

Indonesia

State of Startup Ecosystem

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Contents

Overview

Foreword

Indonesia: The Perfect Market?

Size and Market

Investment Hub of

Southeast Asia

Key Inherent Challenges

Disproportionate

Development Across Cities

Key Talent Shortages

Business Complexity

Major Trends to Look Out For

Strong Growth in

Lagging Cities

Talent Development

Initiatives

Notable Industries

E-Commerce

FinTech

EdTech

Conclusion

Overview

Called a “burgeoning startup economy” by TechCrunch, and home to seven unicorns (before the merger of Gojek and Tokopedia), the highest in Southeast Asia, the startup landscape of Indonesia has been the subject of a growing number of conversations. Prominent startups have been putting the archipelago on the map with their traction and innovation, especially during the COVID-19 pandemic, and this report covers a high-level overview of the state of the Indonesian ecosystem halfway through 2021.

Indonesia’s immense size and market potential continues to make it an attractive market for start-ups and investors, which in turn has allowed it to develop strong entrepreneurship ecosystems in major cities. However, key factors challenging this position are (1) the unequal development and ‘access gaps’ between different tiered cities; (2) key talent shortages undermining the ability of local start-ups to perform to their maximum potential; and (3) complexity in starting and operating a business in Indonesia.

On the other hand, ongoing trends, such as talent development initiatives, are quelling these challenges, and Indonesia overall remains a top entrepreneurship ecosystem, particularly in the areas of e-commerce, FinTech, and EdTech.

Foreword



In recent years, Indonesia has taken the limelight for its pace of development across many sectors of its economy including technology.

An enormous population and growing income levels are two of many factors that have powered this growth, resulting in many unicorns and game-changing startups.

Challenges exist. From income inequality to unequal distribution of talent across the archipelago, Indonesia faces c- valuations that are placed on many startups justify the lofty expectations.

In the meantime, we believe that the Indonesian startup ecosystem is strong and, barring any systemic influences, will continue to grow in its influence across Southeast Asia.

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Indonesia: The Perfect Market?

Size and Market

The largest and most obvious pull factor of the archipelago lies in its sheer size. Indonesia hosts Southeast Asia's largest population and economy, with over 270 million residents and a nominal GDP of over USD 1.1 trillion.¹ The country's demographics also make it an attractive market. With a median age of 29.7 years, and 60% of the country under the age of 40, its young population is also especially open and welcoming of new tech-adoption.² Furthermore, as much as 95% of Indonesia's internet users consume their content primarily on mobile, and average daily mobile use exceeds 5 hours, amongst the highest in the world, making the country particularly attractive for mobile-first start-ups.³

Internet and mobile penetration rates have also seen an uptake in recent years, with the number of internet users jumping from 30 million to over 150 million in the last decade due to long-term trends, construction of new telecommunication infrastructure and improved internet connectivity.⁴ Moreover, this growth is expected to continue, and Indonesia's internet economy, currently estimated at USD 44 billion, is expected to see double digit growth and reach 124 billion by 2025, setting it as the largest and fastest-growing Internet economy in Southeast Asia.⁵

Investment Hub of Emerging Asia

Indonesia's attractiveness as an entrepreneurship ecosystem has also been bolstered by the inflow of capital funding into the country, with over USD 5.7 billion being raised in 2020, equalling 70% of SEA's capital share.⁶ Indonesia's tier one cities in particular have stood out to

¹ World Bank. (n.d.). *GDP (current International \$) - Indonesia*. The World Bank. <https://data.worldbank.org/indicator/NY.GDP.MKTP.PP.CD?locations=ID>

² Statista. (2021, March 29). Median age SEA 2020 by country. <https://www.statista.com/statistics/590942/median-age-of-the-population-in-south-east-asia/>

³ App Annie. (2021). State of Mobile 2021. <https://www.appannie.com/en/go/state-of-mobile-2021/>

⁴ Google, Temasek, & Bain & Company. (2019). e-Conomy SEA 2019. Bain & Company. https://www.bain.com/globalassets/noindex/2019/google_temasek_bain_e-conomy_sea_2019_report.pdf

⁵ Google, Temasek, & Bain & Company. (2020). e-Conomy SEA 2020. Google. https://storage.googleapis.com/gweb-economy-sea.appspot.com/assets/pdf/e-Conomy_SEA_2020_Report.pdf

⁶ Lee, Y. (2021, March 26). Southeast Asia Tech Startups Ride Out 2020, Raising \$8.2 Billion. Bloomberg. <https://www.bloomberg.com/news/articles/2021-03-26/southeast-asia-tech-startups-ride-out-2020-raising-8-2-billion>

investors, with ecosystems like Jakarta attracting over USD 845 million in early-stage funding alone, the highest amongst all emerging ecosystems. In fact, Jakarta's ecosystem itself was valued at an estimated USD 26.3 billion, positioning the city as the world's most valuable emerging ecosystem.⁷ Moreover, Indonesia is likely to see continued good capital inflow, given the prevailing geopolitical tensions and increased investment risks involving popular destinations like China, the U.S., India, etc.^{8 9}

⁷ Startup Genome. (2020). Rankings 2020: Top 100 Emerging Ecosystems.

