



modalku

Funding Societies: Empowering Southeast Asia's MSMEs at Scale



Centre for Impact
Investing and Practices

CIIP is a non-profit centre established by Temasek Trust



funding societies | modalku

Preamble

This case study was developed in conjunction with the 2023 Financial Inclusion study *"Financial Inclusion in Post-COVID Southeast Asia: Accelerating Impact Beyond Access"*¹. It is part of a collection of stories of how financial services providers (FSPs) in Southeast Asia have gone beyond the provision of financial services to make conscious efforts to address underserved markets. These case studies reveal how these FSPs have done so by assessing their contributions to the financial health of their customers and monitoring the impact of their services.

These case studies were prepared by the Centre for Impact Investing and Practices (CIIP) in partnership with the eight FSPs featured: Amarthi (Indonesia), BPI Direct Banko (The

Philippines), Funding Societies (Southeast Asia), Growsari (The Philippines), KoinWorks (Indonesia), Noburo (Thailand), TYM (Vietnam), and Vui App (Vietnam).

It is intended as an accompaniment to the 2023 Financial Inclusion study, which had contributions from 60 organisations, including industry associations and investors, 31 FSPs and over 8,500² customers across six markets in Southeast Asia (Cambodia, Indonesia, Myanmar, the Philippines, Thailand and Vietnam).

The 2023 study went beyond examining how FSPs enable access to financial services to offer insights into the impact of access to credit on FSP customers' business and livelihoods, quality of life and household well-being, and other financial health

outcomes such as resilience and agency. These insights were drawn not just from the accumulation of qualitative interviews but also quantitative survey results and loan book data, which allowed us to come to a holistic view of the state of financial inclusion in Southeast Asia amid the changes brought by large-scale digitalisation in the region.

You can find our 2023 Financial Inclusion study titled *"Financial Inclusion in Post-COVID Southeast Asia: Accelerating Impact Beyond Access"* on CIIP's website and by scanning the QR code below.



1 This study was conducted by the Centre for Impact Investing and Practices (CIIP), in collaboration with the United Nations Capital Development Fund (UNCDF) and Helicap, supported by 60 Decibels (60dB).
2 Additional data points were available after the publication of the 2023 Financial Inclusion study. This is available in the Southeast Asia Financial Service Providers 2023 Impact Report, an addendum prepared by 60 Decibels.

Funding Societies

HEADQUARTERS

Singapore

GEOGRAPHY FOCUS

Singapore, Malaysia, Thailand, Indonesia, Vietnam

SECTORS

SME Digital Financing, Alternative Investment, Payments

FOUNDING YEAR

2015

KEY MILESTONES

- 2015: Launched in Singapore as Funding Societies
- 2016: Launched in Indonesia as Modalku
- 2017: Launched in Malaysia
- 2021: Launched a crowdfunding platform in Thailand
- 2022: Launched in Vietnam

MISSION

To enable fast and effortless access to funds by bringing SMEs and investors together on their platform.

Introduction

- Funding Societies is the **largest unified small and medium enterprise (SME) digital finance platform** in Southeast Asia, with a commitment to **improving the region's societies** by funding **worthy and underserved micro, small, and medium enterprises (MSMEs)**.
- Established in 2015 in Singapore to provide financial and business support to underserved MSMEs, they have helped MSMEs to **grow their businesses** and individual and institutional investors **grow their portfolios**.
- Kelvin Teo, Group CEO, explains that Funding Societies' mission is "to help small businesses in Southeast Asia, who are seen as underdogs, to access the **financial services and enabling tools** they need to succeed."
- Following their Singapore launch, Funding Societies expanded to Indonesia in 2016 and Malaysia in 2017, launched a crowdfunding platform in Thailand in 2021, and launched in Vietnam in 2022.

