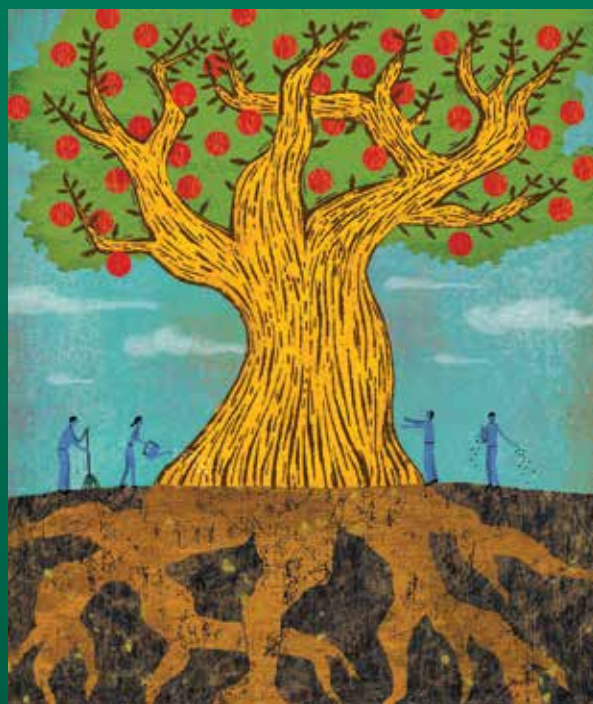


THE ART OF SUSTAINABLE GIVING

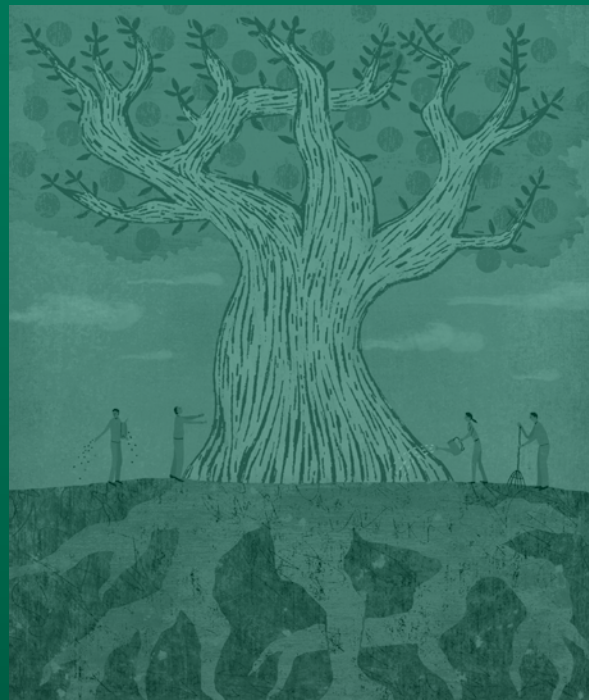
PRIORITIES TO ACCELERATE SOCIAL
ENTERPRISE GROWTH IN INDONESIA



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THE ART OF SUSTAINABLE GIVING

PRIORITIES TO ACCELERATE SOCIAL ENTERPRISE GROWTH IN
INDONESIA

YULIUS

HAIKAL SIREGAR

NATALIA TAMPUBOLON

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EXECUTIVE SUMMARY

INDONESIA HAS GROWN RAPIDLY and continues to do so, creating great potential for even more wealth. However, growth does not always translate into prosperity for the individual. Many Indonesians still live below the poverty line, with increasing levels of income inequality.

This study highlights the importance of strengthening social entrepreneurship to support both economic growth and individual prosperity in Indonesia. The mission of social entrepreneurship is to make solving social issues a part of business. By involving the private sector in solving social and economic issues, social entrepreneurship has great potential to improve Indonesians' livelihoods in a lasting way.

We have worked with key players in the social entrepreneurship ecosystem to identify challenges within that ecosystem, and to set immediate priorities for action to promote further growth.

This report draws on both primary and secondary data sources to paint a picture of the overall state of the social entrepreneurship landscape, using a broad definition of that term. It is intended to serve as future reference for social entrepreneurs, social investors, and enabling organizations, including policymakers.

Definition

For the purposes of this report, we use four broad criteria to define social entrepreneurs:

- They state social impact as their main objective.
- They target a balance between profitability and social impact.
- They use a social-mission-embedded business model.
- They reinvest profits in the enterprise.

Four types of stakeholders (key players) exist in the social entrepreneurship ecosystem:

- **Social Enterprises (SEs):** Indonesia has a relatively large number of SE, but most of these are still in the seed and venture stages. Significant challenges face SEs as they seek to move from the venture stage to growth.
- **Social Investors:** Social investors in Indonesia currently hold relatively moderate investments in SE.
- **SE Enablers:** SE enablers have a moderate presence in Indonesia.
- **Target Communities:** Target communities are abundant in Indonesia, and potential customers and target groups are receptive to SE.

Many opportunities exist to increase participation in social entrepreneurship among all types of stakeholders.

Immediate Priorities for Action

We have identified five priorities for increasing social entrepreneurship in Indonesia:

Strengthen social entrepreneurs and their capabilities

- *Attracting and nurturing talent for SEs.* A successful SE ecosystem requires competitive career paths for talented individuals who wish to work toward creating positive social impact.
- *Increasing the number of SE accelerators.* Building partnerships between impact investors and local capacity builders can give SEs the time and attention they need to have a meaningful impact.

Magnify the impact of enablers

- *Orchestrating efforts to grow the SE ecosystem.* SEs need a platform to share information, report on progress, align their priorities, and offer each other support.
- *Accelerating ease of doing business in Indonesia.* We must continue to advocate for changes that make it easier to do business in Indonesia, and gradually build exposure of SEs' role in empowering people and delivering social impact.

Attract more social investors

- *Establishing proof of concept in impact investing.* It may be necessary to set up a pilot investment to prove to potential impact investors that SE funding can work.

DEFINING SOCIAL ENTREPRENEURSHIP

SOCIAL ENTREPRENEURSHIP IS A term with many meanings. A look at how some organizations define social entrepreneurship finds many variations, and some recurring elements:

- **The Schwab Foundation for Social Entrepreneurship** states that an SE “is an organization whether for-profit or not, aimed at catalyzing systemic social change.”
- **The British Council** calls an SE any organization, business entity, or community activity that “employ[s] business approaches to address social and environmental problems and enhance their communities,” with most profitability “reinvested back to the entity.”
- Sustainability is an element of **ADB’s** definition, which specifies that SE “is not limited to legal structure,” and can be a company, cooperative, nonprofit, trust, or other entity.
- Scope is part of **Ashoka’s** definition: “social entrepreneurs . . . are ambitious and persistent, tackling major social issues and offering new ideas for wide-scale change.”
- **INSEAD** includes wording that SE “use business practices and market principles

to bring about social change,” a broad definition that does not address revenues or profitability.

- **Oxford’s Saïd Business School** looks for “innovations designed to explicitly improve societal well being, housed within entrepreneurial organizations.”

Some governments offer certification programs to qualify for special treatment as an SE:

Thailand: The Thailand Social Enterprise Organization identifies six characteristics of SEs. These characteristics emphasize operations and reinvestment of profit:

- A manufacturing process with products that have no bad social, health, or environmental impact
- Good management
- Financial sustainability
- Reinvestment of a majority of profits back into business expansion
- A diversified business and organization model
- Application of the Thai King’s philosophy of a “just and sufficient economy”

To qualify as an SE, return to shareholders must not exceed 20 percent of net profit.

South Korea: South Korea's government-endorsed concept of social entrepreneurship emphasizes business objectives and the reinvestment of profit. To be classified as an SE, the organization must have a business objective that seeks to improve the quality of life for disadvantaged groups. A "disadvantaged group" is one in which at least 50 percent of beneficiaries are considered vulnerable. SEs must reinvest any profits in the business. They must also prioritize social purpose over maximizing profit.

Social enterprises in Indonesia use existing legal enterprise structures.

United Kingdom: The UK's Department of Business, Innovation and Skills (BIS) defines an SE as one that has social or environmental aims; disburses no more than 50 percent of profits to shareholders; and draws no more than 25 percent of income from grants or donations. The Cabinet Office's definition of Community Interest Companies (CICs) includes similar elements.

Other countries use their existing legal frameworks to recognize social entrepreneurship:

United States: SEs in the U.S. can choose among three structures:

- Limited liability corporation — a for-profit organization with ownership by shareholders. Its shareholders pay taxes on dividend sharing, but the business does not pay tax on profits.
- S corporations/C corporations — can earn a profit and has limited liability protection. Shareholders can invest in the company, but double taxation may apply. That is, the company pays tax on profits, but shareholders pay taxes on dividends as well.

- Nonprofit — an organization that can seek funding from the public, but does not exist to earn a profit, and receives a tax benefit.

Vietnam: SEs in Vietnam can take two forms:

- Enterprise — the organization can earn a profit, but receives no tax benefits.
- Social organization — a nonprofit organization that can seek outside funding and receives tax benefits.

Indonesia: In Indonesia there are no certification programs or specialized legal structures for SEs. Instead, SEs in Indonesia use existing legal enterprise structures, such as:

- Cooperative — a membership-based organization that is allowed to obtain funding and receives no tax benefit.
- Financial institution (PT LKM) — an organization that disburses loans as microfinance for SEs. It may earn a profit, but receives no tax benefit.
- Foundation (Yayasan)— usually a charity or cause-driven organization. It does not operate for profit, and can receive tax benefits and grants.
- Organization (Perkumpulan)— an association for social purpose with no profit-making intention.
- Enterprise (PT) — A profit-making, limited liability organization owned by shareholders. It is allowed to seek investors.

To recognize an Indonesian business as an SE, we have identified four criteria that define social entrepreneurship and distinguish it from both donation-based nonprofits and for-profit businesses. They are:

- *SEs state a social impact as their main purpose.* Their vision and their mission identify solving social issues as a main goal. Their public communications consistently convey their commitment to social impact. For our purposes, we define

“social issues” broadly, including, but not limited to, populations in poverty or the disadvantaged.

- *SEs use a business model that delivers a social purpose.* The business model serves an underserved group or the “base of pyramid” (BoP). Financial returns sustain operations.
- *SEs balance profitability and a social impact target.* While the business model seeks a return, its goal is not necessarily to maximize profit. The SE sets performance targets, but also tracks social metrics. This is not a traditional practice of either donation-based nonprofits or for-profit businesses.
- *SEs reinvest profits in the SE model.* When an SE earns a profit, it maximizes its social impact by reinvesting a majority of those funds in its SE model. Neither donation-based nonprofits nor businesses do this.