<https://startupgenome.com/article/rankings-top-100-emerging>

⁸ Hu, Y. (2021, April 15). Southeast Asia venture funding totalled \$8.2 billion in 2020, with Indonesia leading. The Low Down - Momentum Works.

<https://thelowdown.momentum.asia/southeast-asia-venture-funding-totalled-8-2-billion-in-2020-with-indonesia-leading>

⁹ Ballentine, C. (2021, July 28). China's Crackdown Has Made Its Stocks Cheap. But Should You Buy? Bloomberg.

<https://www.bloomberg.com/news/articles/2021-07-27/why-investing-in-chinese-stocks-is-risky-even-though-they-re-cheap>

Key Inherent Challenges

Disproportionate Development Across Cities

However, as hinted earlier, ecosystem development across its cities has been far from homogeneous. Outside of tier one cities, particularly Jakarta, entrepreneurs have limited access to capital, expertise, mentorship and other resources which are crucial ingredients in early-stage start-up success.¹⁰ Moreover, even though cities like Yogyakarta, Bandung, Semarang and Surabaya have been recognised for their flourishing start-up ecosystems in their own right, only Jakarta has been ranked amongst the top 500 cities for start-ups.¹¹

Furthermore, Indonesia's unique geography, demographic diversity and relatively weak connectivity further exacerbates this problem of limited shared access to existing resources, and supports the continuation of an "access gap". This "access gap" flows both ways; it not only limits in-roads for entrepreneurs in larger cities to their potential user bases in smaller ones, but also limits potential entrepreneurs in smaller cities who would be the most inclined to solve their local problems.¹²

Key Talent Shortages

Similarly, a challenge for entrepreneurs across Indonesia has been reliable access to crucial talent. The 2020 Talent in Asia study reported that over 50% of Indonesian employers face talent shortages, with the primary cause being an inability to find candidates with the right knowledge and experience.¹³ Moreover, in the start-up space specifically, 90% of respondents believed that the skills gap was a major issue.¹⁴ Structural issues like a relatively low tertiary education rate, as well as a documented 'brain drain' of qualified talent, has resulted in consistent shortage of talent, which in-turn has driven up the

¹⁰ Failory. (2021, April 29). *The Indonesian Startup Landscape in 2021*. <https://www.failory.com/blog/indonesian-startups>

¹¹ Ng, M. (n.d.). Indonesia Startup Ecosystem Report: An Overview | ACE – Action Community for Entrepreneurship. ACE. Retrieved July 30, 2021, from <https://ace.org.sg/indonesia-startup-ecosystem-report-an-overview/>

¹² Failory. (2021, April 29). *The Indonesian Startup Landscape in 2021*. <https://www.failory.com/blog/indonesian-startups>

¹³ RGF International Recruitment. (2020, October 20). RGF Talent in Asia 2020 at a glance. <https://www.rgf-hr.com/insights/rgf-talent-in-asia-2020-at-a-glance-367810b6-cbdf-46b9-8a5c-a222d367aab6>

¹⁴ Maulia, E. (2019, May 22). Southeast Asian "turtles" return home to hatch tech startups. Nikkei Asia. <https://asia.nikkei.com/Spotlight/The-Big-Story/Southeast-Asian-turtles-return-home-to-hatch-tech-startups>

salaries and expectations of local talent.¹⁵ Recent figures estimate that software engineers and other crucial start-up roles, such as digital marketers, often command salaries three to five times higher than the median wage in Southeast Asia.¹⁶

The inability of startups to sometimes afford required talent, especially early on in their development, has thus led to buried start-up ideas, early start-up deaths or underperformance. Even in later stages, rapid-scaling due to internal talent shortages has emerged as a serious challenge. Moreover, even when employers do hire talent, frequent complaints have risen of quick turnarounds, employee job-hopping, and moonlighting.¹⁷ Furthermore, the lack of an ESOP culture, a crucial get round for most of these problems, has hampered employer's abilities to attract and keep talent.¹⁸

Business Complexity

The last major challenge plaguing the Indonesian start-up ecosystem has been the complexity of setting up and running businesses in the country. The Global Business Complexity Index ranked Indonesia as the world's most complex jurisdiction across their 77 analysed major countries.¹⁹ Similarly, the World Bank's ease of doing business index ranked Indonesia as 73rd across 190 global economies. The presence of neighbours with significantly better rankings, such as Singapore (2nd), Malaysia (12th) and Thailand (21st), further challenges Indonesia's position as the regional business destination of choice.²⁰ Key issues that have been highlighted include difficulties in starting businesses, accounting & taxation, contract enforcement, trading across borders, and rigid employment regulations. A secondary concern has also been the government's focus on local start-ups, with limited support for international start-ups entering Indonesia.

