



The **Economic Impact**

of Funding Societies to
MSMEs in Southeast Asia



SEPT 2021

Study of 2018-2019



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Letter from the **CEO**

Dear readers,

My co-founder, Reynold Wijaya, and I were motivated to start Funding Societies | Modalku when we saw a need in Southeast Asia for affordable and trustworthy lenders to Small and Medium Enterprises (MSMEs). MSMEs are important pillars of national economies and key providers of employment and economic opportunities. But despite their centrality to the economy, MSME owners are too often prevented from obtaining the financing necessary to maintain and grow their business. Small and medium sized businesses are typically too small for traditional banks to offer credit to and too large for microfinance. Such barriers to finance create a significant funding gap and stymie economic growth.

By obtaining business financing from Funding Societies, worthy business owners can get the funding they need in the time frame they need it. This allows them to grow their business, hire more employees, and build a track record of good credit.

As a company, Funding Societies | Modalku has achieved much success regionally, from launching in Singapore in 2015 to expanding to Indonesia just a year later in 2016. We also then started operations in Malaysia in 2017, and launched in Thailand in 2020. To date, we have uplifted the regions' economies by disbursing over US\$2 billion through more than 4 million MSME loans. We are truly thankful for the opportunities along the way and partnerships we have received that allowed us to grow even amidst uncertain times.

MSMEs are at the heart of everything we do at Funding Societies, but we know we cannot act alone. We are part of the regional FinTech ecosystem, which includes our peers, stakeholders, and our customers. Join us in supporting worthy MSMEs through credit, and together we can contribute to the growth and prosperity of Southeast Asia.

Stronger MSMEs, Stronger Societies.



Kelvin Teo
Co-founder and Group CEO



The Critical Role of MSMEs in Southeast Asia

An astounding **73 million MSMEs** operate in ASEAN which comprise about **97-99%** of total enterprises.

73 million

MSMEs in ASEAN¹

Small and medium enterprises (MSMEs) are the backbone of Southeast Asian economies. Comprising the large majority of businesses in the economy, MSMEs provide significant employment opportunities and contribute tremendously to national Gross Domestic Product (GDP).

52-97%

of employment is provided by MSMEs²

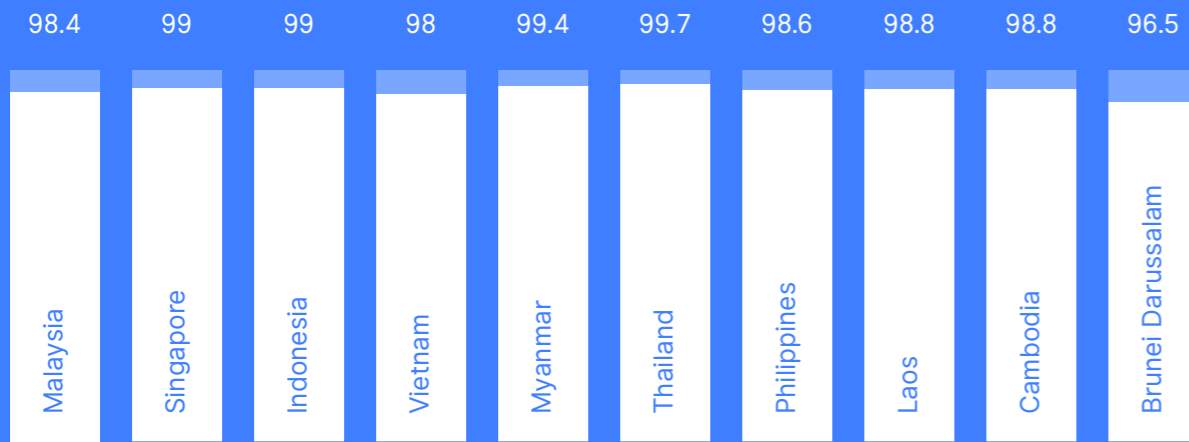
30%-53%

gross value added to respective national economies is created by MSMEs.²

¹MSME Finance Forum. n.d. "MSME Finance Gap." Accessed November 23, 2020.

