

Unlocking Credit

For Women-Owned Enterprises in
Southeast Asia through Value Chain Digitization



Women's World Banking

For businesses of all sizes, access to credit is essential – to resolve uneven cash flows, meet shortfalls, pay wages or pursue growth opportunities.

Globally, there is a pronounced credit gap for micro-, small- and medium-sized enterprises (MSMEs), with an even more acute gap for women-owned MSMEs:

- **Unmet financing needs** exist for 131 million or 41% of formal MSMEs in developing countries.
- **The MSME finance gap** in developing countries is estimated to be approximately \$5 trillion – 1.3 times the current level of MSME lending – and East Asia and the Pacific MSMEs account for 45% of that gap.
- **Women-owned businesses** comprise 23% of MSMEs and account for 32% of the MSME finance gap.¹

Southeast Asia has high rates of female entrepreneurship, but the majority of women-owned enterprises remain micro in scale. Access to finance is a significant constraint to growth. In Cambodia, Indonesia, the Philippines, and Vietnam, most women owned-enterprises are unable to access formal credit. The formal credit gaps in each country are severe: the IFC's SME Finance Forum estimates that women-owned MSMEs lack \$1.2 billion in credit in Cambodia, \$21.2 billion in Indonesia, \$75.8 billion in the Philippines, and \$6.2 billion in Vietnam.

Women-owned MSMEs seeking formal credit struggle to access it due to lack of required documentation, collateral, literacy, and access to information about financing options.² These constraints lead financial institutions to consider women-owned MSMEs as high risk and avoid developing credit offerings for this segment.

Thriving and largely untapped markets

Despite their unmet financing needs, women-owned MSMEs are essential players – as employers, purchasers, and consumers – in vibrant value chains throughout Southeast Asia. Yet many of these value chains rely heavily on cash, with limited record of transactions.

Advances in mobile internet and smartphone penetration, the emergence of new digital payment platforms, and evolving financial regulation in Southeast Asia create a favorable market to digitize value chains, and in so doing, facilitate new forms of supply chain finance and unlock credit for women-owned MSMEs.

Value chain digitization holds promise for women-owned MSMEs because of its power to generate alternate data streams that financial service providers can use to assess MSME creditworthiness, offer more customized loans, and manage risk across their portfolio. This

¹ [SME Finance Forum, "MSME Finance Gap"](#)

² [Women's World Banking, "Access to finance of women-owned SMEs in Southeast Asia"](#)



is valuable for banks accessing new markets, as well as the many women-owned MSMEs that lack documentation or collateral. Participants throughout the value chain – workers, suppliers, lenders, payment partners – can benefit greatly from digitization of the value chain. Digitization represents a key opportunity for financial institutions and digital payment platforms to tap into the large but greatly underserved women-owned MSME market at scale.

This report summarizes efforts by Women's World Banking to answer three key questions:

- Which value chains in Cambodia, Indonesia, the Philippines, and Vietnam represent priority opportunities to develop increased credit offerings for women-owned MSMEs through value chain digitization?
- What forms of value chain digitization would be best suited to women-owned MSMEs in these value chains?
- How can digitization be leveraged for impact throughout a value chain, benefiting the various actors?

Selection Criteria

To identify priority value chains for value chain digitization, this analysis started with a high-level market assessment, with key sectors in each country (Cambodia, Indonesia, Philippines, Vietnam) analyzed across multiple macro-economic parameters.

- **Sector selection** – Key selection criteria included: number of women-owned MSMEs within a sector; GDP contribution; growth rate; women employment; and number of enterprises in the sector.
- **Value chain selection** – From this short list of sectors, two specific value chains were selected for deeper analysis based on similar criteria, with a concentration on three key parameters:
 - **Financial Need & Relevance** – Including credit gap, transaction intensity and cash pain.
 - **Women Participation** - Women-owned enterprises as percentage of total enterprises within the value chain.
 - **Ecosystem** – The active presence of government entities, financial institutions, and private sector actors such as aggregators or digital intermediaries.