It is important to look at these criteria together, and not individually. For example, donation-based nonprofit organizations meet the criterion on stating a social impact as its main purpose. Businesses do not, but a business may meet the criterion of using a business model to serve a social purpose (such as employment). A true SE must meet all four criteria.

A quick look at some Indonesia-based organizations illustrates the use of these criteria to identify businesses as SEs.

SEs sit between donation-based nonprofits and profit-maximizing businesses. They may take one of three broad forms.

A **business-inspired nonprofit** exists to deliver a social impact. Its activities also directly address a social cause. It may fund itself primarily through donations, but it supplements that income with revenue from sales of goods and services.

IBEKA is an example of a business-inspired nonprofit. It seeks to promote environmental sustainability and improved livelihoods. It ac-

tively raises funds, but it also generates revenue from sales of electricity and community cooperatives. It uses earnings from its electricity sales to fund scholarships for local students and local health care. Any excess profits are reinvested in IBEKA’s organization and communities.

A **subsidized SE** has social impact as its core purpose, but it addresses its social cause indirectly. These enterprises earn most of their income from the sale of goods and services, but these sales are not enough to cover costs.

Social enterprises sit between donation-based nonprofits and profit-maximizing businesses.

Yayasan Cinta Anak Bangsa (YCAB), as a group, is an example of a subsidized SE. To fund its mission of empowering women and children, it generates revenue through a program of conditional microloans (YCAB Cooperative) to mothers. At least 25 percent of its budget, however, still comes from donations. YCAB Cooperative has a client base of more than 22,000, including just under 6,000 students in learning centers. It reports disbursements of more than 150 billion IDR with a low rate of nonperforming loans. All profits from the Cooperative are reinvested in the learning center.

A **self-sustaining SE** is able to fund its social impact mission with revenues from the sale of goods or services. It reinvests any profits into the business. These enterprises generally address their social causes indirectly. One of the most well-known examples is the Grameen Bank.

PT Tirta Marta is another example of the third model of SE. It fully sustains itself through strong sales of film-based flexible packaging and biodegradable plastics. Its mission is to pursue new advances in flexible packaging and biodegradable plastics technology in order to minimize negative impacts on society and the environment. This re-

quires heavy upfront investment in research and development. Tirta Marta has not only earned enough to fund its operations, but it has also reduced its own carbon footprint by 40 percent. It has also increased the income of targeted cassava farmers by 25 percent. It reinvests a portion of its profits in the business, especially in research and development.

This broader definition of social entrepreneurship captures the greatest number of different models, allowing for a few exceptions.

IMPACT OF SOCIAL ENTREPRENEURSHIP

ONE PRESSING QUESTION OF social entrepreneurship is how to measure its impact. No standardized social impact metrics are currently used in Indonesia, because the available metrics are difficult to understand, highly expensive, or both. Exhibit 1 provides

some insight into the challenges posed by the available metrics.

Nevertheless, SEs in Indonesia have produced major positive outcomes. YCAB microfinance, to cite one example, empowers women and

EXHIBIT 1 | Low usage of standardized social impact measurement metrics due to low demand and high investment required

| Metric | Description | Challenges |
|--|--|---|
| Impact Reporting and Investment Standards (IRIS) | Set of standardized social impact measurement metrics to be independently used by SEs <ul style="list-style-type: none"> Catalogue of performance metrics used to measure social success | Low awareness and understanding |
| Global Impact Investing Rating System (GIIRS) | Third-party assessor measures company and fund performance <ul style="list-style-type: none"> Metrics include leadership, employee, product and services, community and environment ratings Independent board standardize evaluation metrics | High monetary investment required |
| Social Return on Investment (SROI) | A framework to be independently used by SEs for understanding, measuring, and managing the outcomes of organization's activities <ul style="list-style-type: none"> Two types of SROI, evaluative and forecast | Intensive training and monetary investment required |
| B-Analytics Pulse | Integrated technology and data platform to help strengthen investor measures, benchmark and report the impact of their portfolios using their own custom impact metrics <ul style="list-style-type: none"> Metrics are comparable to GIIRS ratings and IRIS catalog | Monetary investment required |

Social Impact metrics are not used in Indonesia today

Sources: Press research; BCG analysis.

gives children access to schools. According to its latest annual report, YCAB had a direct impact on the lives of 146,625 family members of clients. It engaged directly with 22,532 active clients. It disbursed loans of up to 152 billion IDR. It recruited 2,469 children of loan recipients as students for its learning centers. Fully 73.3 percent of its graduates are working. YCAB has created 627 jobs and seeded six businesses. YCAB's invested microfinance earnings supported access to education for an additional 16,648 students and 43,737 educational program attendees at a total of 49 learning centers.

IBEKA, another SE referred to earlier, provided affordable electricity to more than 54,000 people in rural areas. IBEKA installed a total of 2,260 kilowatts capacity in 61 plants. That supplied electricity to 10,400 households, or

about 47,000 people. IBEKA's work reduced greenhouse gases by approximately 7,400 tons a year by replacing kerosene, coal, and oil. It opened access to means of communication via electricity. It increased opportunities for employment and earning. The proceeds from selling electricity made it possible for the community to purchase better health care and roads.

As SE stakeholders become more active and visible, the impact of social entrepreneurship should become more apparent and easier to measure.

SOCIAL ENTREPRENEURSHIP LANDSCAPE IN INDONESIA

SOCIAL ENTREPRENEURSHIP IN INDONESIA is still nascent. Relatively large numbers of SEs are operating in Indonesia, but efforts to boost SE growth face challenges.

To obtain a clear picture of the social entrepreneurship ecosystem in Indonesia, we will assess the state of each of the four stakeholders (key players), then discuss the common and distinct challenges these stakeholders face.

The State of Key Players in the Social Entrepreneurship Ecosystem

As previously identified, key players in Indonesia's SE ecosystem play one of four roles:

- Social Enterprises (SEs)
- Social Investors
- Social Entrepreneurship Enablers
- Target Communities

Key players in Indonesia's SE ecosystem are currently at different levels of readiness for sustained growth.

SEs: Facing growing pains, most require capability building to become investable

Indonesia has a fairly strong community of


SEs. Through interviews and engagement with various key players, we have identified at least 454 organizations that meet our definition of SEs (see Exhibit 2). Social entrepreneurship enablers such as Ashoka, the British Council, and the Schwab Foundation for Social Entrepreneurship recognize as many as 1,400 organizations as "aspiring SEs." These are businesses that may not yet meet all four of our criteria for SEs, but are working to do so. Indonesia's SEs are distributed through the country, with 46 percent concentrated in Java. Indonesia has more SEs per person below the poverty line and across emerging markets than any other country in Southeast Asia. South Korea and Thailand, both mature economies, have more SEs per person.

Indonesia's SEs reflect wide industry diversity. That diversity aligns closely with the national priority toward economic development. Opportunities remain to stimulate SEs in other sectors, such as environmental protection, energy, and the empowerment of women and youth. New technology and processes also present opportunities for SEs, since most depend on existing product and business models, rather than on exploring or investing in new ones.

We generally expect SEs to follow an evolutionary path from seed to mature stage, but this is not always the case. An SE with a limited focus on a specific local community, with

EXHIBIT 2 | SEs are mostly at seed and venture stage with few mature organizations

| | Seed ¹ | Venture | Growth | Mature |
|-------------------------------|--|---|---|--|
| SEs distribution ⁵ | New SEs and donation-based nonprofits converting to SEs ~76% | | Proven sustainable model, looking to scale impact ~24% | Focus on generating new revenue streams |
| Operation | <ul style="list-style-type: none"> Idea generation stage with a prototype <6–12 months operations Limited assets | <ul style="list-style-type: none"> Established business model Product/services validated in the market >12 months operations Basic assets (office, etc.) | <ul style="list-style-type: none"> Focus to scale up or replicate business and impact (e.g., branch expansions) Proven track record of sustaining operations Acquire supporting assets | <ul style="list-style-type: none"> Continue to scale up business and impact Diversify business model |
| Financial | <ul style="list-style-type: none"> Negative margin Relatively small turnover Receive in-kind seed funding | <ul style="list-style-type: none"> Improved margins Break-even achieved Generate sustainable income Receive grant or other monetary seed funding | <ul style="list-style-type: none"> Positive margin Explore various types of financing (e.g., equity, loan) | <ul style="list-style-type: none"> Positive margin Revenue > 9Bn IDR³ Multiple types of financing (e.g., social capital equity, loan, etc.) |
| Legal | <ul style="list-style-type: none"> May not have legal standing yet | <ul style="list-style-type: none"> Established with legal standing² | <ul style="list-style-type: none"> Established with legal standing² Multiple legal entities common | <ul style="list-style-type: none"> Established with legal standing² Multiple legal entities common |
| Social Impact | <ul style="list-style-type: none"> Small-scale targeted social impact⁴ | <ul style="list-style-type: none"> Small-scale targeted social impact | <ul style="list-style-type: none"> Relatively wider social impact Multiple indicators of social impact improvement | <ul style="list-style-type: none"> Relatively wider social impact Multiple indicators of social impact improvement |

 Largest pool today

Sources: JP Morgan; British Council; Press search; BCG analysis.

¹SE categorization derived from JP Morgan impact investing report, matched with Indonesia's landscape.

²Established as Perkumpulan/Yayasan/PT/CV/Ventura/Koperasi.

³Figure reflects mature market (UK) small – average sized SEs, Endeavor \$1M to \$3M USD, Schwab Foundation \$1M to \$1.5M USD.

⁴Indicator for social impact to be determined.

⁵Figure representative of British Council's start up vs. semi-established SEs.

no plans to scale up operations, may become a mature organization without ever exceeding the size of a seed or venture enterprise. Jaringan Ekowisata Bali, Komunitas Hong, and Tobucil are three examples of this type of mature SE.

SEs that do follow an evolutionary path will grow from seed to mature stage with the following features:

PHASE 1: SEED STAGE

At the seed stage, SEs operate as idea generators, often with a prototype. They have typi-

cally been operating for between 6 and 12 months. They have limited assets. They operate on a negative margin. They have relatively small turnover. They make the most of in-kind seed funding. They may not yet have legal standing. Their targeted social impact is necessarily small in scale. Current examples of SEs in the seed stage include AgriSocio, Kitabisa, Bike To Work, Yayasan Tekno Hayati, and Yatimpreneurs.