The challenge and impact thesis

Challenge

- Over 73 million SMEs operate in ASEAN which comprise about 97 to 99% of total enterprises in the region.¹³
- MSMEs face significant barriers to formal financing as traditional commercial banks cater to large enterprises and typically offer products that do not fit the financing needs of MSMEs.
- In Southeast Asia, around **39 million MSMEs (51%) are either unserved or underserved** by financing services.³
- The challenges faced by SMEs in accessing finance from banks include:
 - Requiring cash quickly: the detailed credit underwriting of banks can lead to lengthy approval times.
 - Busy SME owners: complex application procedures requiring extensive documentation.
 - Lack of credit history: a lack of historical cash flows can lead to high collateral requirements.
 - Loan tenure: rigid loan lengths do not fit the needs of SMEs.

Impact thesis

- Funding Societies aspires to improve Southeast Asia's societies by providing fast and effortless access to funds to **eligible and underserved SMEs**, thereby helping to **improve financial inclusion**.

Who

- Funding Societies aims to address the 39 million underserved SMEs in the region.
- The first two markets that Funding Societies launched in were Singapore and Indonesia, as these are the countries their founders grew up in.
- Funding Societies later expanded to Malaysia, Thailand, and Vietnam.

How

- Funding Societies offers products across various loan quantum, tenors, and disbursement speeds to meet the individual needs of MSMEs.
- Through the application of advanced algorithms and AI to their proprietary data, including advanced risk modelling, Funding Societies has developed **solutions for assessing credit risk**.
- Their efficient underwriting allow them to offer MSMEs financing at an **affordable rate** and to **approve MSMEs and disburse funds in as short as 2 hours**.
- Funding Societies' largest product group is trade financing, providing credit facilities or lines of credit to SMEs to drawdown and repay in a flexible manner.
- To cater to high frequency and smaller transaction value requirements, Funding Societies partnered with MatchMove Pay Pte Ltd to offer the Elevate Virtual Card along with their credit line offering, allowing users



Photo provided by Funding Societies

3 SME Finance Forum (2018): [MSME Finance Gap](#)



to instantly utilise their credit line for any quantum worth of purchases.

- Funding Societies has also developed payment solutions by acquiring a payments company.

Business Model

- Funding Societies was able to capitalise on a first-mover advantage when they launched in each market, forging local partnerships to improve their products.
- Funding Societies has designed a range of financing products, including invoice, supply chain, business term, and microloan financing.
- Their platform enables businesses without collateral and limited track record to become eligible for loans, relying on alternative sources of data such as supply chain data, transaction information, online reviews, invoices, e-commerce data, software invoicing data, and point-of-sale data.
- Funding Societies has complemented their core offering of SME financing with virtual cards, software, and payments.
- In each of the markets it serves, Funding Societies tailors its solutions and customer acquisition strategies to different segments:
 - o Digital acquisition has driven the adoption of their services amongst SMEs in Singapore and Malaysia
 - o The growth of Modalku in Indonesia has relied on network referrals, events, and partnerships. Their customers consist largely of SMEs, micro-businesses, and employees.
 - o In Thailand, they provide SME financing as well as convenient and short-term fixed-income investment options to individuals and institutions.
 - o In Vietnam, they focus on SME financing.
- Funding Societies was able to build a path to profitability by scaling up the provision of their financing solutions to enterprises across a variety of sizes.
- Apart from working capital, customers use their loans for:
 - o Raw materials, supplies, & inventory
 - o Machinery, vehicles, and tools
 - o Business expansion
 - o Hire new employees
- The combination of a strong impact intention guided by customer centricity, tailored local market strategies enabled by local partners, and holistic product diversification has allowed Funding Societies to operate profitably in most of the markets it serves.

Funding Societies' Impact

SDGs Addressed



Decent Work and Economic Growth

- Funding Societies furthers financial inclusion and contributes to greater economic growth, and employment opportunities.
- Funding Societies' loans enable increased production and sales for SMEs.
- SME growth enables the hiring of additional workers creating new employment opportunities and increasing total production.
- 346,319 jobs were created as a result of the loans SMEs took from Funding Societies.
- Over 100,000 SMEs have benefited from Funding Societies' financing.