Which value chains in SE Asia hold the greatest potential to unlock credit for women-owned MSMEs via digitization?

Concentration: % of enterprises in the value chain that are women-owned

Volume: Number of enterprises

Acuteness: Transaction intensity/Cash pain

Financials: Extent of credit gap

Market Dynamics: Presence of aggregators

Banking: % of women with formal bank account or mobile money account

Digital Access: Smartphone penetration



Selected Value Chains

Based on the evaluation framework and assessment, two value chains were selected for further analysis:

Indonesia: Food Services Sector

Vietnam: Garment Manufacturing

For each value chain, analysis was undertaken to:

- **Assess** digitization opportunities across the value chain
- **Develop** digital financial services and credit recommendations best suited to women-owned MSMEs in the value chain.
- **Identify** actors within the value chain that could play a role – and benefit from – digitization and greater access to credit and financial services for women-owned MSMEs.

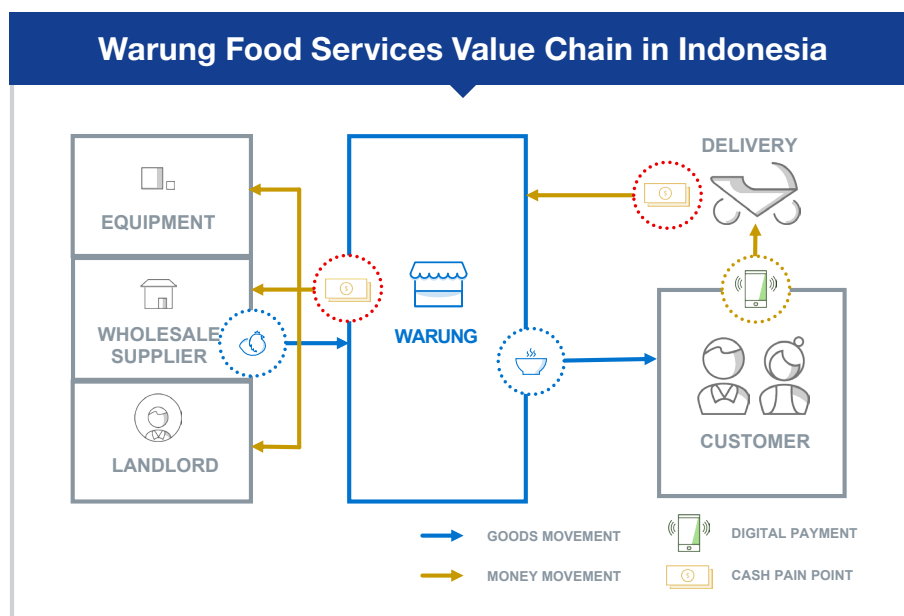
Digital Finance Opportunities in Two Value Chains

Indonesia: Food Services Sector

Within Indonesia, food services – specifically mobile food and restaurant services – emerged as the top sub-sector for further analysis. Two important factors were particularly strong: this sector features the highest number of enterprises and the highest participation of women.

Value Chain Overview

- Approximately 4.3 million food services businesses
- Estimated 2 million women-owned enterprises
- Highest number of establishments among all value chains
- \$17.2 billion value added to the economy in 2017
- 3.2 million women employed



Among the variety of food service establishments found in Indonesia, the small food kiosks known as warteg or warung, in particular have high potential for impact with the digitization of their value chain due to existing partnerships with delivery platforms and the acceptance of innovative digital initiatives among women entrepreneurs.

Warteg/warung businesses have frequent transactions with both forward and backward linkages but the value chain remains heavily reliant on cash. These businesses typically prefer cash because they buy supplies from the wet market daily or every other day, making purchases around \$175-\$250 per week. While an estimated 19% of food businesses are starting to use delivery platforms such as GoFood or Grabfood, they typically continue to receive payment in cash through these platforms. Delivery drivers, in turn, face cash pain as they frequently do cash on delivery to the warung/warteg but receive digital payments. About half of the businesses are registered, and many women business owners lack collateral due to limited female ownership of property and the need for male consent. There are very limited formal sources of credit available, forcing proprietors to borrow from family and friends or resort to money lenders and loan sharks at rates as high as 1% a day. This segment requires about \$1,600-\$2,900 in credit annually for rental of premises or buying a permanent shop location and to make bulk orders.

