

Analysis prepared by D. Michael Adams, Ocean Assets Institute
For
Asian Development Bank, UNEP & UNDP
Blue Economy Knowledge Product
Section 5, Part II - Investment Dossiers

Funding Societies:

Credit Manager for SME BlueImpact Asia (BIA)

Description: Credit Platform for Blue Economy SMEs
Manager: Funding Societies
Countries Served: All ADB DMCs
Blue Economy Sectors: All / Enabling Conditions
Project #: BIA-02 **Date:** 1 September 2021

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Executive Summary

What: Digital platform enabling Debt Finance to impactful Blue SMEs under-served by commercial and development banks. Filling this credit gap is necessary to meet ADB & PEA goals, since SMEs account for >70% of employment and >90% of all enterprises.

Role for Catalytic Funders: This is the credit arm of SME BlueImpact Asia (BIA). Catalytic finance is required to launch the platform and attract private investors. Several blended finance tools may be offered: grants, loan guarantees, first loss, insurance, tranches with different pricing/risk levels. Seeking \$50M capital to launch program, to be matched and scaled over time by private investors.

Operator: Funding Societies | Modalku (FS) is the largest SME digital financing platform in Southeast Asia. Since 2015, FS has disbursed S\$2 billion of financing to 65,000+ SMEs across Malaysia, Indonesia, Singapore, and Thailand. Strong performance record.

Model: FS runs similar development finance programs for Malaysia, Indonesia, Singapore. FS is backed by prominent investors. Ability to crowd-in private investors after catalytic funding, proven credit and pipeline process.

How: Under supervision of BIA Secretariat, FS will open a window on its existing platform to serve Blue SMEs in developing countries and draw private investors to co-funding opportunities that are aggregated into investment vehicles..

Funding Needs: Capital funding: \$50M for Year1, add \$50M in Year2 for \$100M to be matched 1:1 by private investors for \$200M total lending facility. Target growth/expansion loans, trade and bridge finance (ie, Covid19-recovery) for Blue SMEs with positive impacts.

Timetable: Prepare platform for pilot launch in Q1, 2022

Fit with ADB-PEA Criteria?

KEY CRITERIA	FIT	COMMENT
Project based in Asian DMC?	YES	Digital credit platform serving all Blue SMEs in all Asian DMCs
Ownership based in Asian DMC?	YES	Platform licensed in Indonesia, Malaysia, Singapore, Thailand. Companies from other DMCs are all eligible via Singapore facility.
Address Social Goals?	YES	All ADB-PEA social criteria, including: Gender, Poverty, Community goals
Address Environment Goals?	YES	All ADB-PEA environmental criteria. Natural capital emphasis.
Company/Team Track Record?	YES	Since 2015, Manager runs largest digital finance platform in SE Asia. Risk-based approach results in low default rate (<3%), 2015-2020 CAGR 220%.
Proven Business Model?	YES	Platform runs on same model and operations as successful main platform. Focus on private placements from institutions (not crowdfunding), ESG & Blue metrics.
Address Finance Gap?	YES	Fills gap of Blue SME finance. Banks will not lend to many SMEs for 3 reasons: amounts too small, track record too short, collateral insufficient. Yet 90% of enterprises are SMEs, and >70% of jobs are provided by SMEs.
Realistic exit for ADB?	YES	Repayable loan to balance sheet. Co-lending options to discuss.

Selecting the Debt Manager

Funding Societies (FS) meets unique criteria to operate BIA Debt Platform:

- **Track record as partner for development finance initiatives:** Malaysia, Indonesia, Singapore (see p8)
- **Proven Process:** Due diligence & ability to add impact criteria
- **Risk Management:** Strong credit analysis, Low default rate (<3%), Strong balance sheet, Quality partners
- **Regulatory Structure:** Singapore base allows flexibility to fund SMEs from all DMCs - including South Asia and Pacific regions. Full authorisation in key DMCs: Malaysia, Indonesia, Thailand.
- **Flexibility to Partner** with ADB, UNEP, UNDP, regional initiatives, governments
- **SME & Institutional Focus:** Filling market gap of banks to SMEs & loan origination for institutions.