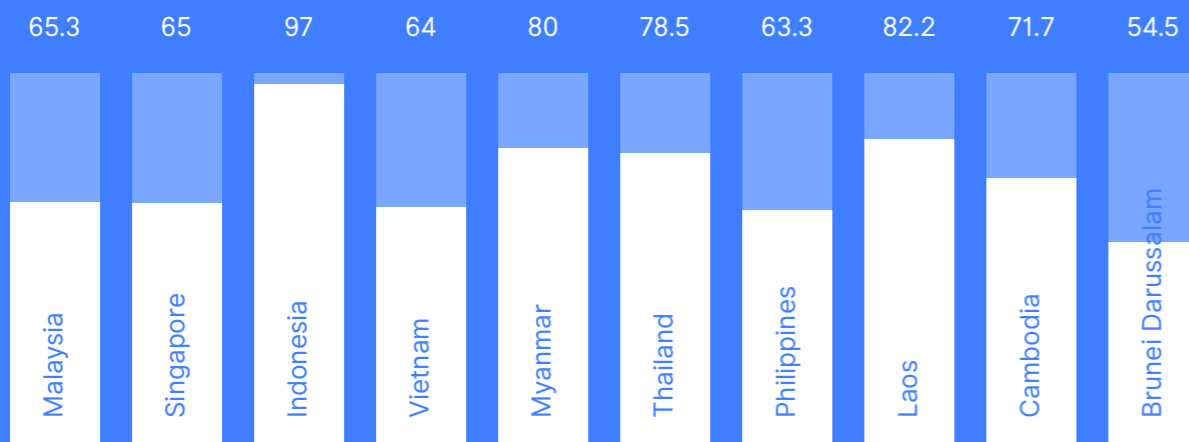
²ASEAN Secretariat. n.d. "Micro, Small, and Medium Enterprises: Overview." Accessed November 23, 2020.

Share of Total Businesses (%)



OECD/ERIA (2018), MSME Policy Index: ASEAN 2018: Boosting Competitiveness and Inclusive Growth, OECD Publishing, Paris/Economic Research Institute for ASEAN and East Asia, Jakarta.

Share of Total Employment (%)



OECD/ERIA (2018), MSME Policy Index: ASEAN 2018: Boosting Competitiveness and Inclusive Growth, OECD Publishing, Paris/Economic Research Institute for ASEAN and East Asia, Jakarta.



“With loan products from Modalku, I can buy cheaper products, so the products’ selling price can compete better with the other shops in e-commerce platforms”

Aswin,
Building materials shop owner, Indonesia

The Funding Gap

\$272 billion

MSME financing gap for Southeast Asia.

Despite their vast number in Southeast Asia and their centrality to national economies and employment opportunities, MSMEs face significant barriers to obtaining the financing necessary to maintain and grow their businesses. Of the MSMEs in Southeast Asia, around 39 million (51%) are either unserved or underserved by financing services. This has led to a financing gap of US\$272 billion in Southeast Asia.

Barriers to Finance

Despite the vital importance of MSMEs to the economy, many small business owners still face significant barriers to formal financing. Traditional commercial banks cater to large enterprises and typically offer products that do not fit the financing needs of MSMEs. These barriers disproportionately burden young companies which lack business track records and informal MSMEs in developing countries.

MSMEs are unique from other business enterprises as they usually are younger leading to fewer years of cash flow history. Additionally, MSMEs generally require smaller loan quantum and tenures and quicker cash disbursement than larger firms. Such obstacles to credit constrain normal business operations and restrict expansion opportunities hindering regional economic growth potential.

³The NeXus Research Centre. The Institutional Environment for Small and Medium Enterprises (MSMEs) and Roles for the Accounting Profession: ASEAN Perspectives. Canberra: University of Canberra, 2018. Accessed July 9, 2020.

⁴Dun & Bradstreet, EY, UOB. ASEAN MSMEs: Are You Transforming the Future? 2018. Accessed July 23, 2020.