KEY CHALLENGES OBSERVED	DIGITIZATION SOLUTIONS AND BENEFITS
<p>Difficulty in accessing formal credit. The MSMEs lack a comprehensive data trail or adequate collateral, limiting their ability to access credit.</p>	<p>Enabling access to credit through digitization. Adoption of the digital app platform for purchase of supplies and increased customer sales via partnering with digital payment platforms provides for alternate sources of data for lending by fintechs, banks and MFIs.</p>
<p>Absence of financial management. MSMEs do not maintain records of business transactions, relying on memory or written scraps of paper.</p>	<p>Digital recordkeeping. Use of digital payments helps maintain digital transaction history and manage financials. App platform can be used to define re-order levels based on the warteg's historical data.</p>
<p>Difficulty scaling up due to lack of capital. Most wartegs operate only in local markets, leading to difficulty attracting new customers without investments in marketing or new establishments.</p>	<p>Enhancing sales through digital delivery sales channel. Onboarding onto delivery platforms enables MSMEs to reach a wider customer base and develop and grow their business beyond their premise.</p>
<p>Cash savings with no yield. Saving is a challenge as customers are low on awareness and rarely visit banks due to distance and inconvenience.</p>	<p>Digital savings. Introducing a digital savings system and providing financial and digital literacy programs creates the ability to promote savings among warteg entrepreneurs.</p>
<p>Inefficient purchasing process. Wartegs make purchases from "wet market" suppliers every 2-3 days, in person, paying in cash.</p>	<p>Digital supply chain platform. By purchasing through digital wet market, wartegs save time and cost due to elimination of travel time to wet markets and simplified payment.</p>



Impact throughout the Value Chain

Integrated digitization of the warteg value chain would not only bring greater efficiencies to the wartegs themselves, it would provide benefits to actors throughout the value chain, including:

- **Digital value chain partners** – B2B supplier apps (Warung Pintar, Wayhoo) and delivery service platforms (Gofood, Grabfood) derive a range of benefits from digitization of the value chain, including:
 - Access to data to determine consumer preferences and trends and to create innovative products
 - Greater efficiency linking demand and supply derived from data provided by having more MSMEs on platform
 - Urgency to onboard more wartegs/warung onto platform
 - Increased usage as more customers place orders
 - Ability to offer a wider range of supply choices to their customer base – an important dimension for Gofood, Grabfood
 - Cashless payments for drivers to minimize drivers' liquidity challenges
 - Increased revenue
- **Payment partners and lending partners**
 - First mover advantage into underserved MSME market
 - Increased user base and expanded MSME portfolio – an estimated 30% increase in customers
 - Access to transaction data to develop and improve products
 - Lower credit risk through verifiable transaction data
 - Cross-sell opportunities including consumer lending

Critical success factors

- **Simplicity & Security** – Payments need to be secure and easy to use for warteg owners.
- **Access & Training** – A systematic approach is needed to onboard and train MSMEs, along with greater smartphone penetration.
- **Integration** – Food delivery platform and payment wallet must be integrated into value chain partner's app through APIs.
- **Fund Transmission** – A payment gateway must be created for e-wallet transfer of funds within apps.
- **Interoperability** – The need for interoperability between platforms is now being addressed by the Indonesian government with the imminent completion of its initiative to provide interoperability via QRIS, an interoperable code that can accept payments from all the different payment platforms (targeted for completion in 2020).
- **Regulation** – Ceiling must be removed from mobile wallets which are currently capped at IDR 10 million (US\$ 700).



