easy)



In Which Sectors are These Strivers Working?

Women work across a wide range of sectors

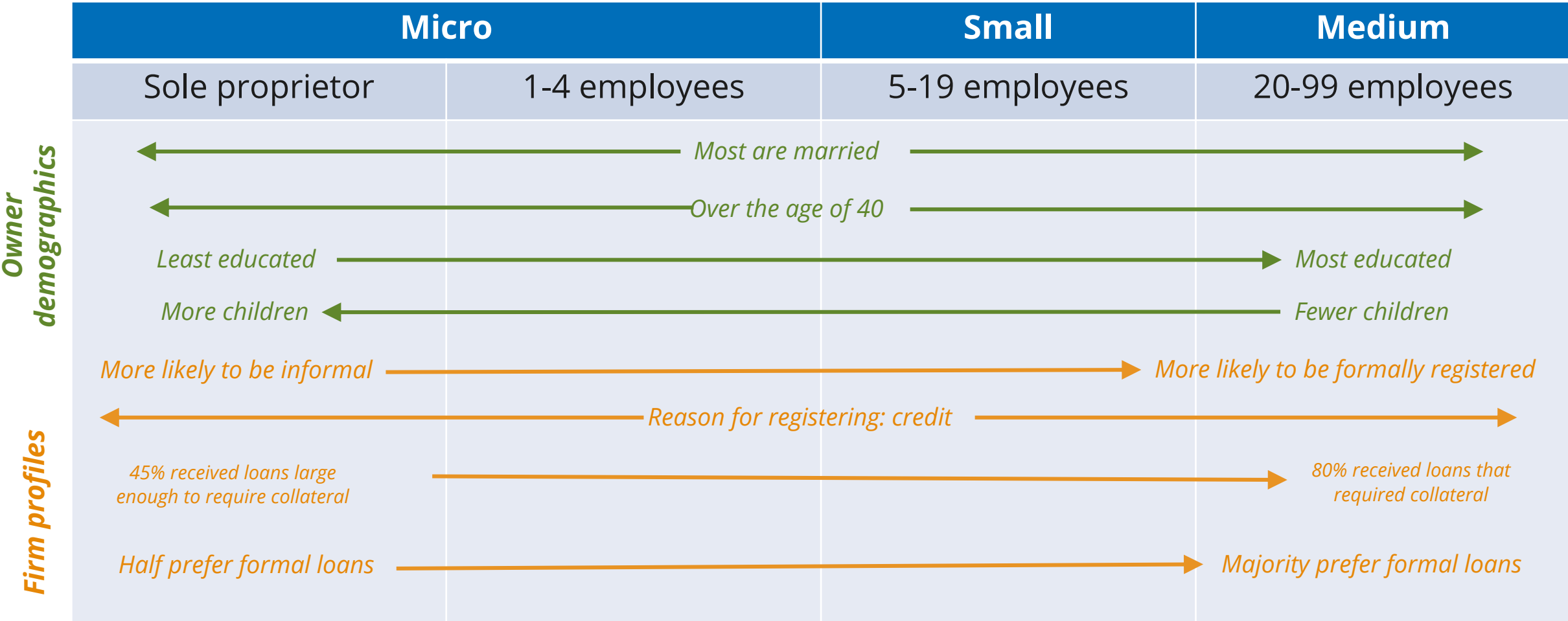


- These women-owned growth-oriented firms are mainly found in retail, food and beverage services, manufacturing and accommodation
- Of these, the most common sectors are in telecommunications, food processing, retail trade, cosmetics and coffee



Not All Women Owners are the Same

Similar demographics, but different firm profiles



Our Strivers are Optimistic and Opportunistic



Their motivations are internally driven
and growth-oriented

50%

Motivated to
make more
money

42%

Motivated to
be “my own
boss”

30%

Motivated
because “it makes
me happy”



Women are Financially Active and Sophisticated in Business too



47% use a budget for business



22% have used mobile money for business, but...