81%

Professional accountants agree that access to finance is a challenge for MSMEs.³



65%

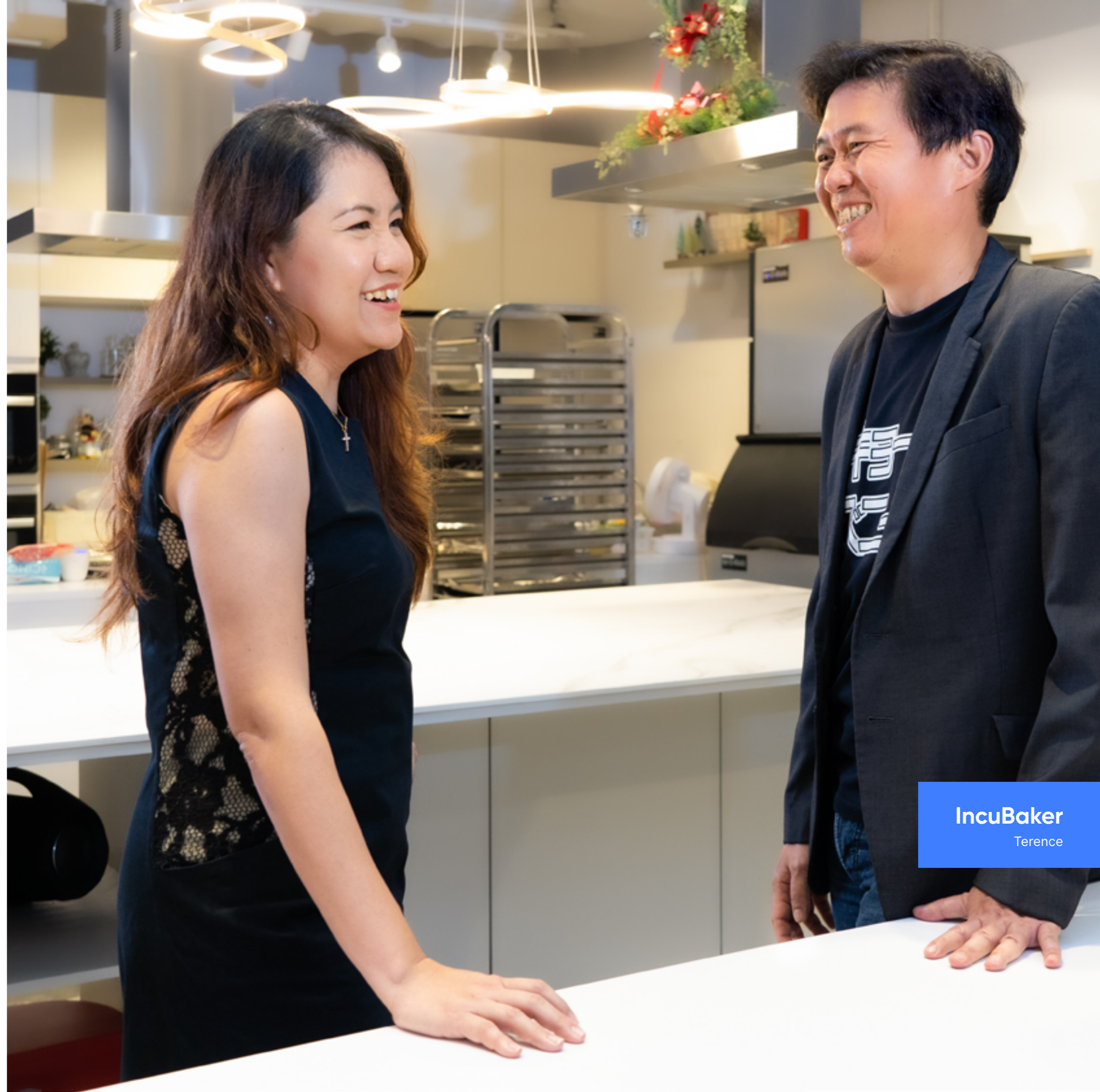
MSMEs consider ease of access to financing a major business challenge.⁴

“We had a purchase order, but we needed the funds upfront. The problem was we were a new company. So traditional banks thought it was too dodgy, and we were turned down. Funding Societies was able to bridge that gap for us.”