PHASE 2: VENTURE STAGE

SEs have reached the venture stage when their business model is established and the

market has validated their products or services. Even if these SEs have been operating for less than a year, they have basic assets (such as office equipment). They have begun to improve their margins to the breakeven point. They are generating sustainable income, often with the help of a grants or other funding. They have established legal standing. Their social impact, however, is still on a small scale. Examples of SEs at the venture stage include Amarnya Microfinance and Vasham.

To grow, social enterprises must draw funding from an increasingly sophisticated range of sources.

PHASE 3: GROWTH STAGE

At the growth stage, the SE has proven itself to be a sustainable model and seeks a larger scale of social impact. The focus turns to scaling up or replicating the business and its impact, possibly through branch expansions. The SE has a proven track record of sustaining operations. It acquires supporting assets. It operates on a positive margin. It begins to explore new types of financing, such as equity investments and loans. It has legal standing, often with multiple legal entities. With its larger presence, the SE uses its growth stage to exert a wider social impact, producing multiple indicators of social improvement. Approximately 24 percent of Indonesia's SEs have made the leap forward to the growth stage or beyond. Current examples of SEs at this stage include IBEKA and Javara.

PHASE 4: MATURE STAGE

A mature SE begins to focus on generating new revenue streams that can fuel even broader social agendas. It continues to scale up its business, and its social impact increases as well. It may diversify its business model. It operates on a positive margin. It draws on multiple sources of funding, such as social capital equity and loans. Multiple legal entities are common among mature SEs. These help the SE exert a wider social impact, measurable by multiple indicators. Examples of

mature SEs include YCAB, Bina Swadaya, and PT Rekan Usaha Mikro Anda (RUMA).

SE Investors: Modest impact investment activity

Impact investing is growing in Indonesia, but the sources of funding remain fairly narrow (see Exhibit 3).

The most active local sources of impact investments in Indonesia are social investment wholesalers, charitable trusts, and foundations. High net-worth individuals (HNWIs) and mass retail also have a growing presence. Impact investment fund managers are the most active channel of impact capital, but crowdfunding platforms are beginning to see more use.

Religious funds and HNWIs are a growing source of funding for SEs. Muslim law mandates the annual donation of approximately 2.5 percent of total income to charity, and investments in SEs may be considered charity. ANGIN and Kinara, among other SEs, leverage HNWIs as one source of funding. When HNWIs consider their SE investments to be charity, they might not seek the same level of involvement or control as other SE investors.

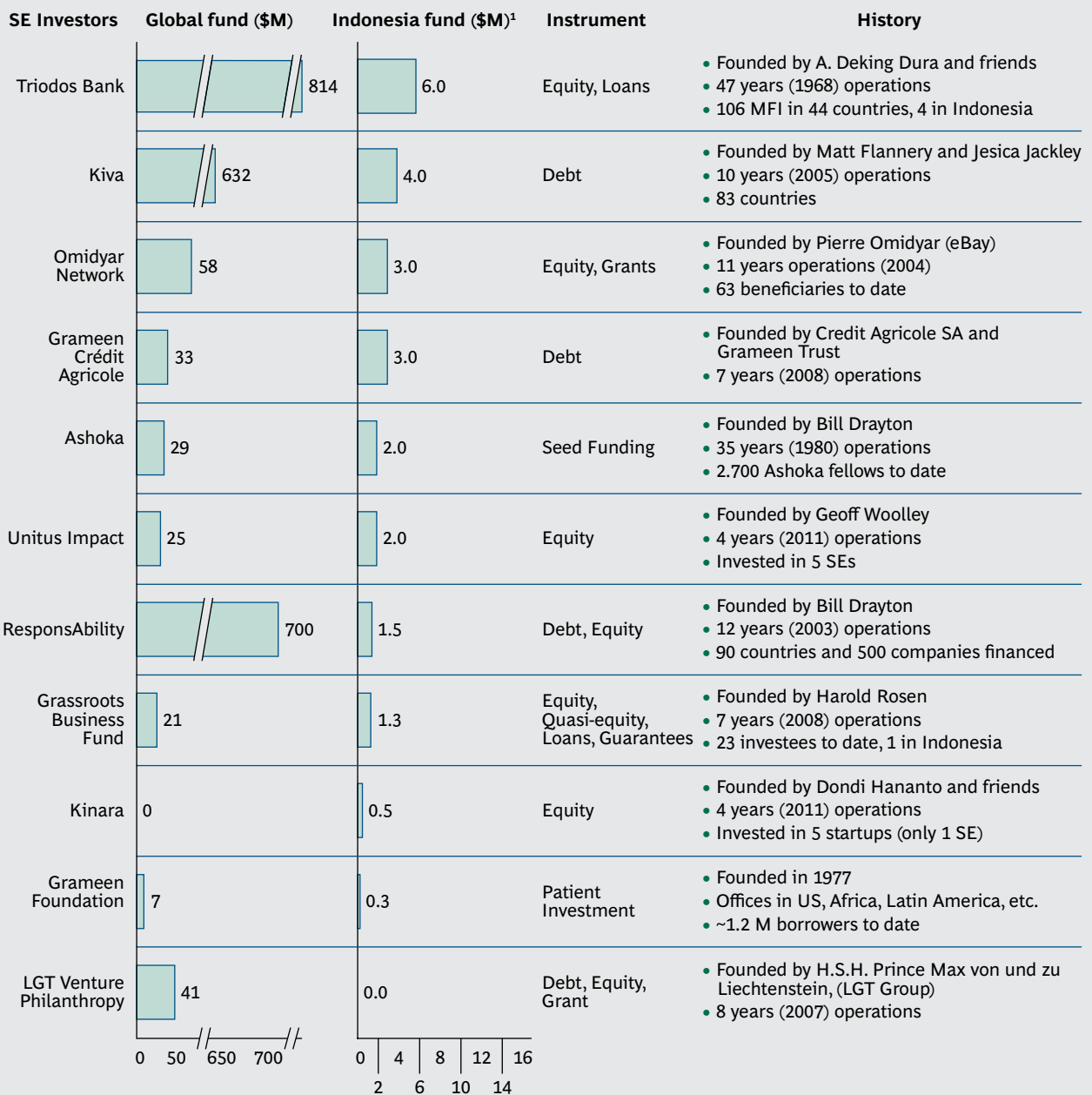
In order to grow, SEs must draw funding from an increasingly sophisticated range of sources. Most begin with grants or donations. Many move on to seed funding. From there, they may seek to grow with funding from loans. The next steps are equity/social venture capital, and ultimately social impact bonds (see Exhibit 4).

Grants and donations require no repayment. They usually come from public bodies, foundations, or corporate social responsibility (CSR) spending by large corporations. They are usually project-based and competitively won. They often come with some form of public recognition for the donor.

Non-monetary seed funding may consist of stipends to enable social entrepreneurs to focus on their business full time. They may also consist of in-kind contributions such as office space, supplies, materials, or travel expenses.

Loans may be traditional, credit extended at full commercial rates, but with lower collateral

EXHIBIT 3 | Key players in Indonesia still have relatively small portfolio



Sources: Management interview; Press search; GBF Annual report; MikroCapital; BCG analysis.
¹Estimates based on published placement.

al requirements. They may also be nonprofit/subsidized lending at below-market rates, with favorable repayment schedules.

Equity/social venture capital (VC) is an investment in return for equity in the SE, or as a long-term debt. These investments may be for-profit (with exit positions) or nonprofit (with returns reinvested in the SE). Social venture capital is often called “patient capital,” as it does not necessarily expect a rapid return.

Social Impact Bonds are instruments that provide funds to the SE, with the government paying interest on the bonds as long as the SE meets its social performance targets (for example, recidivism rates in young offenders). If the SE does not meet its social targets, investors are at risk of losing their investment.

SE Enablers: Many players, many roles, but gaps remain

EXHIBIT 4 | Variety of instruments available for SEs to access funding

| | Instrument | Example | Description |
|------------------|---------------------------|---|--|
| Market-based | Social Impact Bond | • Social Finance | <ul style="list-style-type: none"> • Investors provide funding to SE in exchange for bond; government pays interest on bonds if social performance targets are met (e.g. recidivism rates in young offenders) • Investors lose investment if targets not met |
| | Equity/social VC | • Acumen Fund | <ul style="list-style-type: none"> • Investment in return for SE equity or SE debt • May be for profit (exit positions) or nonprofit (reinvestment of returns in SE) • “Patient capital” |
| | Loans | • Triodos Bank | <ul style="list-style-type: none"> • For profit: at fully commercial rates but with social focus in loan assessment (i.e. lower collateral requirement) • Nonprofit/subsidized: Lending at below-market interest rates/favorable repayment schedules |
| | Non monetary seed-funding | <ul style="list-style-type: none"> • Ashoka • Echoing Green | <ul style="list-style-type: none"> • In particular, stipends to enable social entrepreneurs to focus on their business full time • In-kind contributions (materials, office space, travel expenses, etc.) |
| Not market-based | Grant/donations | <ul style="list-style-type: none"> • Corp. for Nat'l & Community Svs. • Omidyar Network • Skoll Foundation | <ul style="list-style-type: none"> • No repayment, usually public bodies or foundations • Usually project-based and competitively won • Usually a form of public recognition for donor |

Sources: Press research; BCG analysis.

SE enablers in Indonesia play several roles, even within a single organization. An SE enabler may be one, several, or all of the following:

Awareness builders. This is currently the most frequently seen role among SE enablers in Indonesia. Awareness builders introduce the SE model to nonprofits, businesses, and the general public. They play an important role in identifying potential SEs. They encourage and help nonprofits to become more sustainable by converting to SE status. Examples include the British Council and Ashoka.

Network builders. As the name suggests, this group connects ecosystem players to each other — entrepreneurs to investors, enterprises to capacity builders, and so on. They inform relevant stakeholders about the needs of the ecosystem. They are often the main points of connection between the world of SEs and the world outside the ecosystem. Indonesia has a strong group of regional network builders, but needs a stronger

presence from global and local network builders. Active network builders face the challenge of having only a small pool of impact investors with whom to connect. Examples include the Global Impact Investing Network, the European Venture Philanthropy Association, and the Asian Venture Philanthropy Network.