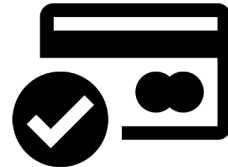
...only 17% have or had a transactional bank account (31% are registered in the business name)



40% have used insurance (business or personal)



Savings accounts (75%) and groups (44%) make up the majority of current or previous financial products



54% of businesses use credit for specific **business purposes**



Challenges to Financial Inclusion

What are the financial inclusion challenges for WMSMEs?

Unlocking the potential of digital financial services (DFS)

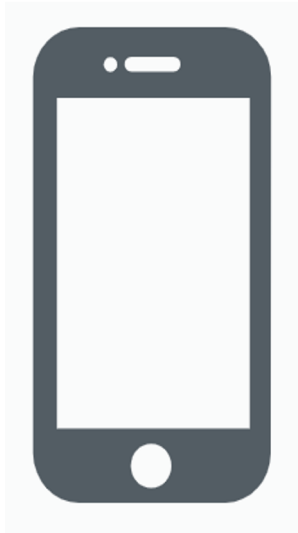
- Women use phones often for their personal use, less for business
- Women do not currently integrate DFS in all business activities

Barriers to accessing credit

- Cumbersome application process (paperwork, travel, ID requirements)
- Collateral requirements are burdensome (might not have sole ownership, may require additional spousal approvals or paperwork)



Women are digitally active for their own personal use, less for business use.