Terence, who previously had a career in the armed forces, wanted to do something completely different. Inspired by his wife Stephanie’s desire to open a cafe, Terence realized the need for a cooking space for budding chef entrepreneurs. In 2018, Terence and Stephanie started their first business venture: IncuBaker.

IncuBaker provides a shared cooking facility for home-based cooking entrepreneurs that want to expand their business. As an incubator for budding chef entrepreneurs, IncuBaker has already enabled the success of over 10 business ventures.

Selected by Enterprise Singapore to hold a national competition of snack entrepreneurs to find the next big snack, IncuBaker required upfront capital financing to undertake this exciting new business project.



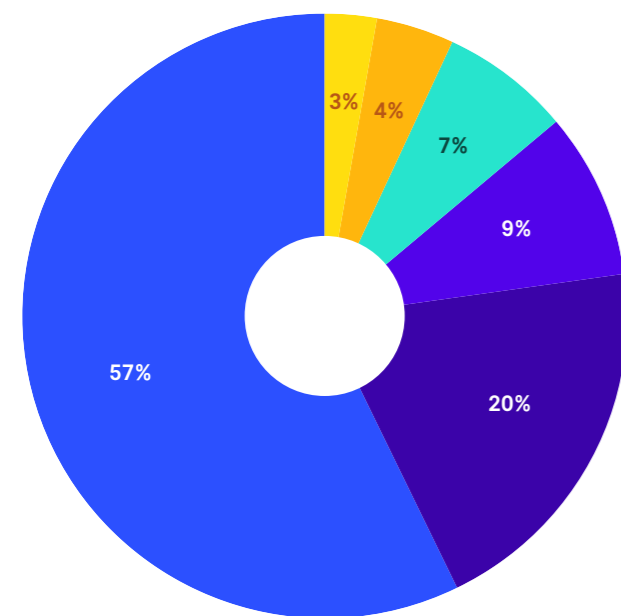
IncuBaker
Terence

The Need for Capital

Such business investments facilitate enterprise expansion and increased productivity leading to higher revenues and job creation.

MSMEs, much like any business, have capital needs that frequently necessitate financing. These capital requirements often arise unexpectedly and are needed for a variety of purposes.

Reasons for obtaining short-term financing from Funding Societies include pursuing a new business opportunity, renting a new premise or purchasing a building, training/upskilling new or existing employees, purchasing new machinery or tools, adding to inventory, or simply as working capital enabling the smoothing of cash flows.



Use of Financing

- Hire additional workers
- Train/upskill existing employees
- Property, Plant or Equipment
- Business expansion
- Inventory
- Working capital

57%

of MSMEs use a portion of their loan proceeds for working capital.



Working capital.

Working capital facilitates the smoothing of MSME cash flows enabling consistent payment of bills and employee wages, ability to invest in the company, and more. Working capital requirements often arise because of delays in payment from purchases or simply misalignment of payments to suppliers and receipt of sales purchased on credit.



Raw materials, supplies, & inventory.

Manufacturing and retail businesses require capital upfront to purchase raw materials and supplies to manufacture goods or materials for resale. By borrowing, MSMEs can invest in raw materials and supplies to increase their inventory enabling higher revenues.



Business expansion.

Timely capital financing enables taking advantage of opportunities to grow the businesses. Expanding the business catalyzes revenue growth and creates new employment opportunities supporting local job creation.



Machinery, vehicles, and tools.

Investing in new machinery, vehicles or tools improves worker productivity and provides the means to increase business revenue. Such additional revenue can be used to hire more workers and increase output, thereby creating a positive upward spiral of expansion and business growth.