Capacity builders. Capacity builders are organizations or individuals who provide mentorship and non-financial know-how to help set up, establish, and grow SEs. Indonesia acutely needs additional capacity builders. Where capacity building efforts occur, they are often sporadic and performed by awareness builders. Current capacity building efforts most frequently focus on the seed stage. SEs seeking to move from venture to growth stage need additional support. Examples include the British Council, Unlimited Indonesia, and Ashoka, as well as organizations that focus more on general entrepreneurship, such as the Global Entrepreneurship Program Indonesia.

Policy makers and influencers. Members of this group serve as advocates to influence public policy on behalf of SEs. They also assess the need for policies that support SEs, and the effect of existing policies. We see growing advocacy for social entrepreneurship in Indonesia, but SEs need to mature in order to avoid over-regulation by the government. Advocacy for improved ease of doing business and a level playing field for SEs should take priority. The British Council is one example of a group playing this role.

Business partners. Private sector businesses form partnerships with SEs for their mutual benefit. Business partners are the least common type of enabler in Indonesia. One example, the British Council, partnered with a leading business to support SEs. This group is growing, but engages mainly with mature SEs. Business support for both capacity building and partnerships is increasing. Encouraging this growth should be a priority. (See Appendix C for more information about these programs.)

Across the enablers, some organizations take on the role of an orchestrator. Orchestrators are entities that manage complex cross-enterprise processes, mainly combining elements of both network builders and capacity builders.

Indonesia has a relatively strong contingent of enablers to help SEs grow. Gaps remain in important areas, particularly in capacity builders and orchestrators.

Target Communities: Offer Traction and Promising Ground for SE Growth

The target communities for Indonesia’s SEs are receptive to SEs’ products and services. They show a strong willingness to participate in SEs at all stages of growth. Communities continue to participate as SEs’ products become more complex, because these SEs are meeting pressing social needs.

Moreover, there is plenty of room for SEs to grow further, given the many social issues and the positive response from Indonesia’s middle class to requests for help. Indonesia faces major social challenges in both education and employment. The large gap in social welfare solutions creates many opportunities for SEs in Indonesia. The middle class shows strong interest in these issues, and can be an invaluable source of support.

SEs can offer products and services that communities find preferable to either market solutions or direct government intervention, as illustrated in Exhibit 5.

EXHIBIT 5 | Recent experiences suggest target communities are willing to adopt social products

| Enterprise | Difference between social product and market solution | Traction from target communities |
|-----------------|--|---|
| Harmony Village | <ul style="list-style-type: none"> Combine health care with forest conservation and environmental education by offering payment incentive scheme | <ul style="list-style-type: none"> Reduced illegal loggers from 100 to 10 in 5 years 85% of local residents participate in protecting park 12% more women are using birth control— an increase from 68% to 77% |
| IBEKA | <ul style="list-style-type: none"> Renewable energy from a micro hydropower plant, capacity at 250 kilowatt Local community runs the power plant | <ul style="list-style-type: none"> Recruited ~200 hydropower plant operators – Operators earn additional income of >\$20/month |
| Telapak | <ul style="list-style-type: none"> Introduced insurance schemes, credit and savings program, resource management education, and a Forest Watch initiative Produce certified logs of higher quality Exports cyanide-free ornamental fish and coral | <ul style="list-style-type: none"> 2,106 members of the cooperative earn more than 3 times as much for their wood Reach of >45,000 families Implemented sustainable logging in >201,035 ha forestry area |

Sources: Press research; BCG analysis.

Challenges Facing Players in the Social Entrepreneurship Ecosystem

Key players in social entrepreneurship in Indonesia face many internal and external challenges. Some of these challenges affect all key players, but in different ways, while others are specific to the type of stakeholder.

SEs: Challenges shift with growth

As SEs grow, they may face one or more typical challenges:

- **Skill gaps** that may range from basic business skills, such as bookkeeping, to more sophisticated skills, such as the ability to balance social and economic goals.
- **Overdependence on charitable funding**, which can limit independence and long-term planning capabilities.
- **Difficulty in access to seed funding**, which is a particular challenge for rural SEs that may need funding from sources located in urban areas.
- **Limited access to legal expertise and resources** needed to create a lasting entity.
- **The inability to track or measure social impact**, especially small SEs and those at the seed stage.

SEs seeking to evolve beyond the seed stage can be most severely challenged by internal deficits. These may include limited business development skills, limited technical capability for growth, and/or limited exposure to financing options. SEs need strong business skills to capture opportunity, or to adjust the business model and strategy as needed. SEs need strong technical capability for growth in order to support a major scale-up. They may need specific technical skills that require technology and infrastructure investment in order to scale up. SEs need access to additional resources and to a network of support to maintain growth. SEs need better information about their financing options. They may also need encouragement to embrace invest-

tors as a part of their organizations. A SE at the growth stage may also face bureaucratic legal requirements in order to gain access to new sources of funding.

In moving to the growth stage, many SEs must overcome their relative lack of experience in scaling up. One frequent issue is that leadership may have a limited vision for growth, or a limited understanding of a step-by-step expansion plan. Financially, the SE may remain reluctant to cede financial control to investors. Even when an SE is motivated to find new funding, the lack of SE-friendly policies can create uncertainty about the enterprise's legal standing and its opportunities for innovation.

SEs need access to both additional resources and a network of support to maintain growth.

Growing SEs often experience a receding commitment to social impact. They must affirm their consistent commitment to social and economic impact as they grow.

The final stage in evolution to maturity presents new challenges. The SE must compete for talent in an increasingly smaller pool. The need for talent is a challenge even at earlier stages, but becomes more pressing as the organization grows. SEs are generally not considered top career opportunities. SE leaders must find ways to stay visible among peers and former competitors. As the SE matures, it must also create a governing system to oversee and maintain its commitment to social impact.

Indonesia's laws generally treat SEs as for-profit businesses, which means that SEs face the usual challenges of any business. SEs are not recognized, much less rewarded, for their efforts to generate social impact. The time required to apply for permits and obtain licenses, in particular, is a major regulatory 'pain point.' SEs would also benefit from an easing of restrictions on lines of business.

SE investors: Mismatches of expectations and reality

Impact investing in Indonesia is not as robust as it is among peers and in other markets. Southeast Asia accounts for about 6 percent of impact investing worldwide, a total of approximately \$240 million throughout the region. Indonesia's share is only about \$23 million. Four factors contribute to this lower volume:

Early-stage SEs need more patient capital in smaller amounts.

- *Misaligned expectations of returns.* Globally, most impact investors are seeking double-digit returns, which most SEs in Indonesia are not yet generating. SEs in Indonesia still yield lower returns than alternatives in other markets. These lower returns lead to a perception that management lacks the ability to deliver competitive value, when in fact many SEs choose to keep returns low in order to fulfill their social purpose.
- *Lack of financial literacy.* Social entrepreneurs may miss opportunities because they have not been exposed to many different financial instruments. Because their financial literacy is limited, social entrepreneurs may perceive non-grant-based funding as complex. Their preference for hassle-free funding can make it difficult for investors to place funds.
- *Supply and demand mismatch for funding.* More funds are available for growth-stage SEs, but most SEs are still in seed or venture stage. Growth-stage investors, who expect revenue of at least \$500,000 and an established business plan, may not be able to place funds. Early-stage SEs need more patient capital in smaller amounts. This may be because there are currently more foreign investors in the market. Foreign investors are less willing to place smaller amounts because of the high due diligence and execution costs.

- *Limited local funds.* The limited supply of local funds creates an overreliance on foreign funds and a shallow funding pool. Foreign impact investors keep their operations lean in Indonesia. Opportunities exist to leverage local funds from religious organizations and HNWI. Setting up and publicizing a successful impact investment may be a viable way to attract more local investors.

Indonesian financial institutions need to become more familiar with investing in SEs. As Exhibit 6 shows, traditional requirements for bank micro-loans, venture capital, and private equity investments often cannot or will not accommodate the nonconforming attributes of SEs.

In addition, several bureaucratic procedures currently hinder foreign impact investors' ability to invest in SEs. Those who wish to invest must obtain a license as a PT PMA (companies with foreign investment), with a minimum investment of \$1 million and minimum paid-in capital of \$250,000. Numerous additional licenses may be required, depending on the industries involved. Each license carries its own set of fees. Regulations currently impose unattractive commercial terms on investors who want to be listed as venture capitalists. These investors must pay a 25 percent to 30 percent income tax on dividends. Regulations also require a minimum local investment of 40 percent of total assets.

On the investee side, obtaining a PT PMA license requires a large amount of upfront capital and a long bureaucratic process. Indonesia's Investment Coordinating Board's (BKPM) approval is required for every placement. Foreign investments are further regulated for maximum percentage of share diversity within an industry. Changes in these areas would make it easier for SEs to attract investors.

SE Enablers: More structural and orchestrated support needed

Existing policies and the current environment do little to encourage social entrepreneurship. The Ecosystem Readiness Index (ERI) measures a city's per capita GDP against quantitative measures of entrepreneurship, civic activ-

EXHIBIT 6 | Existing financial institutions in Indonesia are also not familiar with investing in SE

| | Bank micro-loans | Venture capital | Private equity |
|---|---|---|---|
| Industry focus | <ul style="list-style-type: none"> All sectors Provide loans to micro and small/medium enterprise Indonesia | <ul style="list-style-type: none"> Mainly commerce, tech, online marketplaces and portals and data analytics Seed/early stage Usually focus in one region | <ul style="list-style-type: none"> Mainly large scale business natural resource, infrastructure, consumer Blue chip, small cap business in early stage with stable growth |
| Average investment size and interest rate | <ul style="list-style-type: none"> IDR 25K–100M loan size 1–1.5%/monthly investment credit interest 1.5–2%/monthly working capital credit interest Monthly payment period | <ul style="list-style-type: none"> \$100K–\$300K investment size Dividend sharing on annual basis | <ul style="list-style-type: none"> \$3–15M investment size |
| Common financing criteria | <ul style="list-style-type: none"> Strong capital structure Profit and loss statement >1 year operations | <ul style="list-style-type: none"> Coherent business plan with potential exit strategy Clear use of funds, financial risk Attractive potential return on investment >1 year operations | <ul style="list-style-type: none"> Revenue \$15–100M EBITDA \$2M p.a. Attractive rate of return Stable historic performance Modest capex and working capital |
| Other pre-requisite | <ul style="list-style-type: none"> Collateral Business permit files (surat izin usaha, surat tanda daftar perusahaan, surat izin tempat usaha) AD/ART and Tax ID | <ul style="list-style-type: none"> Industry outlook with potential upside | <ul style="list-style-type: none"> Management team Growth prospects Ability to withstand business cycle |
| Reasons to not offer impact investment | <ul style="list-style-type: none"> High business risk due to degree of inefficiency in operations | <ul style="list-style-type: none"> Minimum revenue pre-requisite too high | <ul style="list-style-type: none"> Size of SEs business are too small, unworthy of due diligence investment |

Sources: Press research; BCG analysis.

ism, control of corruption, education, and other enablers. The ERI gives equal weight to entrepreneurial factors and social factors within an economy. Entrepreneurial factors include the region’s entrepreneurial spirit and the regulatory environment, as measured by the World Bank’s ease of doing business index. Social factors include the presence of social entrepreneurs and enablers—like Grameen Bank or Ashoka—the education and talent of these entrepreneurs, government regulations and policies, and social awareness.