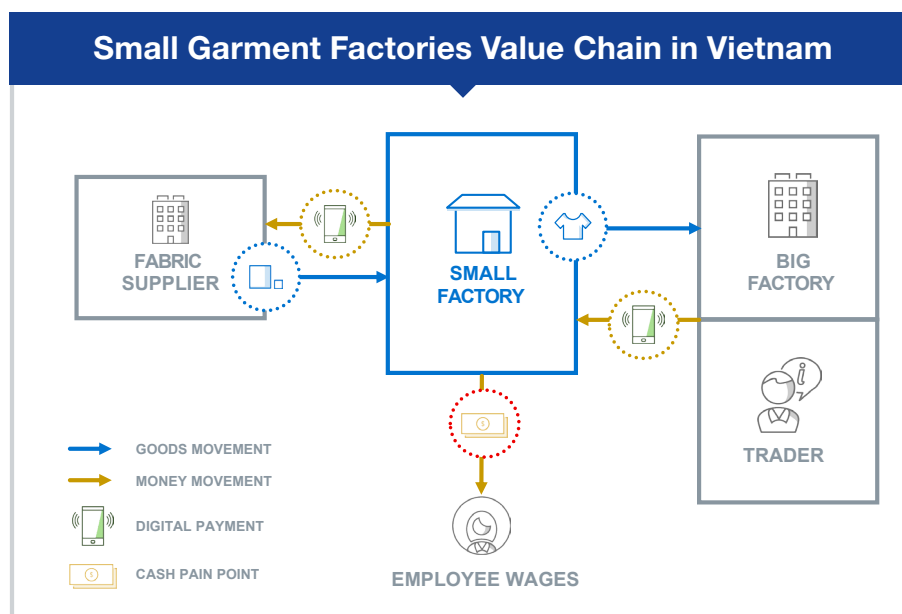
Vietnam: Garment Manufacturing

In Vietnam, garment manufacturing – specifically among small- and medium-sized enterprises – emerged as the second value chain meriting deeper analysis. Trade in general, and garment manufacturing in particular, is a high contributor to GDP in Vietnam and features a large percentage of women entrepreneurs. In addition, of the industry’s 2.5 million workers, 83% are women.

Value Chain Overview

- 9,500 manufacturing establishments
- Estimated 1,200 women-owned enterprises
- \$22.6 billion export value in 2018
- Employ 2.5 million garment workers, 83% women
- 20% increase in employees anticipated in next 2 years

In the garment manufacturing ecosystem in Vietnam, international brands work with larger factories, who in turn subcontract smaller factories. These small- and medium-sized factories, of which an estimated 1,200 are women-owned, face liquidity challenges and a shortage of working capital since they receive digital payments for finished goods but need to make payments to workers in cash. Paying cash wages creates numerous problems for the factory owner. These include lost productive time due to workers waiting to collect wages in cash, cost and inefficiencies of managing cash, and labor-intensive recordkeeping. Workers utilize cash to make personal expenditures (groceries, utilities, rent) and often prefer cash due to low penetration of banks and ATMs and mistrust of banking apps. In addition, workers send up to 50% of their salaries to their family, paying 7-12% for money transfers.



Factory owners also face a credit gap. They often confront a cash flow shortfall due to credit periods extended to buyers. Income may take two to three months depending on intermediaries, but the factory's expenditures are monthly. They rarely access formal credit, instead using savings or borrowing from friends. This is partly due to a lack of appropriate short-term credit products and an absence of unsecured lending. Additionally, these women-owned enterprises lack sufficient collateral to access long-term fixed capital. These factories face a working capital requirement to meet workers' salaries and overhead costs of around \$35,000 and a fixed capital requirement to expand production lines and increase scale of operations of around \$125,000.