Asian Lending Platforms	Criteria				
	Ability to Work w/ all DMCs	Impact Record / Partnerships	SME Focus	Institutional Investors	Blue Economy Interest
Funding Societies	<input checked="" type="checkbox"/>				
Lendbox.in	<input type="checkbox"/>				
Lendenclub.com	<input type="checkbox"/>				
FairCent.com	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Investree.id	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Askeleran.co.id	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Bizhare.id	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Danamas.co.id	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Klikacc.co.id	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Mekar.id	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Capbay.com	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Fundaztic.com	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Crowdo.com	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Coassets.com	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Minterest.sg	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Capital-match.com	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Mollahsense.com	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Meeting SME Finance Needs

	Business Term Loan	Trade Finance	Micro Loan
Description	General working capital financing	Cash advance against invoices / purchase orders	General working capital financing for micro entrepreneurs
Loan Amount (range)	S\$100k - S\$2m	S\$6.7k - S\$1m	S\$400 - S\$100k
Loan Tenure	Up to 12 months	Up to 5 months	Up to 18 months
Interest Rate per annum	7% - 14%	10% - 16%	12% - 40%
Fees Charged to SMEs*	Origination Fee [^] 1% - 5%	Origination / (Facility#) Fee, 0.5% - 5% (1% - 5%)	Origination Fee 1% - 5%
Fees Charged to Investors	18% on interests successfully repaid		

Notes

- Fees are only charged upon successful disbursement to SMEs
- Origination fee is charged upon successful drawdown/disbursement to SMEs.
- Facility fee is charged upon acceptance of credit / line facility by SMEs
- Credit underwriting interactively improved over multiple financing cycles
- All financing requests made to FS & invested by our investors will be assessed using our proprietary scorecard based on information collected from the SMEs and other sources (eg, ADB, credit bureaus, site visits, interviews)

This product line may be adjusted for the BIA platform, as ADB and co-investors may require.

FS Market Focus

We specialise in short, small-med unsecured credit			Tailoring product range to different SME context			
Key focus	Banks	Funding Societies	Term loan	Trade finance	Micro loan	
Product	Traditional loan	Flexible loan	Offline economy	Unsecured loan	Invoice financing	Micro finance
Size	Big, > RM 8.5M	Small, < RM 6.5M		Property loan	Factoring line	
Duration	Long, 3 – 5 yrs	Short, 1 – 12 <u>mths</u>	Online economy	Revolver credit	Supply chain financing	E-commerce merchant loan
Target segment	Large SMEs with collateral	Any SMEs with good cashflow			Distributor/ dealer financing	Bolt loan (on mobile)
Experience	Branch network	Hybrid and fast	Offering	1 – 12 months	1 – 3 months	1 – 9 months
Credit approach	Financial and asset-based	Cashflow and data-based	SGD\$	100k – 2M	6k – 1M	400 – 100k

Funding & Pipeline Development

Main Platform

Funding models & sources may be adjusted for BlueInvest Asia

Funding Model	Funding Source		
	Non Institutional	Institutional	
Crowdfunding	38%	6%	= 44%
Balance Sheet ¹	41%	15%	= 56%
	= 79%	= 21% ¹	

¹ Majority comprised of third party debt; figures are by outstanding balance

Funding Pool for BlueInvest Asia

Resilient Mix: Institutional, Government, Impact & HNW Investors for Private Placement funding model

Ensures liquidity available to meet SMEs' cash-flow gap

Finance creditworthy SMEs across risk spectrum: Pre-contract award financing, pre-to-post shipment financing, industry sectors.

Blue SME Pipeline

- Omni-channel approach based on preference of SMEs In terms of acquisition channel
- Partnerships: ADB, UNEP-UNDP, Banks, Brokers, Ports, Industry Networks, Ecommerce Platforms
- Small telemarketing team (serving "last mile" customers), plus offline and online marketing

Due Diligence Process

ESG Factors, specified by catalytic financiers, will be incorporated in the BlueInvest-Asia DD process

Due diligence process includes,

- KYC checks
- Credit bureau checks
- General web searches
- Site visits and interviews
- Verification of transaction documents and statements

Proprietary risk scorecard

1

Financial & transaction factors

- Derived primarily from financial statements or other financial sources (e.g. financial accounts, bank statements)

2

Non-financial factors

- Derived mainly from KYC checks & due diligence

3

Behavioural & other factors

- Derived primarily from alternative / other data sources (e.g. Credit bureau check)

Roles & Responsibilities

Lead Support N/A



Activity	Description	funding societies	ADB ASIAN DEVELOPMENT BANK
Lead Generation	Outreach, awareness building & education	Support	Lead
On-boarding Process	Collect & review application documents	Co-lead (based on pre-aligned requirements/criteria from ADB)	Lead feasibility study ¹ (or by alternate party as engaged by ADB)
Risk Assessment	Review & approve/reject applications based on checklist approach		
Funding	Provide source of fund for disbursement	Support	Lead
Disbursement Process	Disburse funds upon financing approval	Lead	N/A
Repayments Management	Monitor & track repayments	Lead	N/A
Reporting	Templatised periodic report of repayment status to fund/investors	Lead	N/A
Delinquency/Default Management	Manage recovery process for late and non-payments (collection & legal fees borne by fund/investors)	TBD (depending on collateral requirements, ring-fencing, etc.)	

