

CASE STUDY

# Indonesia

Group Assignment 3:  
Making the Case



Center for  
Inclusive Growth

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MUNK SCHOOL  
OF GLOBAL AFFAIRS  
& PUBLIC POLICY



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### 1.1 Background

Microfinance is increasingly gaining value around the world as a sustainable alternative to large-scale lenders. In areas where the average individual struggles to access capital, credit and financial institutions, microfinance may provide necessary assistance to those most marginalised. Amaritha, a successful Indonesian financial technology (fintech) and microfinance company, is a testament to the power of the private sector to facilitate a more inclusive economy for all.

Only 68% of Indonesia's 273 million citizens are able to save income.<sup>1</sup> Further troubling is that 43% of all loans run through the informal sector, with 60% of individuals citing 'not creditworthy' as their main impediment to accessing traditional markets.<sup>2</sup> Due to an inherent lack of oversight and regulation in the informal sector, those who borrow are at greater risk of abuse and long-term issues. Understanding this disparity, Amaritha now works to help tackle these problems by providing new opportunities in the forms of microloans and credit to small business owners, especially those run by women, to bolster their operations and fuel an entrepreneurial society of small businesses.

### 1.2 How is the region building a more equitable economic environment?

Following the Asian financial crisis of 1997–1998, many reforms have been implemented in Indonesia to improve the social and economic areas of the country. In an effort to improve economic environment equity, the Indonesian government launched the National Strategy for Financial Inclusion (SNKI) in 2016. This programme was a national strategy that aimed to provide affordable and secure financial services for all regardless of their socio-economic status.<sup>3</sup> It focused on six pillars including financial education, public financing facilities, financial information mapping, supportive regulations, distribution networks as well as intermediation facilities and consumer protection.<sup>4</sup> The goal of this approach was to promote financial inclusion for the underserved community in order to reduce inequality between individuals, alleviate poverty and improve the economic growth of the country. As a result of this program, financial account ownership has risen from 35.1 % in 2016 to 55.7% in 2019.<sup>5</sup> Reflecting many of the pillars of the Indonesian government's SNKI launch, Amaritha transformed from a traditional microfinance institution into a fintech company in 2016. Since then, Amaritha has been a key player in Indonesia's national goal of achieving a more equitable economic environment.



2.0

# Built for All: Applied



## 2.1 Pillar One: Equitable access to resources and opportunities

As a mission-driven fintech firm, Amarthas helps remove barriers to gender equality and drive economic growth in Indonesia's villages. Through its peer-to-peer (P2P) lending platform, Amarthas connects capital and technical skills to rural women entrepreneurs.

Amarthas exemplifies Pillar One of Built for All by providing resources and opportunities to support micro, small and medium enterprises (MSMEs) owned by rural women entrepreneurs, thereby promoting gender equality. By employing a strong community engagement model that includes financial literacy training from its field staff, Amarthas creates safe and accessible financial systems that support upward mobility for economically vulnerable groups.

Here is a snapshot into how Amarthas achieves this:

### **Microloans to empower rural women**

Most of Amarthas's borrowers are unbanked and therefore lacking a credit score, so it has developed a credit score algorithm to ensure inclusion in the financial system regardless of a participant's banking status. Currently, Amarthas operates in over 19,000 villages across Indonesia, channelling over US\$343 million to over 870,000 women entrepreneurs.<sup>6</sup> Amarthas's approach has a proven track record of success, with income for participants in the lowest income bracket increasing on average 263% within the first year of borrowing.<sup>7</sup>

### **Ensuring digital financial inclusion**

Building on the increasing smartphone penetration rate in rural Indonesia, Amarthas partners with a number of digital banking and e-wallet firms to securely connect Amarthas participants to the digital financial system. As of 2021, 40% of Amarthas participants have a digital banking presence, with this number expected to grow to 60% by 2022.<sup>8</sup> Additionally, Amarthas seeks to expand its credit score algorithm service as a stand-alone product for other financial institutions to further help service otherwise unbanked populations.

### **Leaving no one behind**

Amarthas's financial literacy workshops are important tools to address the digital divide and increase the sustainability of the economic growth experienced by borrowers. Through extensive use of its network of field officers and partnerships with local governments and other community actors, Amarthas is able to facilitate the financial inclusion of all participants, regardless of access to digital financial services. In 2020 alone, Amarthas and its partners delivered financial literacy workshops to over 103,000 women across Indonesia's villages.<sup>9</sup> By participating in the workshops, borrowers develop skills to help them maneuver the financial system that has traditionally excluded rural communities.

### **Lessons for action**

A community-based approach to P2P lending leads to greater digital financial inclusion of the unbanked. Prior to establishing a presence in a village, Amarthas engages in extensive stakeholder mapping to assess the financial ecosystem of the local context, forming partnerships with local, national and international actors. The firm's approximately 3,000 field officers have been key to educating participants, administering funds and growing access to digital banking. Investing in the financial literacy of rural women is a key component of Amarthas's model and further distinguishes mission-driven fintech firms from traditional lenders.

## 2.2 Pillar Two: A level playing field for work and competition

### Strengths of the Amarthya approach

Alongside borrowers and employees participating in various training and development opportunities throughout their time with Amarthya, collaboration with the government is also creating a level playing field. This is by working to empower technology improvements and international trade for MSMEs, and working on a 'ready-to-work' card for Indonesian youth to enter the workforce or entrepreneurial space.

Amarthya encourages a level playing field by contributing towards a living wage for its participants. Five out of 10 participants are free from poverty after 2 years.<sup>10</sup> Data from 2019 suggests that borrowers' income increased by 80%, far above the minimum wage, and that 76% can pay their children's tuition<sup>1</sup>, which will likely build economic security for generations to come.

"One day, my daughter said she wants to go to school, which I could not afford from my income, now I can send my daughter to school and renovate my house."

– Ibu Ratna, Amarthya Borrower<sup>11</sup>

### Opportunities for enhancing inclusion

To promote a more inclusive economy, Amarthya is attempting to level the playing field within their leadership structure. As of 2020, women made up 56.19% of total employees, but only 41.07% of mid-level leaders and 28.57% of senior leaders.<sup>5</sup> Amarthya aims to reach 50% mid-level and 30% senior-level female leadership representation by 2040. To do so, they provide structured opportunity and mentorship for women to enter leadership positions through the Amarthya Women Leadership Academy.



## 2.3 Pillar Three: Collective stewardship of shared resources for future generations

### Strengths of the Amartha approach

Amartha seeks to balance long-term objectives with short-run returns. In recent years, they have made significant efforts to prioritise green energy objectives and initiatives.

In June 2021, Amartha was announced as the newest partner of Norfund (a Norwegian Development Fund) and received USD 7.5 million in funding.<sup>12</sup> This award supports unbanked female entrepreneurs in rural communities by offering reduced interest rates on loans for borrowers who show commitments to environmental sustainability in their business models and practices.<sup>13</sup>

### Opportunities for enhancing inclusion

As one of the largest P2P lending firms in the country, Amartha should take a more active role in discussions with the government to allow for easier access with existing green energy producers. Current regulations place costs on business owners and allow individuals to purchase clean energy only from the government, a third-party intermediary or through the implementation of the firm's private solar panels.<sup>14</sup> Easing access to green energy from private production firms could reduce the initial high costs of transitioning to green energy and technology.

### Lessons for Action

It is possible and efficient to foster green practices at the inception of new micro and small firms. Initial costs may deter emerging small businesses from investing in high-cost green alternatives; however, financial incentives, in addition to safety nets such as microinsurance, may help in reducing hesitation and encourage firm buy-in.



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