According to the World Bank’s findings, Jakarta ranks ninety-first on the global index, with an ERI similar to Hanoi and Bandung (see Exhibit 7). Major factors in this ranking are Indonesia’s low ease of doing business and its low control of corruption. The World Bank also cited bureaucratic procedures and a lack of information available to those interested in social entrepreneurship.

In comparison, Santiago, Chile, which ranked third on the ERI, makes it possible for a social entrepreneur to set up a business in eight days. In Chile, establishing an SE requires seven procedures. Chile scores 0.93 on the corruption scale, where -2.50 is a weak system of corruption controls and 2.50 is strong. Fifty-nine percent of those Chileans eligible for tertiary education are enrolled in school.

Jakarta and Bandung, in contrast, rank in the fiftieth percentile among emerging markets (see Exhibit 8). Indonesia’s civic activism and education ratings are comparable to those of Santiago, but its entrepreneurship and control of corruption ratings are considerably lower. These conditions make it harder for the enabling organizations that are present in Indonesia to be fully effective.

Interviews with SE players confirmed these findings. A legal expert mentioned that “start-

EXHIBIT 7 | Jakarta and Bandung rank in the 50th percentile of the emerging market population

| Ranking ¹ | City | ERI | GDP/capita | Entrepreneurship | Civic activism | Control of Corruption | Education | Other enablers |
|----------------------|----------------|-------------|--------------|------------------|----------------|-----------------------|-------------|----------------|
| 1 | Hong Kong | 0.9 | 43,956 | 0.95 | 0.94 | 0.95 | 0.9 | 0.65 |
| 2 | Sydney | 0.9 | 48,853 | 0.99 | 0.97 | 0.96 | 0.94 | 0.36 |
| 3 | Santiago | 0.88 | 20,633 | 0.86 | 0.89 | 0.93 | 0.89 | 0.87 |
| 4 | Auckland | 0.86 | 42,702 | 1 | 0.95 | 0.99 | 0.99 | 0 |
| 5 | Wellington | 0.86 | 29,159 | 1 | 0.95 | 0.99 | 0.99 | 0 |
| 6 | Christchurch | 0.86 | 29,159 | 1 | 0.95 | 0.99 | 0.99 | 0 |
| 7 | Montevideo | 0.86 | 12,390 | 0.81 | 0.94 | 0.92 | 0.92 | 0.87 |
| 8 | Cape Town | 0.86 | 31,174 | 0.88 | 0.85 | 0.78 | – | 0.87 |
| 9 | Canberra | 0.85 | 37,290 | 0.99 | 0.97 | 0.96 | 0.94 | 0 |
| 10 | Brisbane | 0.85 | 37,290 | 0.99 | 0.97 | 0.96 | 0.94 | 0 |
| 19 | Kuala Lumpur | 0.78 | 14,051 | 0.86 | 0.88 | 0.8 | 0.79 | 0.36 |
| 23 | Bangkok | 0.75 | 8,010 | 0.78 | 0.77 | 0.65 | 0.85 | 0.65 |
| 90 | Hanoi | 0.52 | 2,834 | 0.58 | 0.47 | 0.44 | 0.56 | 0.36 |
| 91 | Jakarta | 0.52 | 9,717 | 0.37 | 0.76 | 0.33 | 0.57 | 0.99 |
| 94 | Bandung | 0.52 | 8,407 | 0.4 | 0.76 | 0.33 | 0.57 | 0.87 |
| 119 | Phnom Penh | 0.25 | 2,061 | 0.22 | 0.18 | 0.08 | 0.24 | 0.65 |
| 128 | Baghdad | 0.17 | 4,321 | 0.16 | 0.5 | 0.05 | – | 0 |
| 129 | Luanda | 0.17 | 7,386 | 0.26 | 0.22 | 0.04 | 0.06 | 0 |
| 130 | Asmara | 0.16 | 532 | 0.13 | 0.22 | 0.57 | 0.01 | 0 |
| 131 | N'Djamena | 0.08 | 1,370 | 0.11 | 0.14 | 0.06 | 0.01 | 0 |
| 132 | Malabo | 0.06 | 33,643 | 0.11 | 0 | 0.02 | – | 0 |

Sources: World Bank; International Institute of Social Studies; BCG analysis.

¹Selected cities

ing up any kind of business is still difficult due to the amount of time, energy, and resource invested in the bureaucratic process . . . not to mention relatively low financial literacy level.” The CEO and founder of one of Indonesia’s leading SEs echoed the complexity and mentioned that “tax arrangements are very complicated,” because the SE and foundation must be listed as separate legal entities.

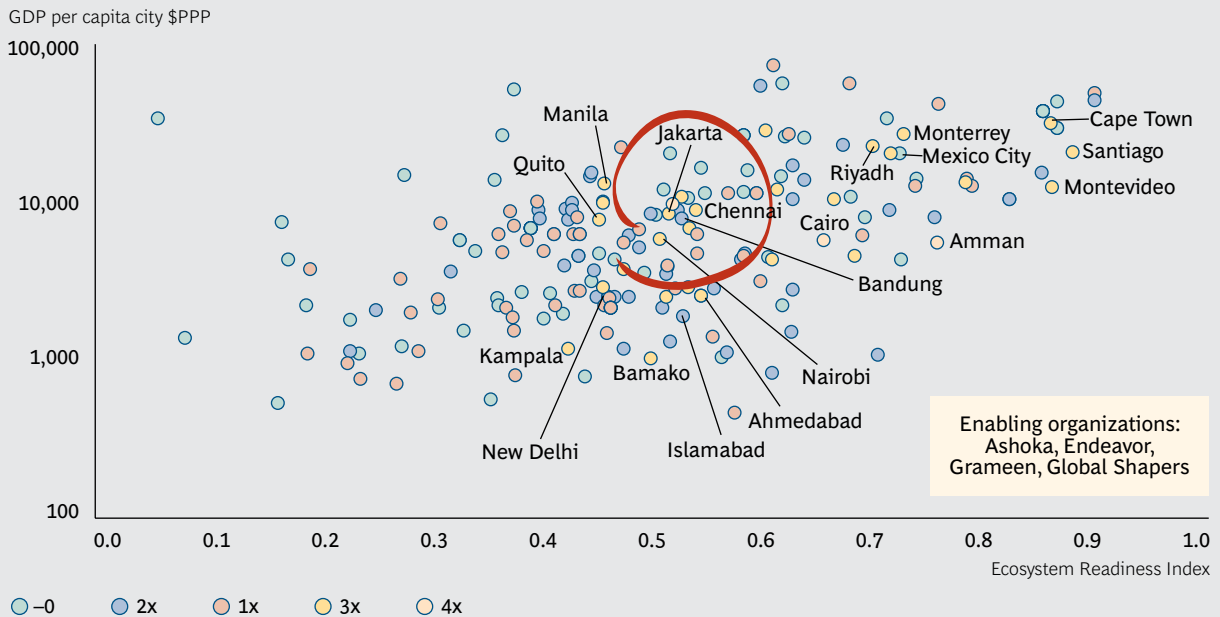
Structural changes would strengthen the role of enablers in key areas. The creation of a single hub for SEs, for example, would serve as a catalyst for SE growth. These hubs exist in the United Kingdom (Social Enterprise UK), Thai-

land (Thai Social Enterprise Office), and South Korea (the government’s 2007 SE law). These countries see stronger lobbying of the government, an orchestrated effort from enablers, and more efficiently allocated resources.

It is also worth looking at other nations’ specific policies that help secure the mission of SEs as possible sources of strategies and tactics that can facilitate SE growth in Indonesia. These policies are not prerequisites for a healthy SE ecosystem, but they have helped to accelerate SE growth where adopted, and might be adaptable to Indonesia’s ecosystem. In the UK, for example, the Community Interest Company

EXHIBIT 8 | Jakarta and Bandung are mid-performers based on ERI score

GDP vs. ERI score vs. level of enabling organization's presence in the city



Relatively strong presence of enabling organizations, but ecosystem is not fully ready

Sources: World Bank; International Institute of Social Studies; BCG analysis. Figures as of 2012.

(CIC) has provided a structure for SEs to ensure that they adhere to their social mission. The existence of the CIC, however, does not limit structural options for SEs that choose other legal entities. One possible SE model available in the U.S. is the state-driven Benefit Corporation, which ensures that SEs report social impact. (See Appendix D for more information about these international policies.)

THREE areas of regulatory improvement would transform Indonesia's social entrepreneurship ecosystem:

- *Incentives to contribute to development.* Give organizations credit (such as with tax incentives) for growth generated in development areas where government and the market require support.
- *Disincentives for societal damage.* Penalize (such as with taxes or other sanctions) companies or organizations that inflict social damage.
- *Improve the ease of doing business.* Simplify the process of establishing a new business,

and make it easier to meet legal requirements.

Before we seek targeted government action, however, SEs need wider public understanding and acceptance as a means of generating sustainable social impact. Full-blown advocacy at this stage may trigger over-regulation and institutionalizations with no tangible impact (for example, over-regulation in clean development initiatives).

In generating support from the government and the public, it is important to avoid biased advocacy that would serve only SEs. They must join the global effort to endorse responsible business practices in general, beyond those that apply only to other SEs. Businesses that create positive social impact should be appreciated or even rewarded, while businesses that create negative externalities should be disgraced or punished.

In the more immediate term, we have identified five priority action items for increasing social entrepreneurship in Indonesia. These are discussed in the next section.