¹Refers to project financing type deals which typically involves some feasibility study before the project can be launched (& financiers come in)

+ BlueInvestAsia Partner Roles:

- **Leads / Pipeline:** Coordinate with Financiers, Maritime clusters, Ports, Govts
- **Screens / Onboarding:** Criteria from ADB, PEA, Blue Economy metrics
- **Capital Raising:** Active marketing to private & public investors
- **Industry Support:** Co-sponsorship & mentors from maritime industry

Potential Partners: Sustainable Finance Institute Asia, Ocean Assets Institute, other NGOs

Growth & Assumptions



FS will provide end to end loan origination, management, and servicing. This pro-forma budget reflects these roles and revenue assumptions for BIA priorities. Support requested from ADB & external partners includes:

- Catalytic funding
- Leads generation
- Risk assessment
- Promotion to private investors

All figures open for revision based on dialogue with BIA sponsors.

Key assumptions

- 1) Exclude lead generation / marketing expenses (led by ADB / OAI)
- 2) Exclude credit assessment / scorecard development for maritime sector (support by ADB / OAI)
- 3) Funding sourced from ADB / supported by OAI

Revenues

- 4) Monthly disbursement in Year 3 (straight line growth, US\$3M by Dec)
- 5) Origination fees (borrowers) - 4.00%
- 6) Servicing fees (investors) - 1.50%

Cost of Sales

- 7) Sales & origination cost (% of origination fees) 35.00%

Expenses

- 8) Platform set up / O&S - expenses increase annually (inflation) 5%
- 9) Sales & marketing - expenses increase annually (inflation + headcount) 40%

Financing Growth, Trade & Recovery

Why Trade Finance?

- **Help Blue SMEs recover** from pandemic losses with trade-based finance, enabling to secure long-term contracts, rebuild inventories, secure markets & jobs.
- **Local banks are not lending** to SMEs who lack sufficient collateral or post pandemic losses.
- **Blockchain technology** is next support system for document transparency and secure contracts.
- **Risk exposure is low** when trade counterparties are identified, contracts signed, inventory or other assets are available as collateral. Blended finance needed for repayment holiday periods and risk reduction.
- **Loan amounts are low and short-term** of existing SMEs compared to capital equipment loans or finance of early-stage businesses.

Sector Examples

- **Marine & Coastal Tourism:** As countries re-open, all segments of tourism need finance to re-hire staff and re-build inventories. Advanced bookings provide baseline data for next seasonal activity. For SMEs depending on environmental assets, activity to clean up and protect ecosystems must be financed.
 - **Priorities:** Tour operators, hotels/restaurants, transport services.
- **Seafood:** Restaurant sales sharply dropped during pandemic. Demand is increasing for seafood, with export advantages to sustainably-certified. Restaurant and export contracts may be collateral.
 - **Priorities:** Artisanal fishing, aquaculture, algaculture, seafood processing SMEs. Communities & ecosystems depend on seafood coops & small-business owners.

Three Blue SME Cases

MARI & SeaGreen

What: Sustainable seaweed production with commercial infrastructure to replicate & scale across DMCs.

Who: [MARI](#) is Indonesian seaweed farming company. [SeaGreen](#) is blockchain tech provider to seaweed industry. Both are subsidiaries of [Asia Affinity](#): track record building successful Asian environmental & social impact SMEs.

Financing:

- (1) For MARI, \$8M raise: ADB may consider Credit Guarantee or Sustainable-Linked Loan to develop the first batch of seaweed farms and ensure scalability.
- (2) For Sea Green, \$9M raise: ADB may consider low-interest loan to accompany private VC funding for technology development & sales to launch across Asia.

MARI & SeaGreen are analyzed in an Investment Dossier for the Blue Economy Knowledge Product - Section 5.