73% own their own **smart phone**

↳ **74%** browse the **internet**



25% report using **mobile money** for person or business



43% report using their phone for **e-commerce**



96% report paying their employees in **cash**

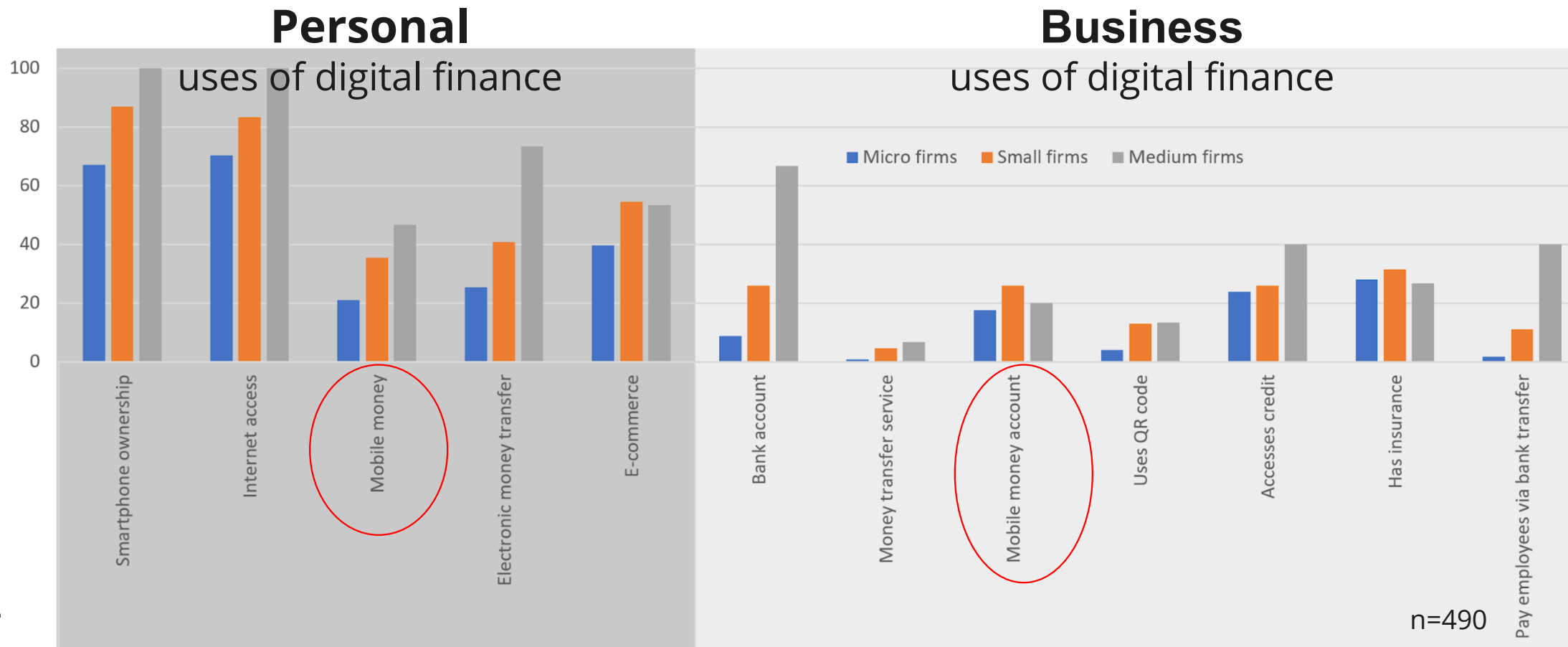


6% report having a **QR code** for their business



Opportunity to expand use of digital finance products from personal to business

- Use of most digital finance products increases with firm size
- Personal use is significantly higher than most business applications
- Opportunity to encourage expansion from personal to business use

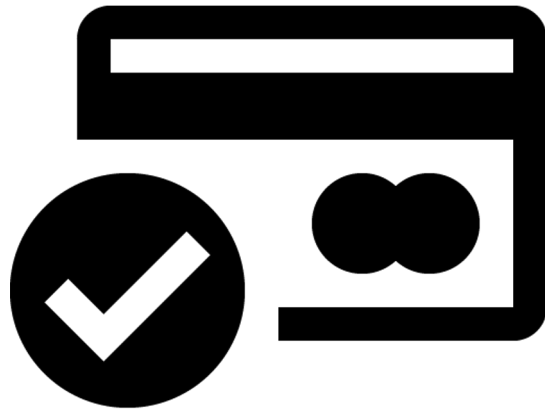


Opportunity for FSPs

- Expand **e-commerce services** to regions outside of Jakarta and Java. Women are currently using their phones; they need financial services that meets their business needs.
- **Expand features or increase awareness of existing features** specifically for MSME businesses -- expand payments for customers/suppliers, bill pay and/or channel to pay employees. Women need a strong use case.



Credit



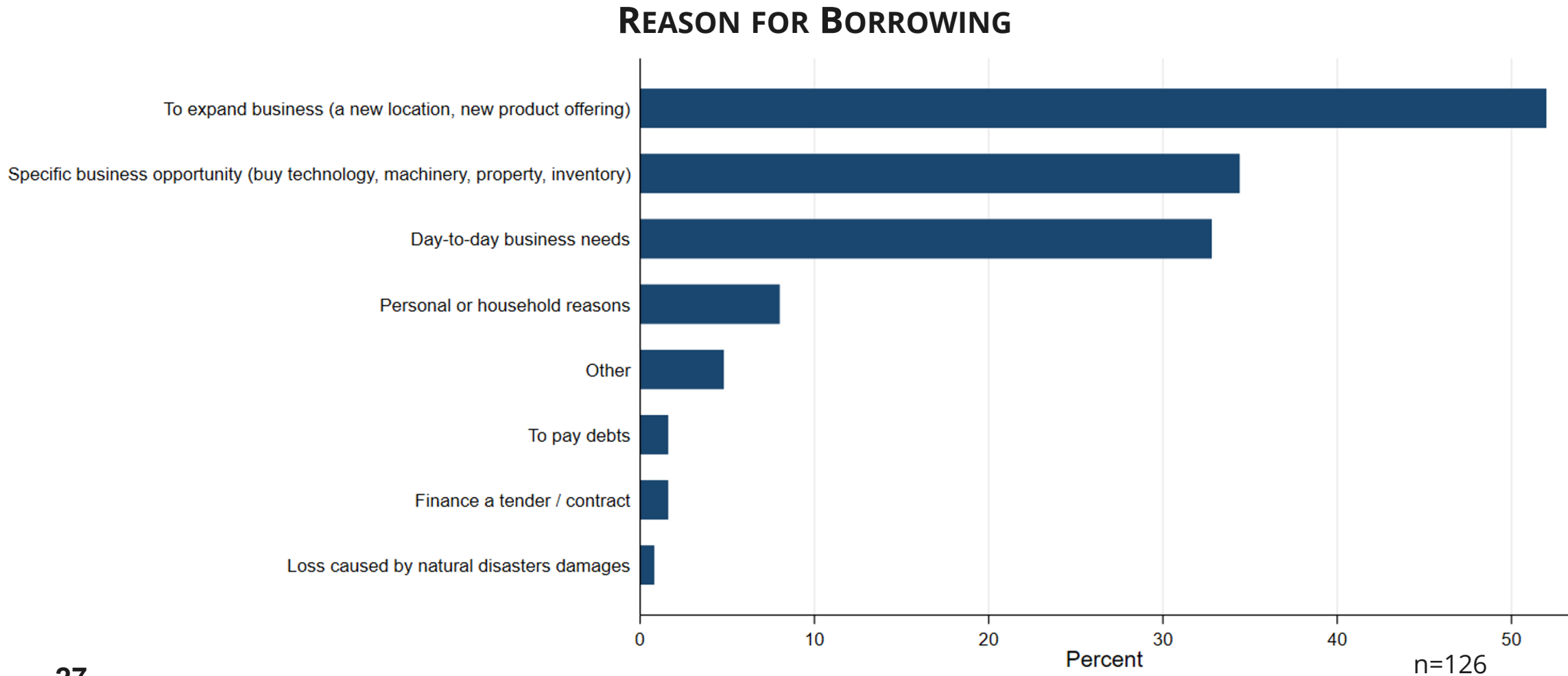
Over **60%** of WMSMEs prefer informal credit because it is less hassle (less paperwork and travel)