GROWING SOCIAL ENTREPRENEURSHIP IN INDONESIA

WE HAVE IDENTIFIED THREE general areas for action to address the challenges we have identified in Indonesia's SE ecosystem, with five priority action items:

Strengthen social entrepreneurs and their capabilities

1. Attract and nurture talent for SEs
2. Increase the number of SE accelerators

Magnify the impact of enablers

3. Orchestrate efforts to grow the SE ecosystem
4. Improve the ease of doing business in Indonesia

Attract more social investors

5. Establish proof of concept on impact investing

Attract and nurture talent for SEs

Strong leadership can be critical for SEs in overcoming both networking and technical challenges. Indonesian SEs that have reached the growth stage have done so with the help and direction of experienced leaders. Mature stage SEs such as YCAB, PT RUMA, and IBEKA have CEOs with extensive international

experience and education. Experienced leaders such as Veronica Colondam, CEO of YCAB, can help attract investors with their networking skills. These leaders are able to draw on a broad network of contacts for fundraising, people management, and business skills.

SEs must build competitive career paths for talent, emphasizing contributions to social impact.

A strong leader has both the drive to reach out to others and the strong interpersonal skills required to convey confidence to investors. The right leader can attract and retain key talent. He or she can communicate the SE's values to employees. Leading by example can inspire employees with a model of commitment and people management skills. The right CEO has both management skills and discipline, the ability to see opportunity, and a vision for growth.

SEs need to build competitive career paths for talent, with an emphasis on contributions to social impact. The career trajectory for employees should be clear. The recruiting value proposition must be built on social impact.

SEs should target new graduates and potential lateral hires who have high social awareness, as well as set up management trainee programs for new graduates. Compensation should be competitive.

People who might want to work in SEs are often unaware of the opportunities that exist. SE ecosystem players should collaborate with universities to introduce and promote social entrepreneurship as a career. Universities can integrate social entrepreneurship as an option for students' social service programs. SEs should be represented at university student career fairs.

SE ecosystem players should build a network or platform that showcases SEs. This platform would serve as a virtual hub that allows new graduates, potential lateral hires, and enthusiasts to connect with SEs.

Finally, SEs may consider building cooperation with businesses and the private sector to enhance management team credibility. Conducting capacity building programs with prominent business figures will establish alliances and give the SE's management a stamp of validity. YCAB has turned to BCG for help in enhancing its expansion strategy and business plan. IBEKA has worked with HIVOS Netherlands to improve program development and management skills. PT RUMA has worked with Endeavor and the Omidyar Network on network building and strengthening operations, strategy, and human capital.

Increase the number of SE accelerators

SEs need accelerators that focus on developing their ability to scale up. Currently, SEs in rural areas, especially, have minimal exposure to methods of scaling up. SEs across the board have limited support in developing their growth strategies. Almost all SEs have funding gaps they need to fill in order to realize their growth strategy.

Addressing this should begin with awareness builders. Awareness builders can incorporate benefits and methods of scaling up impact in their current programs. A case study should be developed to illustrate how more ma-

ture-stage SEs are able to generate more social impact. Even small-scale, community-based SEs should be encouraged to find ways to scale up the impact generated for their target beneficiaries.

SE ecosystem players should set up a platform to share information and support.

Impact investors should partner with local capacity builders to set up accelerators for SEs. Together they can provide support to SEs in designing growth strategies to maximize impact to beneficiaries. They can build SEs' capability in preparing documents required for investment. They can develop a program that combines capacity building and availability of funds to realize the SE's growth strategy.

Ecosystem players should also be looking for new participants to take on the role of incubator. Universities and businesses are prime sources of capacity builders.

Orchestrate efforts to grow the SE ecosystem

SEs have much to gain from collaborating with each other. If awareness builders make their pool of knowledge available, the flow of information within the SE ecosystem will save investors time and effort. Collaboration and information sharing would smooth the current problem of disparate support among SEs due to uneven visibility. It would also prevent duplication of effort among multiple enablers.

SE ecosystem players should set up a platform to share information and progress, align their priorities, and provide mutual support. Awareness builders can develop and share a database of venture and growth-stage SEs for impact investors to study. They can also identify and share issues at grassroots levels for potential new SEs to address. Key players can use the platform to review accomplishments, identify new challenges, and organize gatherings such as annual meetings or conferences.

SE ecosystem players should design a structure to institutionalize collaboration. Roles and accountability should be assigned in order to maximize contributions, avoid duplication of roles, and spread the effort and geographic focus among players. Roles must be calibrated to serve different types of SEs at different stages, as they face different types of issues.

Accelerate the ease of doing business in Indonesia

SEs face bureaucratic challenges in setting up and growing businesses and there is a high risk of overregulation. Traditional small and medium-sized enterprises share these challenges. They include intensive up-front investment and difficulties in receiving foreign investments. However, full-blown advocacy for SEs risks drawing regulatory attention that could stifle development.

Ecosystem players must advocate for increasing the ease of doing business in Indonesia. A movement already exists to reduce business-related bureaucracy. SEs must continue this effort.

Establish proof of concept on impact investing

Traditional sources of charitable giving (HNWIs, CSR funds) are often unfamiliar with SEs. They may have no successful case studies to serve as a reference. Investing in SEs is not yet a popular avenue of charitable giving, and we have limited case studies on successful impact investing in Indonesia.

Ecosystem players should jointly set up a pilot investment as proof of concept that SE funding works. SEs could set up a small pilot fund, or leverage an existing impact investor's portfolio. Clear metrics would be necessary for successful investments, including operational, financial, and social metrics. The pilot would incorporate knowledge from im-

pact investors and existing efforts to build impact investment funds. Success stories and their social impact would be publicized. Workshops with HNWIs and religious and CSR fund representatives would educate them about impact investing as a means of sustainable giving.

Once this proof of concept is successful, ecosystem players should set up a SE fund with proportionate allocation across maturity levels. The fund should attract HNWIs, religious, CSRs, and other nontraditional sources of funds. It should be allocated across maturity levels to ensure the spread of impact among new SEs and growing SEs.

INDONESIA'S social entrepreneurship ecosystem is active and growing. The country, however, is only beginning to tap SE's potential for improving both systemic social issues and individual prosperity. Each of the ecosystem's stakeholders — the SEs, SE investors, SE enablers, and target communities — faces internal and external challenges in pursuing further growth.

BCG has consulted with stakeholders to identify these challenges, and to develop this list of priority actions to address them. As social entrepreneurship grows in Indonesia, public awareness will grow as well. This awareness will encourage even greater progress toward empowering people and delivering social impact. BCG looks forward to continuing this work as an SE enabler, helping to build awareness, networks, and capacity as we move forward.

METHODOLOGY

THIS REPORT DRAWS ON both primary and secondary data sources.

Primary data was gathered from a series of interviews with social entrepreneurs; managers and board members of enablers; and impact-investing institutions, experts, and other practitioners.

Secondary data was gathered from publications searches and references to previous

studies. BCG case experience also provided information to strengthen analysis.

While no quantitative analysis was conducted for the purpose of the report, the authors quantified findings using the best data available as proxy for actual figures.




APPENDIX A

SOCIAL ENTREPRENEURSHIP IN OTHER COUNTRIES

Social entrepreneurship in Indonesia is still nascent compared with more mature SE ecosystems in other countries. Indonesia's key players may be able to learn from SEs' experiences in more mature ecosystems, and














Indonesia may be able to adapt some of the political and economic structures these countries use to encourage and reward social entrepreneurship.



EXHIBIT 9 | Three stages of SE ecosystem globally

| | Nascent (Organic growth) | Rapid growing (Engineered growth) | Advanced and mature (Mutual growth) |
|----------------------|--|--|--|
| |  |  |  |
| Ecosystem readiness | 30–60th percentile ERI <ul style="list-style-type: none"> Main challenge in ease of doing business and social awareness | ~70–80th percentile ERI <ul style="list-style-type: none"> Hygiene factors are met (high ease of doing business and social awareness) | ~90th percentile ERI <ul style="list-style-type: none"> Strong across factors with spike in some factors |
| Ecosystem players | No commonly agreed definition of SEs <ul style="list-style-type: none"> Limited track record on number of SEs | Existing definition endorsed by the government | Existing definition endorsed by the government <ul style="list-style-type: none"> Systematic means to track number of SEs |
| Social entrepreneurs | Mainly seed and venture stage SEs, focus on providing basic needs | Growing SEs, focus on improving economic development (e.g., unemployment) | Mature SEs, focus on addressing advanced social problem (e.g., senior citizens, etc.) |
| Impact investors | Active impact investors with lenient investment criteria | Active government to endorse fund and active impact investors | Intensive impact investing activities with advanced financial instruments |
| SE enablers | High enablers presence, yet some white space available | Enablers present and active in each stage of maturity | High enablers presence. reaching out to different markets |
| Target communities | Relatively positive traction from target communities | Positive traction from target communities | Positive traction from target communities |