Industry, Innovation and Infrastructure

- **71%** of Funding Societies' borrowers are accessing loans for the first time.
- Funding Societies partners with tech platforms and supply chain networks to address customers in areas with weaker data infrastructure.



Partnerships for the Goals

- Funding Societies is a signatory of the United Nations Global Compact (UNGC) and will develop a progress report according to the UNGC's focus areas, including labour, human rights, the environment, and anti-corruption.
- Funding Societies has partnered with Asosiasi Fintech Indonesia (AFTECH)¹⁴ and Asosiasi Fintech Pendanaan Bersama Indonesia (AFPI)¹⁵ to provide consumer education to help customers differentiate between legal and illegal fintech companies.
- Funding Societies has also partnered with STACS to, a leading data and technology company headquartered in Singapore, to utilize STACS's ESGpedia platform to support ESG reporting and sustainable financing solutions for MSMEs in Indonesia.

¹⁴ Asosiasi FinTech Indonesia (AFTECH) was appointed by Indonesia's Financial Services Authority (Otoritas Jasa Keuangan or OJK) as the official association for digital financial innovation players in Indonesia. It serves as an umbrella organisation for all fintech verticals and has over 360 registered members, including fintech startups, financial institutions, as well as knowledge and technology partners.

¹⁵ Asosiasi FinTech Pendanaan Bersama Indonesia (AFPI) was appointed by Indonesia's Financial Services Authority (Otoritas Jasa Keuangan or OJK) as the official association for fintech peer-to-peer lending in Indonesia. It consists of licensed fintech lending players divided by 3 clusters: productive, multipurpose, and sharia lending.



Business Success

- **Total loans disbursed:** As of 2023, Funding Societies has crossed USD 3 billion in financing across 5 million transactions, supporting almost 100,000 SMEs across Southeast Asia.
- **Fundraising:**
 - o Funding Societies | Modalku is backed by SoftBank Ventures Asia, Peak XV Partners (previously Sequoia Capital India), SMBC Bank, BRI Ventures, VNG Corporation, EBDI, SGInnovative, and Golden Gate Ventures among others.

What's Next

- **Expanding financial education efforts**
 - o Funding Societies will seek to become more heavily involved in digital and offline events to educate the market across the region.

- **Deepening green economy engagements**

- o Funding Societies will deepen its engagements with green economy matters through thought leadership pieces and advisory to SME customers regarding the implementation and integration of ESG features.

- **Continued business growth becoming a unified platform serving multiple financial needs of SMEs**

- o Funding Societies aims to continue investing resources and technological developments to provide solutions to underserved SMEs.
- o Deepen and widen their reach in payments for small businesses.

References

- Funding Societies (2021). [The Economic Impact of Funding Societies to MSMEs in Southeast Asia](#).
- Singapore Management University (2020). Funding societies: Using fintech to support small businesses in Singapore.

About the Centre for Impact Investing and Practices (CIIP)

The Centre for Impact Investing and Practices ("CIIP") fosters the growth of impact investing and practices in Asia and beyond by building and sharing knowledge, bringing together stakeholders in the community, and bringing about positive action that accelerates the adoption of impact investing. Based in Singapore, CIIP was established in 2022 as a non-profit centre by Temasek Trust, a steward of philanthropic endowments and gifts. Temasek and ABC Impact are our strategic partners.

To achieve a sustainable future for all mankind, the world needs companies that can drive positive changes at scale through products and services. Impact investing can spur the growth of such companies and help advance solutions to address the challenges

that the world faces today. We believe that sustainable companies are those who pursue social and environmental impact as avidly as they pursue profits and shareholder value. By striving to generate positive and measurable social and environmental returns alongside a financial return, both impact investors and companies can achieve returns with purpose.

We are SDG Impact's anchor partner for Asia. SDG Impact is the United Nations Development Programme initiative tasked to develop resources that accelerate investments towards achieving the United Nations Sustainable Development Goals by 2030.

For more information, please visit www.ciip.com.sg or contact info@ciip.com.sg.