Beqa Adventure Divers (BAD)

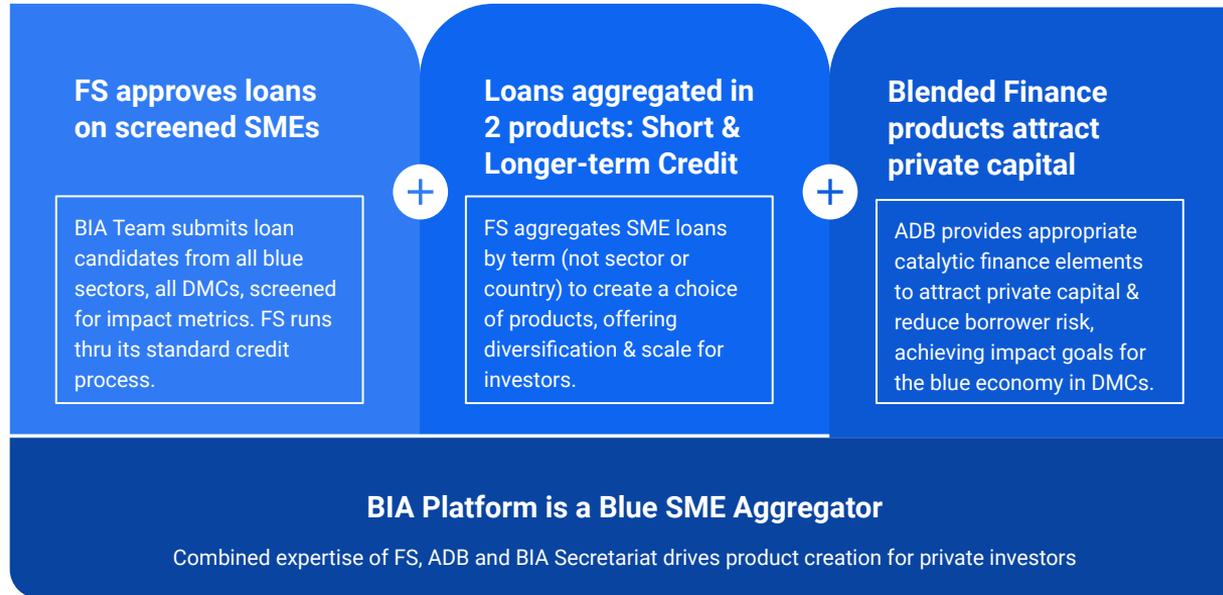
What: Eco-tourism operator supervising Fiji Marine Protected Area, employing locals, generating revenues.

Who: Since 2015, BAD has run a profitable, award-winning dive operation that shares Fiji MPA entrance fee with local community to compensate fishermen for restricted access. BAD pre-Covid revenue: \$1M, net margin 11%. Revenues dropped 90% with loss of international tourism in 2020-21. Ecosystem now vulnerable to over-fishing and mis-use.

Financing: OAI performed due diligence on BAD for UNCDF and Global Fund for Coral Reefs. Recommended bridge loan of \$500K (5-year term with 2-year repayment holiday) as tourism returns with new dive/research center for improved MPA protection, reef monitoring, tourism products.

Beqa Adventure Divers is analyzed by Ocean Assets Institute for UN Capital Development Fund and Global Fund for Coral Reefs.

Loan Aggregation



Appendix

FS: Ownership & Finance History

Kelvin Teo and Reynold Wijaya studied the Peer-to-Peer (“P2P”) platforms in the US, UK, and China. They realised that when adapted into peer-to-business for local context, it could be a solution to the structural finance gap for SMEs in Southeast Asia. The Finance Gap for SMEs is evident in all Blue Economy sectors - and SMEs are the primary employer and impact creator.

Funding Societies (FS) was founded by Teo and Wijaya in 2014 with initial capital of S\$540K from their families, followed by support from major investors:

- 2015: Seed equity round of S\$1.6M led by Indonesia-based venture capital firm Alpha JWC Ventures
- 2016 - Series A, S\$10 million led by Sequoia India
- 2018 - Series B, S\$33 million led by Softbank Ventures Korea
- 2020 / 2021 - Ongoing Series C, S\$53 million committed

Complementing banks, FS has become the market leader by serving SMEs across ages, sizes and sectors with a wide range of products, across both offline and online economy – term loans, trade finance, and micro loans. Institutions rely on FS to originate loans. Key role for blue economy.

For BIA Platform, FS will create a private placement funding system focused on term loans and trade finance to SMEs in all Blue sectors across developing Asia-Pacific.