Sources: Press research; BCG analysis














EXHIBIT 10 | India's SE ecosystem still in Early Stage



| | | Description |
|----------------------|-------------------------------|--|
| Social entrepreneurs | Presence and growth |  Common definition of SEs among SE enablers, but no single legal definition established ~600 SEs identified <ul style="list-style-type: none"> 80% of SEs are registered as Private Limited Companies (PLCs) Mostly SEs are recognized as regular business, although the model has embedded SE criteria |
| | Maturity stage |  Mainly seed and venture stage SEs, relatively small size <US\$10,000 in annual revenue <ul style="list-style-type: none"> Operate in >100 localities and serve >50,000 BoP beneficiaries annually Challenges most faced by SEs are access to sustained funding and to affordable talent |
| | Industry diversity |  Diverse industry with concentration (~50%) in microfinance institutions, followed by agri-business and clean energy |
| | Products |  Majority are traditional businesses with few high-technology innovative SEs <ul style="list-style-type: none"> Microfinance, agriculture, and housing utilize traditional business model <ul style="list-style-type: none"> E.g. Star Agri in developing agriculture warehouse infrastructure, Value Budget Housing Company in developing affordable housing in India Energy SEs apply more technology innovation <ul style="list-style-type: none"> E.g. SEs Essmart Global with its solar lantern, rechargeable battery, and water filters |
| Impact investors | Impact investment volume |  High investment transactions, India's SEs today are capital hungry <ul style="list-style-type: none"> > 90% SEs reported high demand for equity funding to finance growth Investment reaches ~\$ 390M |
| | Impact investment players |  Majority of transactions done for mature stage investments with average size of \$ 2-5M <ul style="list-style-type: none"> More than 62 impact investors registered in 2013 with leading players on each stage <ul style="list-style-type: none"> i.e. Unitus Seed Fund (seed), Aavishkaar (venture), IFC (growth), Unitus Capital (mature) There is a gap between SE needs and investor expectation due to investor requirement and SE readiness |
| SE enablers | Awareness builders |  High number of events and competitions held to raise awareness of SEs <ul style="list-style-type: none"> Academic players such as the Indian Institute of Management (IIM) take leading role in growing public awareness of SE through competitions |
| | Network builders |  Strong presence of global and national SE network exists in India <ul style="list-style-type: none"> Global inclusive development dialogues with entrepreneurs, impact investors, corporations, and governments (e.g. Sankalp Forum, Schwab Foundation, Ashoka) |
| | Capacity builders |  Limited basic skills capacity building and incubation compared to high number of SEs <ul style="list-style-type: none"> Two large-capacity building programs, including training for leaders to obtain access to funds, networking and business skills by Dasra Social-Impact (DSI), and incubator support from Centre for Innovation Incubation and Entrepreneurship Global players are also present in to provide capacity building UnLTD, Villgro, Intellecip, Deshpande Foundation, Khosla Lab, RTBI |
| | Policy makers and influencers |  Securities and Exchange Board of India (SEBI) acknowledge social venture funds as an alternative investment fund for investors <ul style="list-style-type: none"> Supporting regulations for social venture funds |
| | Business partners |  Business support to SE mainly through CSR <ul style="list-style-type: none"> E.g. DBS and Tata Institute of Social Science create joint program to teach finance and networking, and provide mentoring supports for SEs |
| Target communities | Willingness to adopt |  Society behaves as a common consumer, will buy it if the product is economically attractive |
| | Need for SEs |  <ul style="list-style-type: none"> Poverty rate 21.9% living below the poverty line (2013), significantly decreased from 37.2% in 2005 8.8% unemployment, 8% aging population as percentage of population |

 Nascent
  Mature

Sources: Unitus Impact India; Villgro; Intellecip; Press research; Intellecip; Villgro; ADB; The Wall Street Journal; BCG analysis.














EXHIBIT 11 | UK's SE ecosystem is advanced and mature



| | | Description |
|----------------------|-------------------------------|---|
| Social entrepreneurs | Presence and growth |  Criteria of SEs as business purpose are defined, no single legal definition yet 55,000 SEs identified in 2010, options of legal entities vary <ul style="list-style-type: none"> (1) limited company, (2) charity, co-operative, (3) industrial and provident society, (4) community interest company, (5) sole trader or business partnership |
| | Maturity stage |  Mature SEs with average revenue of ~£200K p.a (equivalent \$300K) <ul style="list-style-type: none"> Contributing to up to ~£120B to UK economy in 2013 |
| | Industry diversity |  Diverse industry with concentration (~50%) in business support, education, employment |
| | Products |  Focus of product and industry in social issues beyond basic needs with more advanced technology, examples include: <ul style="list-style-type: none"> Social Entrepreneurship Mark (SE accreditation service) Belu (high tech glass recycling) Framework for change (Training to improve emotional service of nurses) |
| Impact investors | Impact investment volume |  Impact investing is not a main prerequisite for SE growth due to strong financials <ul style="list-style-type: none"> Required mostly to finance working capital |
| | Impact investment players |  Advanced financial instruments with positive traction (E.g., Petersbrough prison SIB) <ul style="list-style-type: none"> Only 7% of SEs receive grant Integrated role of social entrepreneur, capacity builder, and impact investor |
| SE enablers | Awareness builders |  High presence of awareness builders, orchestrated by government |
| | Network builders |  Global, national, and regional SE network exists <ul style="list-style-type: none"> Government endorsed platform exists to connect entrepreneurs in emerging sector with capacity builders (Global Social Entrepreneurship Network) Conduct regional-based events to increase trading activity |
| | Capacity builders |  Limited basic skills capacity building program, more focused on business development <ul style="list-style-type: none"> Government endorsed platform exists to connect entrepreneurs in emerging sector |
| | Policy makers and influencers |  Strong support in boosting number of SEs in 1990 – 2006, and improving SE's efficiency and performance <ul style="list-style-type: none"> Community Interest Company established as endorsed legal entity for SE |
| | Business partners |  High SE and Government and inter-SEs trading activities <ul style="list-style-type: none"> Government-endorsed ministries/government initiatives to select SE as business partner |
| Target communities | Willingness to adopt |  Generally there is high willingness to adopt and produce as well as high SEs growth rate at <ul style="list-style-type: none"> Government endorsed ministries/government initiatives to select SE as business partner |
| | Need for SEs |  Basic indicators are positive, SE needs from unemployment and aging population <ul style="list-style-type: none"> Low poverty rate 1% poverty per population, 109% primary school gross enrollment 7% unemployment, 15% aging population as percentage of population |

 Nascent
  Mature

Sources: SE Market trends 2013 Cabinet Office; RBS People's Report; Press research; World Bank; Parliament UK; BCG analysis.

EXHIBIT 12 | Thailand's SE ecosystem is growing rapidly

| | | Description |
|----------------------|-------------------------------|---|
| Social entrepreneurs | Presence and growth |  <p>Six characteristics of SE endorsed by the Thailand Social Enterprise Organization (TSEO) emphasize on operational business and reinvestment of profit</p> <ul style="list-style-type: none"> The production and management of SE will not harm social fabric and environment in long term; SE applies the philosophy of sufficiency economy; SE could sustain itself by self-funding; majority of profit will be contributed back to society <p>~500 SEs acknowledged and up to 166K aspiring SEs</p> |
| | Maturity stage |  <p>Mainly at growth stage and needing investment</p> |
| | Industry diversity |  <p>Three focus sectors; (1) environment especially agriculture and forestry, (2) social sector and quality of life, and (3) local economic for society and sustainability</p> |
| | Products |  <p>Growing number of technology-based SEs</p> <ul style="list-style-type: none"> Numerous platform-based SEs, including policy crowd-sourcing, and web-based knowledge sharing platform (including InCare web application and Hospital OS) Creative industry also blooms in Thailand (e.g. Thoth media, Open dream) |
| Impact investors | Impact investment volume |  <p>\$3-4 M per annum government-endorsed fund channeled through TSEO</p> <ul style="list-style-type: none"> Minimum activities from impact investors |
| | Impact investment players |  <p>Government impact fund generated from 3% sin tax on tobacco</p> <p>Impact investors are available for every SE stage</p> <ul style="list-style-type: none"> Taejai.com for seeds stage, UnLtd for start-ups stage, Khon Thai Foundation for growth stage, and Change Ventures for both growth and expand stages |
| SE enablers | Network builders |  <p>TSEO as government endorsed body responsible to build awareness on SE</p> <ul style="list-style-type: none"> TSEO created by Prime Minister decree (2010) |
| | Awareness builders |  <p>Two prominent network builders connect capacity builder and investor to SEs</p> <ul style="list-style-type: none"> Thai Young Philanthropist Network (TYPN) creates a vibrant citizen movement at the top of the pyramid in order to become a capacity builder of the citizen sector in Thailand ChangeFusion works to keep the youth momentum going by connecting SEs with strategic partners as well as facilitate market access |
| | Capacity builders |  <p>TSEO build Community Development Financial Institutions by conducting capacity building efforts</p> <ul style="list-style-type: none"> Develop training centers and conduct training on operational improvements and financial tools |
| | Policy makers and influencers |  <p>Strong government push to boost SE growth through establishment of TSEO and SE master plan</p> <ul style="list-style-type: none"> Existing draft for SE legal entity |
| | Business partners |  <p>Network Builders initiates an effort to create an enabling ecosystem partnering with public and private company.</p> <ul style="list-style-type: none"> Social Entrepreneur Mentorship Program (SEMP) and BANPU Champions for Change were held in partnership with Bain & Co. |
| Target communities | Willingness to adopt |  <p>Limited data available</p> |
| | Need for SEs |  <p>Relatively high social issues</p> <ul style="list-style-type: none"> Poverty rate 8% living below the poverty line (2009), Top 3 in Asia region. Leading by only 1% unemployment in Asia region(2011), 14% aging population (2015 est) |

 Nascent
  Mature

Sources: British Council report; reterra.org; Change Venture Asia website; The Guardian website; Press research; Banpu website; BCG analysis.

APPENDIX B

SELECT LIST OF INDONESIAN SOCIAL ENTERPRISES BY STAGE

SEs can be classified in one of four stages of development: Seed, Venture, Growth, and Mature. Depending on the SE's mission and goal, it may choose to remain at Seed, Venture, or

Growth stage, with no need to develop further. This list is far from comprehensive, but reflects the preponderance of Indonesian SEs at the Seed and Venture stages.

EXHIBIT 13 | Select Indonesian Social Enterprises by Stage

List is not exhaustive

| Seed | Venture | Growth | Mature |
|---|---|--|---|
| Bike 2 Work <ul style="list-style-type: none"> Bike-riding community Organization structure exists Income from merchandise sales | Telapak <ul style="list-style-type: none"> Coop and community enterprises to curb illegal logging Conglomeration investment 270 members across Indonesia | IBEKA <ul style="list-style-type: none"> Empower local villagers through tech, financial advice, and training Operation across Java and Sumatera | YCAB <ul style="list-style-type: none"> Capacity building for youth health and empowerment Sustainable funding by business unit and cooperatives |
| Yatimpreneurs <ul style="list-style-type: none"> Empowering orphans to be self reliant Community providing capability building for orphans Mainly still donation-based | Kakoa <ul style="list-style-type: none"> Bean to bar chocolate company Registered PT Source quality cocoa beans directly from farmers | Javara <ul style="list-style-type: none"> Produce and sell natural and organic local products Registered PT Source from Aceh to Papua For domestic and international market | RUMA <ul style="list-style-type: none"> Empowering independently owned shops with technology Registered as PT PMA and funded by investors Operations across Java and Bali |
| Agrisocio <ul style="list-style-type: none"> Manufacture end agricultural products and capacity-building for villagers Driven by study from college, continue to provide technology and capital to villagers | Vasham <ul style="list-style-type: none"> Microfinance and capacity building for smallholder farmers Registered PT \$3 M loans distributed | | Bina Swadaya <ul style="list-style-type: none"> Empowering community through capacity acceleration and access to resources Registered as Foundation Income from micro-enterprises |
| Yayasan Bali Tekno <ul style="list-style-type: none"> Develop Techno-Eco Agriculture Lab Foundation of farmer community Doing research and innovating agricultural cultivation | Koperasi Kasih Indonesia <ul style="list-style-type: none"> Financial Services for unbanked people Registered Coop Provide capacity building on Financial Education | | |
| Kitabisa.com <ul style="list-style-type: none"> Crowd sourcing on social projects Registered as a Foundation 36 out of 61 projects are successfully funded | Amartha <ul style="list-style-type: none"> Access to finance for the poor Registered as cooperative | | |
| | Toraja Melo <ul style="list-style-type: none"> Fashion line by women in Toraja Registered PT Income from selling products worldwide | | |

Sources: Press research; Management interview; BCG analysis.