About **37%** of respondents own her own business assets, but another 36% have access to business assets in joint ownership with her husband



Access to Credit

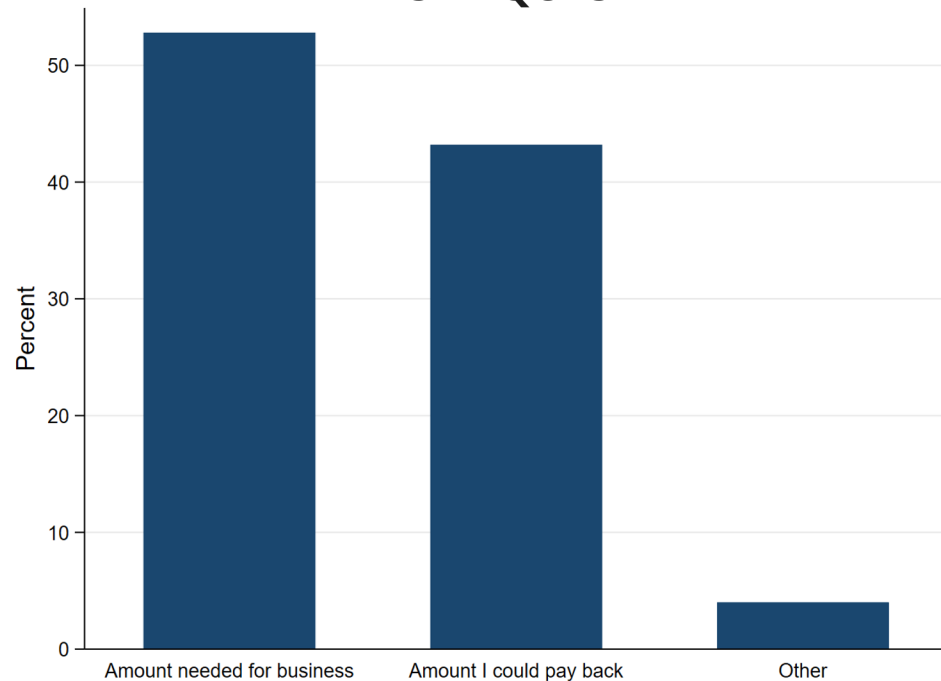
Many women report borrowing (formal or informal) for **growth-oriented purposes**, not to pay back personal debts.