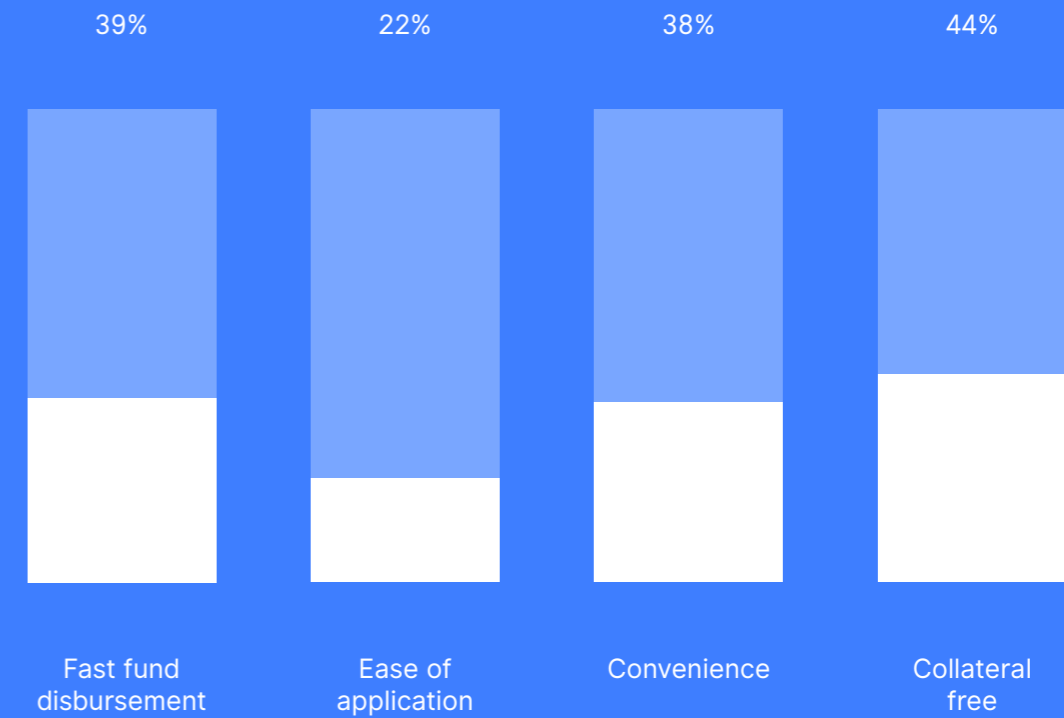
Hire new employees.

MSMEs require labor to manufacture, market and sell their products or services. By hiring additional workers, MSMEs can increase their overall production and services offered leading to business growth. Funding Societies loans enable MSMEs to hire new employees supporting local job creation.

How does Funding Societies better meet the needs of MSMEs?

MSME Financing	Barrier to Finance Through Traditional Banks	Funding Societies Solution
Require cash quickly	Detailed credit underwriting processes that lead to lengthy approval times	Efficient underwriting process to quickly approve MSMEs and disburse funds in as little as 2 hours
Busy MSME owners	Complex application procedures requiring extensive document provision	Easy and simple application steps for time-poor business owners
Lack of credit history	Lack of MSME historical cash flow necessitating high collateral requirements	Application of data analytics and advanced risk modeling for innovative credit scoring methods
Loan Tenure	Rigid loan lengths that do not fit the needs of MSMEs	Flexible financing options with a variety of loan tenures to meet the unique needs of MSMEs
Loan Quantum	Too small or too high loan amounts that do not match the financing needs of MSMEs	A variety of financing products that provide the right amount of funds for growing MSMEs

Reasons for choosing Funding Societies



39% of borrowers require **fast fund disbursement**

MSME Financing Options

Funding Societies offers a variety of financial products to meet the individual needs of borrowers. Each borrower has unique financing requirements relating to loan quantum, tenor, or the speed with which the funds are disbursed. Recognizing these distinct needs, we offer products tailored to MSMEs to provide the optimum solution.

Through technology and the application of advanced algorithms and AI to our proprietary data, we have constructed superior methods for assessing credit risk which allows us to better serve our customers. With our efficient underwriting methods, we can quickly offer MSMEs the financing they require at an affordable rate benefitting both their business and our investors.

XTS Technologies

Xteven



“We have a good business, but when we are short of cash flow, without help from Funding Societies, I don’t think we could’ve completed the project. If we didn’t get the Funding Societies loan, we would’ve lost about 1.5 million ringgit in sales.”