APPENDIX C

SELECTED TYPES OF BUSINESS-TO-SOCIAL ENTERPRISE ENGAGEMENT

Businesses that are not themselves SEs can act as SE enablers in several ways, from partnerships to advisory relationships. These examples of business-to-SE engagement in In-

donesia addressed specific problems through training and mentorship, consultancy, boosting awareness, or financial support.

EXHIBIT 14 | Wide opportunity for SEs to leverage B2SE² cooperation to improve capability and increase scale

| | Global examples | | | | Indonesian examples | |
|-------------------|--|--|---|---|---|---|
| | Grameen Danone Foods | Grameen Veolia Water | BASF Grameen | Grameen Intel Social Business | RUMA-Danone Joint Recruitment Program | DBS Social Enterprise Programs |
| Problem addressed | <ul style="list-style-type: none"> Child malnutrition Poverty reduction | <ul style="list-style-type: none"> Arsenic-contaminated water in rural areas | <ul style="list-style-type: none"> Risk of malaria in parts of the country | <ul style="list-style-type: none"> Inefficient use of fertilizers Maternal health care | <ul style="list-style-type: none"> Talent recruitment Social awareness | <ul style="list-style-type: none"> Awareness business skills and access to funding |
| Solution offered | <ul style="list-style-type: none"> Affordable yogurt fortified with micronutrients (since 2007) Income generation in local communities | <ul style="list-style-type: none"> Clean water through village tap points (since 2008) | <ul style="list-style-type: none"> Affordable and long-lasting mosquito nets (since 2009) | <ul style="list-style-type: none"> Easy-to-use IT solutions (since 2009) | <ul style="list-style-type: none"> Apprentices to work in RUMA & Danone Exposure to different type of business projects | <ul style="list-style-type: none"> Sponsorship of research Conferences Training programs Private mentorship |
| | Grameen GC Eye Care Hospital | Grameen Caledonian College of Nursing | Grameen Shakti | Grameen Distribution | BCG Giving Back | |
| Problem addressed | <ul style="list-style-type: none"> Limited access to specialty eye treatment for the poor | <ul style="list-style-type: none"> Shortage of nurses and lack of access to medical care among poor and rural communities | <ul style="list-style-type: none"> Lack of electricity Unhealthy living environment | <ul style="list-style-type: none"> Lack of access to basic products in rural areas | <ul style="list-style-type: none"> Limited capability of SEs to develop sustainable business model and scale up | |
| Solution offered | <ul style="list-style-type: none"> Affordable eye-care examinations and surgeries for the rural poor (since 2007) | <ul style="list-style-type: none"> Nursing education for underprivileged girls (since 2010) | <ul style="list-style-type: none"> Clean energy (since 1996) with¹ <ul style="list-style-type: none"> Solar home systems Cooking stoves Biogas plants | <ul style="list-style-type: none"> Social and consumer products distributed door to door in rural areas (since 2011) | <ul style="list-style-type: none"> Provide pro-bono consultancy services through mentoring university students | |

Sources: BCG Power of Social Business in collaboration with Prof. Yunus report; BCG analysis.

¹Originally founded as a nonprofit organization, Grameen Shakti was transformed into a social business in 2010.

²Business to Social Enterprise.

APPENDIX D

INTERNATIONAL POLICIES TO FACILITATE SOCIAL ENTERPRISES' SOCIAL MISSION

SEs in other countries benefit from legal structures that secure their mission and facilitate growth. While these policies are not a prerequisite for a healthy SE ecosystem, they

have helped accelerate SE growth where adopted, and may be adaptable to Indonesia.

EXHIBIT 15 | SE specific policies function to secure SE's social mission *Policies are not prerequisite, but they will accelerate growth*

Vietnam's SEs grow with limited policy incentive



No legal framework for SE

- Utilize enterprise law or social organization law (NGO)
- Overlapping regulations to establish social organization
- No specific regulation whether or not NGO can generate profit
- \$2M fund gathered in Social Investment Forum Vietnam

~167 SEs identified and fully operated

Thailand's generous support to SE, no SE legal entity yet



No special legal entity for SEs, but special regulations and bodies established to support SEs

- SE established under Association or foundation as legal entity
- Thai Social Enterprise Office established (2010) with \$3.2M funding
- Social Enterprise Master Plan 2010–2014

500 SEs identified and fully operated by the standards

UK's legal recognition tracks ecosystem's contribution



Community Interest Company (CIC) acknowledged as legal entity for SE to ensure adherence to social mission

- Regulate maximum dividend payments cap at 35%
 - 65% of profit reinvested back
 - Capacity to carry over dividend up to 5 years
- Other legal entities are still viable options for SE (e.g., Coop, etc)
- No tax benefits for CICs

8,000 CICs registered, 47,000 SEs used other legal forms

U.S.'s numerous options for SE legal entity



Benefit Corp as most popular legal entity for SE, but other options are available

- 26 states acknowledge Benefit Corp as a legal entity
 - Ensure corporation report social impact, no tax exemption
- Limited Liability Corporations, Corporations, Nonprofits are eligible to be used as legal entity
- B corp certification is available for any legal entity

>1,100 Benefit corporations, >1,000 comp. certified B corps

Sources: Vietnam Social Investment Forum; UK Government; B Lab; Benefit corporation; Press research; BCG analysis.

APPENDIX E

CONTRIBUTORS

BCG is grateful to the following organizations in Indonesia's SE ecosystem which contribut-

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Aavishkaar Indonesia

Aavishkaar, an innovator in early-stage investing, was founded in 2001 to invest in entrepreneurs who build sustainable enterprises that are able to catalyze development impact for excluded communities and remote geographies across the globe. Aavishkaar's initial focus was India; now it is taking its experience and resources to countries in South and Southeast Asia. Aavishkaar has been operating in Indonesia since 2014.



Amartha Microfinance

Amartha Microfinance is a microfinance institution that provides financial services to low-income people in Indonesia's rural areas who have limited access to affordable, high-quality financial services. Amartha works toward an empowering and sustainable banking system that is based on mutual trust, accountability, participation, and creativity. Amartha's mission is to empower low-income families in rural areas with affordable financial services, equipping them with knowledge to pursue life with a greater purpose.



ANGIN

Angel Investment Network Indonesia (ANGIN) is a program of Global Entrepreneurship Program Indonesia (GEPI) that focuses on helping early-stage startups grow through funding and mentoring. Founded in 2012, ANGIN is known as Indonesia's first formal angel investment network. One SE funded by ANGIN is Wangsa Jelita.



British Council Indonesia

British Council (BC) is a Royal Charter charity, established as the UK's international organization for educational opportunities and cultural relations. Globally, BC promotes the development of SE to help foster a more sustainable, inclusive, and prosperous future for all. BC Indonesia, established in 1948, continues to make a difference in the core areas of English language, arts, education, and society. BC provides social entrepreneurs with training, business consulting, and mentoring; access to funding and investment opportunities; study tours; and international networking.



LGT Venture Philanthropy

LGT Venture Philanthropy (LGT VP) is an impact investor that supports organizations with outstanding social and environmental impact. LGT VP's team, in five continents, strives to increase the sustainable quality of life for less advantaged people by inspiring clients to active philanthropy, providing individualized philanthropic advice, and investment implementation. A broad range of clients benefit from LGT VP's experience, systems, processes, and networks, built through the philanthropic engagement of the Princely Family of Liechtenstein/LGT Group.



Rekan Usaha Mikro Anda (RUMA)

Rekan Usaha Mikro Anda (RUMA) is SE that uses mobile technology to increase dignity, access, and income for Indonesia's poorest citizens. Founded in 2009, RUMA enables access to financial and information services by empowering independently owned shops with technology. RUMA's products fall into two categories, Payment and Financial Services and Information Services.



UnLtd Indonesia

Unlimited (UnLtd) Indonesia is an organization inspired by UnLtd UK, supporting early stage social entrepreneurs and SE in Indonesia. UnLtd Indonesia's vision is an ecosystem where social entrepreneurs and SE blossom easily and are given support to grow. UnLtd Indonesia provides relevant information, financial assistance, consulting, and mentoring.



Vasham

Vasham is a SE that leverages a closed loop business model to provide Indonesian small-holder farmers with the financing, expertise, and income security they need to achieve significantly better standards of living. Vasham provides an end-to-end solution for our farmers, delivering access to farm inputs on credit, training, and fair market access. Vasham also offers growth products that provide farmers with loans on land, buildings, and machinery to increase their capacities.



Yayasan Cinta Anak Bangsa (YCAB)

Yayasan Cinta Anak Bangsa (YCAB) is a nonprofit foundation established in August 1999. YCAB implements its vision to love and enable the young by providing education and economic empowerment for underprivileged youth. Over the years, YCAB has evolved into an impact-first organization, growing into a group of SE with more than 550 staff members operating three business units (PT Yada, PT TerraZone, PT Beauty Inc.) and YCAB Co-operative.

NOTE TO THE READER

About the Authors

Yulius is a Partner in The Boston Consulting Group's Jakarta office. You may contact him by e-mail at yulius.yulius@bcg.com.

Haikal Siregar is a Project Leader in the firm's Jakarta office. You may contact him by e-mail at siregar.haikal@bcg.com.

Natalia Tampubolon is an Associate in the firm's Jakarta office. You may contact her by e-mail at tampubolon.natalia@bcg.com.

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Kaitlin Shilling – Independent
Consultant

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Gita Syahrani, Novita Liangga –
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For Further Contact

If you would like to discuss this report, please contact one of the authors.

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The Boston Consulting Group, Inc.

One Beacon Street

Boston, MA 02108

USA

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