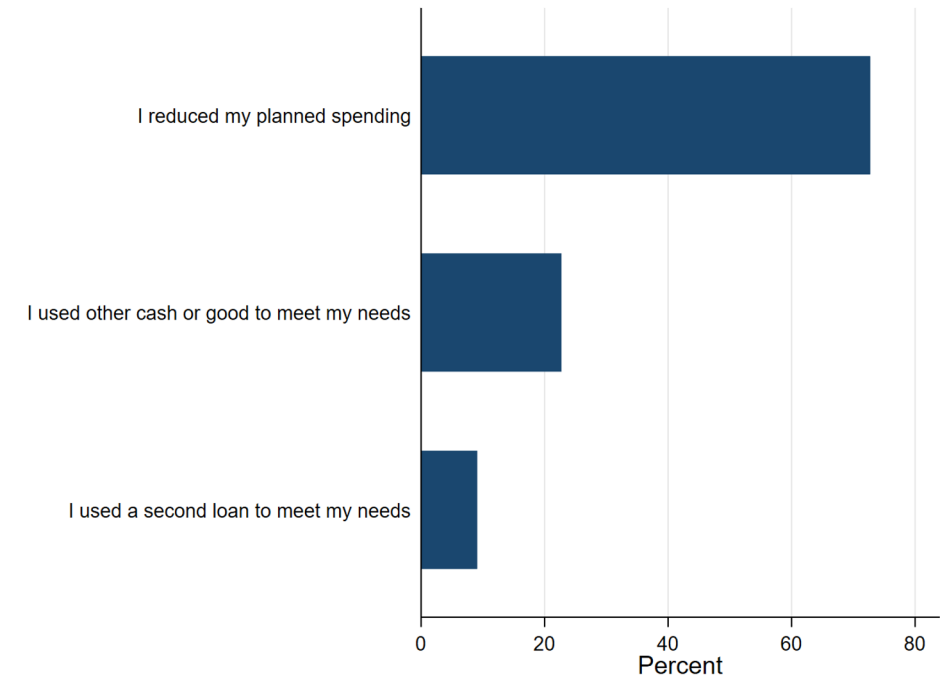
Access to Credit

Moreover, women are **strategic about how much money they ask for**. The majority of women only request how much money they need for their business, or how much they can pay back.