Xteven started XTS Technologies in 2009. Over the years the company has evolved from offering industrial cleaning machines to industrial manufacturing machines then to robo-automation and logistic automation. XTS provides employment to 38 individuals currently and continues to create more jobs.

Despite receiving a lot of sales interest in his company’s products, Xteven says he still struggles to meet purchase order demands due to mismatched timing of payments.

Funding Societies was able to provide business financing so that XTS could complete the project.

Our Impact in Southeast Asia

Started in 2015, Funding Societies is the largest MSME digital financing platform in Southeast Asia. Funding Societies aims to uplift societies in Southeast Asia by providing financing opportunities to underserved businesses. MSMEs are the driver of national economies, however, for a variety of reasons they are unable to avail of formal financial services leading to a sizable funding gap. Lack of access to pivotal credit constrains normal business operations and restricts opportunities for growth. By providing access to formal financial services, Funding Societies furthers financial inclusion and contributes to greater economic growth and prosperity in developing Asia. By 2019, Funding Societies had expanded lending to three countries, Singapore, Malaysia, and Indonesia, and is expanding further into Southeast Asia to promote the growth of the region.

Our team works tirelessly to provide fast and effortless funds to worthy business owners while offering alternative investment options to investors.

13%

Revenue growth⁶

On average, MSMEs that took loans from Funding Societies experienced a 13% growth in revenue from 2018 to 2019.

346,319

Jobs created⁷

MSMEs that took loans from Funding Societies added 9 jobs to their enterprise, on average over 2018 and 2019.

Providing access to financing for MSMEs increases financial inclusion in Southeast Asia, creates employment opportunities, and adds value to the economy contributing to higher national gross domestic product (GDP).

⁵Calculated using the Asian Development Bank's Multi-Regional Input-Output Global Value Chain method of estimating sectoral contribution.

⁶Revenue data as supplied by Funding Societies' MSME's.

⁷Calculated using the Asian Development Bank's Multi-Regional Input-Output Global Value Chain method of estimating sectoral contribution.



36,939

MSMEs supported



\$743 million+

Total funding



1.5 million

Loans funded

The **Multiplying Impact** of Funding Societies Loans

The initial value of Funding Societies loans have a multiplying effect on the economy as the increased revenue generated by MSMEs compounds economic gross domestic product (GDP) through direct, indirect and induced effects on the economy.

Direct - Increased MSME spending

Funding Societies loans enable increased production and sales for MSMEs. Through borrowing, MSMEs are able to pursue business expansion opportunities or invest in machinery that increases productivity resulting in higher revenues. This additional output from the MSMEs is made possible by the loan and is directly added to the economy.

Indirect - Business-to-business demand

Increased MSME production made possible by the FS loan requires additional supplies magnifying the effect of the original loan. The suppliers, in turn, require extra inputs from their suppliers creating a ripple effect of additional production in the economy.

Induced - Additional consumption

MSME business growth enables hiring additional workers creating new employment opportunities and increasing total production.

Additional employment created adds income to households which results in greater consumption in the economy and increased demand for products.

Enabling & Empowering

\$743 million+

Amount of funds disbursed

1.5 million

Number of loans given



60%

Many borrowers from Funding Societies take more than one loan. Of our total borrowing base, 59% of the MSME owners are repeat borrowers.

“I used the first loan funds to pay our suppliers and execute a project, and the second loan to purchase equipment for the business and hire a support worker. The return on this business investment is not just monetary, but also has an impact on society. This is changing lives.”

Marie started her business in 2015 to provide counseling, consulting, coaching, and mentoring.

“Because we were a new business, we didn’t have any credit history. So when we applied for the traditional bank loan, we were declined. Not because of bad history, but we just don’t have it - they just said ‘move along.’”

“A friend referred me to Funding Societies. I took two loans for \$4,000 each. The process was quite easy. They got back in quite a short time. From the referral day to the day we got the loan was all within 1 week.”

In her business, Marie Ang empowers women by focusing on purpose, relationship, identity, mentality, and esteem. She also provides professional services to coach and help transform administrators into influential leaders. Through her services, each year, Marie Ang empowers over 300 clients.