FS: Senior Leadership Team



Kelvin Teo

Co-founder, Group/ SG CEO
Accenture, McKinsey, KKR, HBS



Reynold Wijaya

Co-founder, Group COO
United Family Group, HBS



Iwan Kurniawan

Country Head, Indonesia
Oliver Wyman, Cornell



Wong Kah Meng

Country Head, Malaysia
Oliver Wyman, CFA



Varun Bhandari

Country Head, Thailand
DB, HSBC, IFC, HKS, IIM



Frank Stevenaar

Chief Financial Officer
GoBear, Aegon, KPMG



Jared Goldberg

Chief Data Officer
SCB, DBS, UBS, Founder



Ishan Agrawal

Chief Technology Officer
Viki (Rakuten), Founder



Nihit Nirmal

Chief Product Officer
Lendingkart, PayU, Inkfruit



Pak Chatib Basri

Senior Advisor
Ex-Finance Minister, HBS

FS: Regulatory & SME Development

As a leader in digital SME / P2P lending, FS has experience working closely with regulators:

- Capital Markets Services, Singapore (2016)
- Recognized Market Operator, Malaysia (2017)
- P2P lending license, Indonesia (2019)
- Debt crowdfunding license, Thailand (2021)

FS also participates in government programs for SMEs:

- [Enterprise Singapore, loan risk-sharing program \(“EFS”\)](#)
- [Malaysia Co-Investment Fund \(“MyCIF”\)*](#)
- [Malaysia Digital Economy Corporation \(MDEC\) Alternative Funding Program 2021](#)
- [Indonesia Retail Bonds \(“ORI016”\)](#)

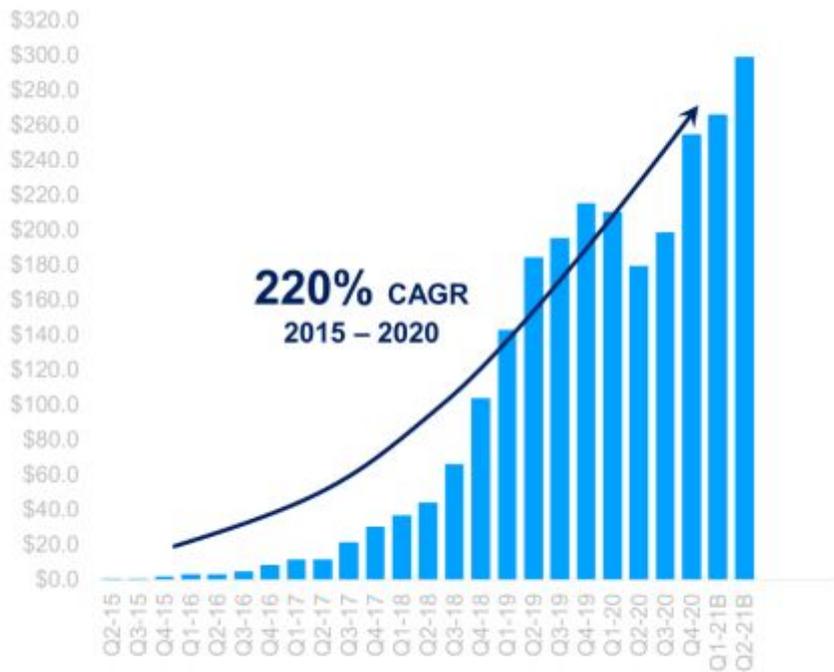
Innovations led by FS:

- First platform to engage an escrow service for the safe handling of investors’ funds - now industry standard
- Co-chairing the marketplace lending committee of the Singapore FinTech Association, FS contributed to establishing the standardised definitions and disclosure of all such platform loan default rates to uphold transparency
- Secured a tax exemption for FS retail investors in Singapore on their investment returns, as well as a special regulatory exemption to serve sole proprietors for its direct lending entity, in line with its mission of empowering more SMEs.
- Successful inclusion of FinTechs into the Enterprise Financing Scheme after sustained engagement with ESG (then SPRING) since January 2017.

Malaysia’s MyCIF is a model: Supporting MSMEs by attracting private co-investment alongside catalytic government funding

FS: Performance Record

Quarterly loan origination, S\$MM



Thoughtful growth at ~SGD85M loans/month

<p>S\$2B Loans funded across 4 countries</p>	<p>3.8M Loans to date to 65k SMEs</p>
<p>S\$123M Loan outstanding</p>	<p>1.65% S\$33M default <u>to-date</u>¹</p>
<p>4 Countries, all officially licensed</p>	<p>S\$77M Equity raised</p>

Source: Finance data as of Feb'21
¹60-90 dpd + as % of disbursement, no loan stacking

Contact



funding societies | modalku
Stronger SMEs, Stronger Societies

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