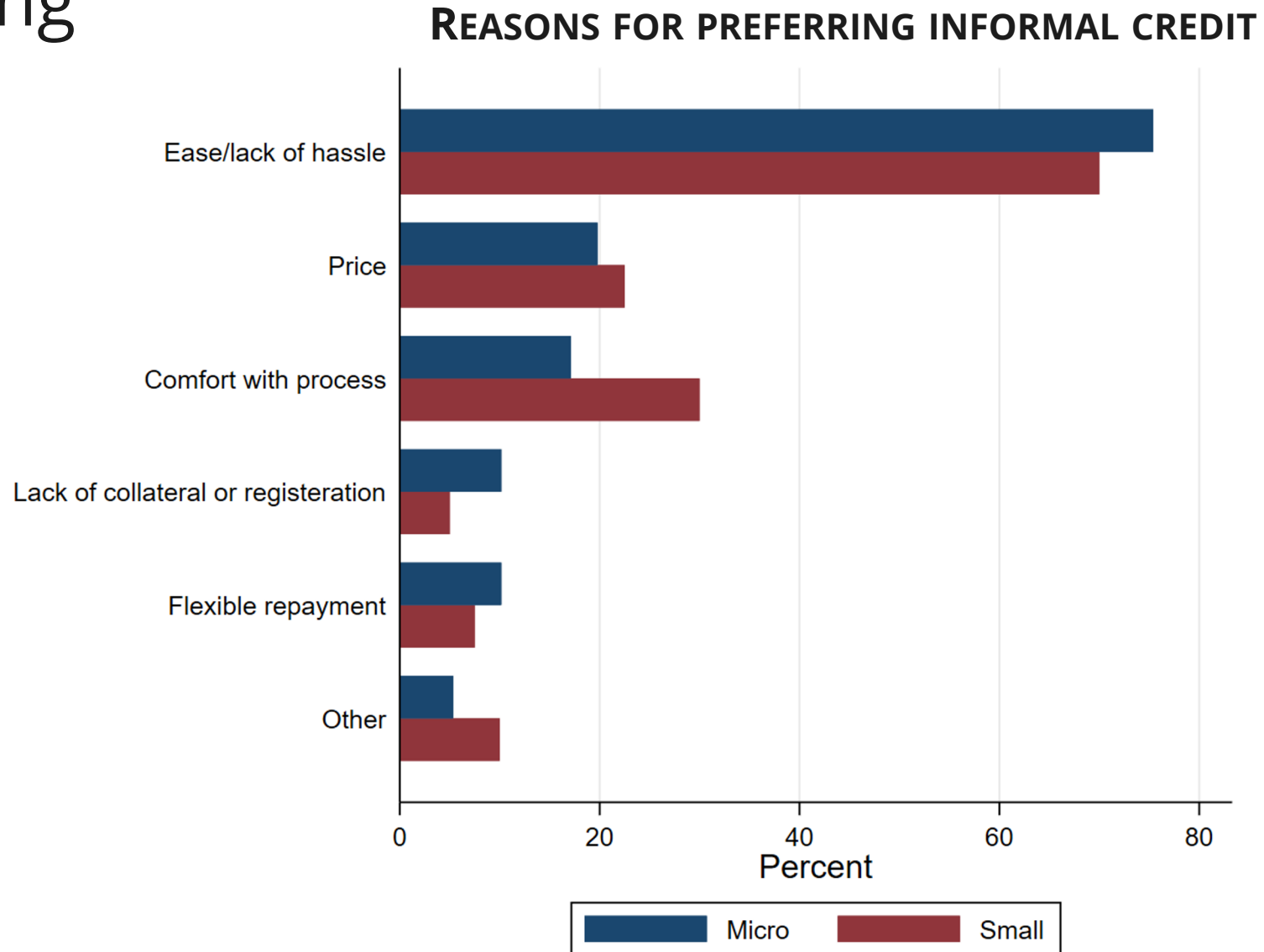
REASON LOAN AMOUNT WAS REQUESTED



WHAT DID YOU DO TO MAKE UP THE GAP BETWEEN THE REQUESTED AMOUNT AND NEEDED AMOUNT



Women also identify that the process of getting credit is challenging

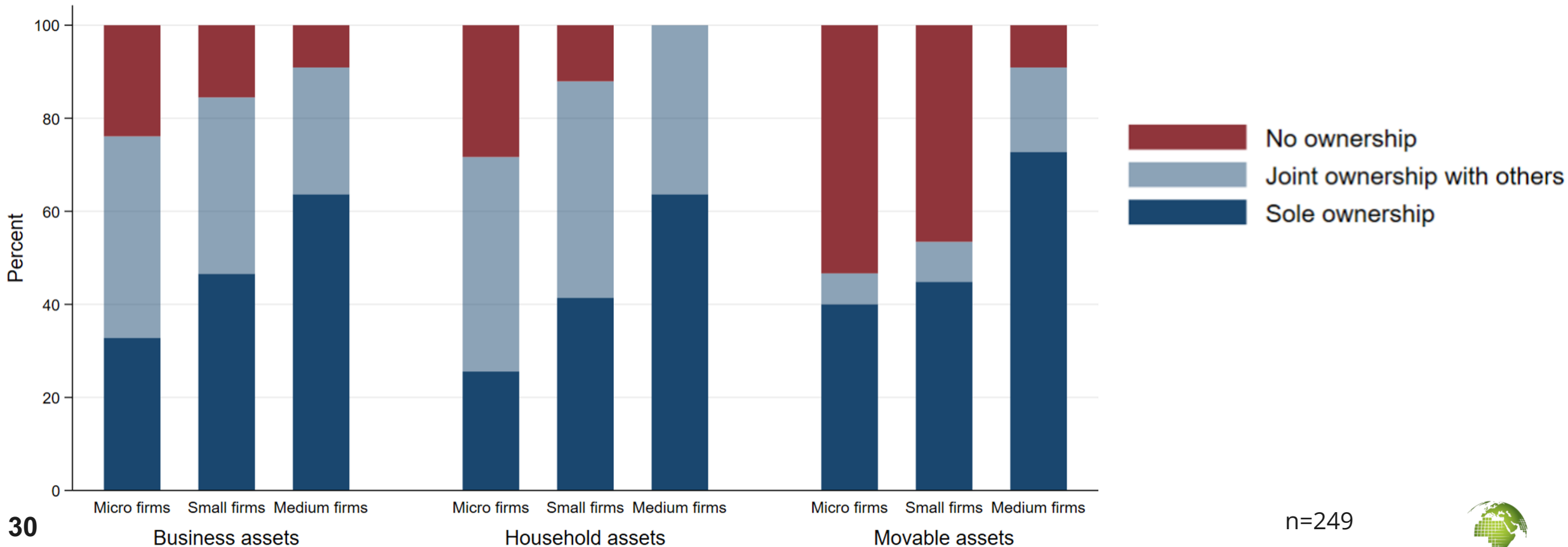


n=231



Can Women-Entrepreneurs Access the Collateral Banks Want?

- Larger firms are much more likely to have access to all types of collateral
- Joint ownership (usually with a spouse) is common for all business sizes – particularly for business and household assets which banks traditionally prefer for collateral
- Joint ownership → spousal approval of loans required → barrier to credit



n=249



Spousal Approval Regardless of Collateral

- Requirements for spousal approval of loans is common for those that **jointly own** household or business assets commonly used as collateral.
- Surprisingly, spousal approval is similarly common even for women with **sole ownership**.

Women with **joint ownership**
of household or business assets

***Percent requiring
spousal approval of loan***

67%

N=21

Women with **sole ownership**
of household or business assets

71%

N=55



Opportunities for FSPs

- Streamline loan paperwork or make loan approval process less onerous
- Expand collateral eligibility; consider alternate credit-scoring, or moveable asset registries
- Ease or streamline spousal / joint approval requirements
- Investigate new loan award processes (small mobile loans, credit guarantee schemes, expansion of credit profile depending on new consumers)



How do we Meet WMSE Challenges?

How Can We Make Credit More Accessible to Women?

1. Women want less hassle when applying for credit. **How can paperwork and travel burdens be reduced?**
1. Women want to use credit for business purposes but don't always have the types of collateral banks require. **How can collateral requirements be more flexible?**
1. Women want credit opportunities specific to their need. **How can we increase the variety of credit products available to women-owned businesses?**

How can we reduce barriers for both FSPs and women-owned businesses so that there are better products to both serve women and FSPs better?



Thank you





Women-Owned MSME Survey

Developing Financial Products for Women-owned and Operated MSMEs

June 24, 2021