KEY CHALLENGES OBSERVED	DIGITIZATION SOLUTIONS AND BENEFITS
<p>Access to credit to meet working capital for small enterprise/factory. Currently limited number of financial institutions offer invoice discounted, primarily limited to larger factories.</p>	<p>Alternate financing options for enterprises/factories. With digital transactions providing a better view on cost and income data of factories, banks can offer alternate financing options in the form of invoice discounting.</p>
<p>Difficulty in accessing suitable credit for workers. Workers lack financial transaction data trail or adequate collateral and the higher ticket loan sizes offered by banks further limit access to credit.</p>	<p>Improved credit through digital income and savings trail. Through direct income transfers and building of savings in bank accounts, workers can access improved credit.</p>
<p>High remittance costs. Workers choose to send money back home using informal agents, an unreliable and costly option.</p>	<p>Digital remittance. Sending money back home to their family through mobile wallet agent network provides lower transaction cost and greater security.</p>
<p>Low savings and lack of security. Current level of savings is low as most workers earn and spend in cash. Cash savings are kept at home, raising security issues.</p>	<p>Digital savings. Income is directly transferred into the bank, minimizing wasteful expenditure and promoting savings. Savings are more secure, earn interest and can be accessed at any time.</p>

Impact throughout the Value Chain

Digitization of the garment manufacturing value chain in Vietnam would provide a range of benefits not only to enterprise owners, but to actors throughout the chain as well, including:

- **Workers**
 - Workers can access credit backed by the digital income and savings data trail.
 - With digital remittances, they have a faster, more reliable and cost-effective way to send funds to family members – up to 60% savings or more.
 - Digitization can promote savings since income is transferred directly to bank accounts.
 - Time savings benefit workers' (and the factory's) productivity as there is no need to wait in line for cash payment.



- **E-Wallet Platforms**

- By partnering with bank and MSMEs to on-board garment workers, these platforms will grow their customer base.
- Volume growth is achieved via increased throughput and use of digital payments, remittances, and bill payments.

- **Banks**

- Digitization triggers increased account penetration – with more active customers, a larger deposit base.
- Banks can increase their garment manufacturing portfolio through invoice discounting.
- Lenders now have the opportunity to offer alternate financing options, e.g. invoice discounting, backed by digital transaction data.
- Credit risk is lowered through comprehensive overview of verifiable transaction data.

Critical success factors

- *Awareness & Training* – Effective digital finance training must be provided to end users, promoting the benefits of digitization in terms of efficiency, transparency and access to credit.
- *Innovation* – The potential of serving small factory enterprises must be demonstrated to banks, including potential for alternate financing mechanisms such as invoice discounting based on transaction data trail.
- *Advocacy* – Banks must be strongly encouraged to develop distinct unsecured loan products for the garment worker population.
- *Interoperability* – Direct money transfer must be facilitated across banks, financial institutions and digital wallet platforms.
- *Regulation* – The State Bank of Vietnam must permit cash-out by mobile wallet.

The Digitization Opportunity

The opportunity to digitize these value chains requires essential steps from key stakeholders.

Financial Service Providers

- Partner with value chain actors to digitize transactions and gain access to transaction history, reducing risk of lending to a fast-growing but untapped client base of women-owned enterprises, eager to access credit
- Innovate and develop new credit products for this segment using alternate credit scoring
- Invest in marketing and incentives to encourage adoption
- Promote a digital spending ecosystem to provide use cases for making digital payments



Regulators

- Permit cash out from mobile wallets (Vietnam)
- Support expansion of agent network, including into rural areas
- Improve interoperability and direct money transfer across financial institutions and digital wallet (Indonesia QRIS system, 2020)
- Raise or remove mobile wallet ceilings to encourage businesses use

Financial inclusion community

- Increase capability of women entrepreneurs to adopt smartphones and use digital financial services, keys to access credit and streamline business practices
- Build awareness of the value proposition of wage digitization for small and medium factory owners, including efficiency, accounting, and access to credit
- Incubate capabilities of factory workers to use wage payments for remittances and daily expenses

Digitization of value chain transactions is a critical emerging opportunity to expand – at scale – access to credit for women-owned enterprises. The value chains presented, in Indonesia and Vietnam, provide specific, concrete illustrations of the impact digitization can deliver to the range of actors within just these two of many such chains.





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