Solomon's Guild

Marie Ang





Methodology

We conducted a survey of our customers to understand the impact of our loans on business performance and key social outcomes. 441 MSMEs were surveyed. The survey collected quantitative data such as employment figures, company revenue, and percentage of female employees and qualitative data regarding reasons for choosing Funding Societies and benefits of the loan to the business.

Combining survey results with proprietary data, we assessed revenue and employment growth resulting from the Funding Societies loan. In addition, we performed qualitative in-depth interviews with 11 MSME owners to gain a deeper understanding of the meaningful impact of the loan on business owners, their ability to provide stable employment to their workforce and to contribute new jobs to the economy, and the unique benefits of obtaining financing

through Funding Societies as opposed to alternative options.

This report employs the input-output analysis method adapted by the Asian Development Bank⁷ on macroeconomic, survey and anonymized proprietary data, to estimate the flow-on effects to the economies directly and indirectly from Funding Societies loans. To assess contribution of the MSMEs to national GDP through direct, indirect and induced effects, we employed Input Output (IO) tables. These tables quantify the necessary inputs from suppliers that enable the corresponding final outputs. Using the IO tables, we can identify backward and forward linkages in the economy and assess the direct, indirect and induced flow-on effects to the economy resulting from our loans.

⁷Capturing the Digital Economy: A Proposed Measurement Framework and Its Applications—A Special Supplement to Key Indicators for Asia and the Pacific 2021.

“Modalku’s business model is very supportive towards micro and small businesses. The team is also friendly and informative. It fits perfectly for small businesses like us.”

Junita
Traditional grocery vendor, Indonesia

◀ Junita’s business cycle has its ups and downs. She experienced several situations where her business capital ran out because her products did not sell out and eventually decompose. In addition, some of her customers request to pay later when purchasing. She tried to find a way to solve their cash flow problem by applying for a loan in a cooperative shop which gave the fund immediately, but she had to return it with high interest. Even applying for a loan from a bank is not a solution, because they are lacking collateral.

Junita felt Modalku was her best solution for her business. The weekly repayment system provided by Modalku is considered lighter than the daily payment system as in a cooperatives shop. With this system, there is a leniency to utilize the money before we pay.

Conclusion

Small and Medium Enterprises are a vital driver of Southeast Asian economies. In ASEAN, MSMEs total 97-99% of total enterprises, contribute up to 53% of the GDP to their national economy and up to 97.2% of employment. Indeed, MSMEs are a key element of economic growth in ASEAN.

These vital drivers of the economy, however, face significant barriers to accessing the financing necessary to maintain and grow their businesses. Lack of credit history coupled with lower loan quantum and shorter loan tenors make MSMEs unprofitable segments of the market for traditional banks. Young companies are disproportionately burdened.

Barriers to formal finance have led to a serious funding gap. In ASEAN, 51% of MSMEs are unserved or underserved resulting in 39 million

MSMEs that lack the financing necessary to continue business operations or provide stable employment opportunities. This has led to a total financing gap of US \$272 billion.

MSMEs, much like any company, have business needs that frequently require financing. These financing needs include pursuing a business expansion opportunity, purchasing machinery or tools to increase productivity, purchase raw materials and supplies to increase output, hire new employees or upskill current employees that can enable increased production, or simply as working capital to smooth out cash flows.

By addressing the financing needs of MSMEs, Funding Societies is furthering financial inclusion and contributing to long-term sustainable economic growth in Southeast Asia.

▶ MacWorld is a commodity manufacturing business that has been operating for 20 years and employs over 50 people. Despite having a successful business, the company at times still faces cash flow problems.

MacWorld initially obtained a term loan with Funding Societies in 2017, but later opened a revolving line of credit to use for working capital.

It was estimated that because of the business financing provided by Funding Societies, revenues are higher by RM 2 million and profitability higher by RM 300,000.

“Our most challenging financial aspect of running the business is arranging the working capital. Sometimes we have the orders in hand, but due to limited financing we face a liquidity crunch.”

Mac World Industries, Malaysia





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