Russell Toth
The University of Sydney, Australia

Outline

Constraints in access to finance for women-owned MSMEs

Two directions to improve access to finance for women-owned MSMEs:

1. Client screening
2. Collateral

Conclusion



Constraints in access to finance for women-owned MSMEs

Constraints highlighted in the surveys



Client Screening

- Many women prefer informal credit to formal credit because it's easier and more proximate, and more likely to provide sufficient funds.
- Many respondents highlighted hassle costs of formal credit.



Collateral

- Respondents report often needing collateral to borrow, but often not having land, buildings, or even movable collateral
- Joint ownership of assets leads to spousal approval requirement which can be a constraint



Financial Capabilities

- Women are digitally active for their own personal use, but less so for business use.
- 47% of respondents use a budget, 40% have used insurance, and 75% have savings accounts



I'll focus on these constraints

This appears less binding for growth-oriented MSMEs



Client Screening



Testing "what works"

The needs of women-owned MSMEs may be different in the marketing, credit assessment and loan approval process.

A number of studies provide examples of testing "what works" to increase financial inclusion for women, and credit access for MSMEs.



Testing "what works": marketing

The needs of women-owned MSMEs may be different in the marketing, credit assessment and loan approval process.

Marketing credit to women-owned MSMEs

- Marketing messaging that attracts women-owned MSMEs may be different.
 - [In a study on digital wallets](#), a research team worked with an FSP in Pakistan to test out different marketing messages. They found that sending behaviorally informed and “gender-centric” text messages encouraging people to refer others can increase referrals, particularly by women, by up to 34%.
- The low-cost of digital marketing offers opportunities to test “what works?” at relatively low-cost.
 - A/B trials randomize between different interventions over large samples of users.
- Many leading internet companies and FSPs use A/B trials.



Testing "what works": facilitating credit access

The needs of women-owned SMEs may be different in the marketing, credit assessment and loan approval process.

Facilitating credit access

- Our surveys show that some women-owned SMEs prefer informal credit, because it is more convenient.
- Recent studies have shown that facilitating the credit access and paperwork filling process can increase access to credit. For example,
 - [Campos et al \(2018\)](#) evaluate providing information sessions on (i) formalization, and (ii) information about bank credit to MSMEs. These sessions generate high business registration rates, and (i) + (ii) together results in significant positive impacts on having a business bank account, financial practices, savings, and use of complementary financial products.



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- Recent studies have shown that facilitating the credit access and paperwork filling process can increase access to credit. E.g.,
 - [Dalton \(2018\)](#) tests a higher-touch loan application process with support for filling forms.
 - The study finds that reducing seemingly small adoption barriers, such as providing support to fill out paperwork, reduced the time cost of opening an account. This led to an increase in technological adoption by 62%.



Collateral



An important barrier to access to finance for MSMEs, women in particular, can be collateral requirements

In many cases a requirement for obtaining a loan is putting up sufficient and suitable collateral.

- In some cases, banks will only accept a narrow set of assets (land, buildings), as collateral, while many smaller businesses lack formal land title.
- Due to important government reforms, since 2004 banks in Indonesia can accept “movable” collateral (e.g., vehicles, equipment), however ***some women-owned MSMEs may lack physical movable collateral.***

A further alternative is to assess credit based on data that verifies business activity. Examples:

- Accounts receivable
- 3rd party sales and purchase data



Case study: assessing credit using sales data

In a lending model involving third party data, a financial institution partners with a 3rd party that can provide objective data on the sales / purchases of MSMEs.

- This is a form of value chain financing in which the 3rd party is a business partner of the MSMEs (e.g., large supplier, large buyer).

[In my own recent impact evaluation study](#), I've studied an intervention in another ASEAN country, where a bank partnered with a mobile money company to carry out this kind of model:

- **Mobile money company:** regularly shares data on monthly mobile money volumes processed by its mobile money agents
- **Bank:** offers loans to agents using simple formula based on their prior mobile money volumes




Case study: assessing credit using sales data

Loan product was quite successful:

- Lent 20,000 loans to about 8,000 mobile money agents in first 12 months. Most agents run MSMEs and no restriction how they used the money.
- Loans up to 15,000 USD
- Delinquency rate less than 1.5%

However, the mobile money company was concerned: *“if we share this data, and our agents get loans, will they do more business for our competitors?”*

- Our research was able to rigorously show, the answer is: no. In fact, agents cut back mobile money processing for other companies after getting the loans, while significantly increasing mobile money activity with the primary company.
- This insight could only be generated from a careful impact evaluation study. 

Case study: assessing credit using sales data

Benefits to the bank:

- **Lower cost:** bank issued the loans without any in-person credit assessment. Also reduces burden on the loan applicant.
- **Reach new customers:** bank was able to reach MSME clients far from their branches or the contact networks of their credit agents.

Broader socio-economic benefits:

- Potentially **less discrimination:** 50% of borrowers were women. Credit scoring is purely based on performance (mobile money volumes).
- Getting loans increased formal savings, and empowered borrowers.



Other opportunities

There are many opportunities to adapt and expand on similar ideas in Indonesia:

- **Factoring** is on the rise in Indonesia, though more could be done ([ILO, 2019](#)).
- Identifying the **movable collateral** held by women MSMEs under emerging business models, and adapt credit design to available collateral options.
- Seeking **alternative forms of data** on purchases / sales by women MSMEs on online platforms (e.g., e-commerce).
 - Women who sell on e-commerce platforms – use monthly sales data for credit scoring
 - Women who purchase inputs on e-commerce platforms (as indicator of eventual revenue) – use monthly purchasing for credit scoring



Conclusion



Developing Financial Products for Women-owned and Operated MSMEs

Women-owned MSMEs may have different needs in the credit process than other MSMEs.

Meanwhile, new technologies like digital finance and e-commerce are raising new opportunities to reach, assess, and lend to clients.

These developments raise new opportunities to increase access to finance for women-owned MSMEs.

Approaches like A/B trials can provide a useful tool to discover "what works"?



Thank you



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