¹⁵ Global Business Guide Indonesia. (2014, March 17). Indonesia Brain Drain | GBG.

http://www.gbgindonesia.com/en/main/business_updates/2014/upd_indonesia_s_brain_drain_pains.php

¹⁶ Maulia, E. (2019, May 22). Southeast Asian "turtles" return home to hatch tech startups. Nikkei Asia.

<https://asia.nikkei.com/Spotlight/The-Big-Story/Southeast-Asian-turtles-return-home-to-hatch-tech-startups>

¹⁷ Greenhouse Team (2021, January 25). Startup Ecosystem in Indonesia: Ingredients, Challenges, Strategies. Greenhouse.

<https://greenhouse.co/blog/indonesias-startup-ecosystem/>

¹⁸ Pratama, A. (2020, August 4). Tech in Asia - Connecting Asia's startup ecosystem. Tech in Asia. <https://www.techinasia.com/esop-culture-indonesia>

¹⁹ Press Release. (2020, July 15). Indonesia ranked as world's most complex place to do business – while US now seen as one of the easiest. TMF Group. <https://www.tmf-group.com/en/news-insights/press-releases/2020/june/indonesia-ranked-most-complex-place-to-do-business/>

²⁰ World Bank Group. (2020). Doing Business 2020.

<https://documents1.worldbank.org/curated/en/688761571934946384/pdf/Doing-Business-2020-Comparing-Business-Regulation-in-190-Economies.pdf>

Major Trends to Look Out For

Strong Growth in Lagging Cities

Nonetheless, optimism remains high around the Indonesian ecosystem due to ongoing trends, which are countering some of the aforementioned key challenges. While current ecosystem development has been disproportionate across cities, growth in tier two and three cities is actually outpacing growth in tier-one cities, a trend that is likely to continue for the next decade.²¹ Moreover, these markets are by no means sub-par or unattractive to start-ups and investors. For example, by some estimates, adoption rates for e-commerce, e-payments, and lending in tier two and three cities is expected to grow up to 46% YoY towards 2025, and some investors foresee these ecosystems hosting the next Indonesian unicorns.²² As such, the large and untapped potential across these segments in Indonesia will likely push more and more ambitious investors to these areas, and existing entrepreneurs will rise to build strong ecosystems across the archipelago.

Talent Development Initiatives

Similarly, all over Indonesia, various stakeholders are also engaging in top-down and bottom-up initiatives to breed technopreneurs and talent. The Indonesian government has openly declared its interest and priority in developing the entrepreneurship ecosystem and has engaged in initiatives like the 1001 Digital Startup Movement, BEKRAF, and KIBAR to assist entrepreneurs in different parts of their journey.^{23 24} On the other hand, startups like Glints and Hacktiv8 are offering bootcamps, courses and programs to upskill Indonesians with in-demand skills at a fraction of the time and cost of traditional degrees.²⁵ Similarly, larger players like Gojek and Tokopedia are taking active steps to alleviate

²¹ Tjan, C. (2021, April 26). The land of unicorns: The rise of startups in Indonesia. TechNode Global.
<https://technode.global/2021/04/27/the-land-of-unicorns-the-rise-of-startups-in-indonesia/>

²² AJWC editor. (2021, June 8). The Land of Unicorns : The Rise of Startups in Indonesia. Alpha JWC Ventures.
<https://www.alphajwc.com/en/chandra-tjan-the-land-of-unicorns-the-rise-of-startups-in-indonesia/>

²³ Ng, M. (n.d.). Indonesia Startup Ecosystem Report: An Overview | ACE – Action Community for Entrepreneurship. ACE. Retrieved July 30, 2021, from <https://ace.org.sg/indonesia-startup-ecosystem-report-an-overview/>

²⁴ Umali, T. (2019, May 24). Indonesia's 1001 Digital Startup Movement to boost digital economy. OpenGov Asia.
<https://opengovasia.com/indonesias-1001-digital-startup-movement-to-boost-digital-economy/>

²⁵ Maulia, E. (2019, May 22). Southeast Asian "turtles" return home to hatch tech startups. Nikkei Asia.
<https://asia.nikkei.com/Spotlight/The-Big-Story/Southeast-Asian-turtles-return-home-to-hatch-tech-startups>

talent shortages and investing in developing reliable talent pipelines by building internal capabilities through initiatives like GoAcademy and Tokopedia Academy.

Lastly, efforts are also being made to attract foreign talent, the Indonesian diaspora or 'sea turtles' (referring to Indonesians who return after studying and working overseas) to Indonesia. The government has indicated interests in developing Indonesia's human resources as its priority target for 2020-2024, and is proposing initiatives such as strengthening the Ministry of Manpower and Transmigration's purview, increasing benefits and incentives for returning Indonesians in public roles or universities, and increasing scholarship opportunities for locals and foreigners with bonds to return or work in Indonesia.^{26 27}

The impact of a reverse brain drain on the Indonesian start-up ecosystem cannot be overstated. Currently, over 90% of Indonesian unicorns and start-ups with valuations exceeding USD 100 million have co-founders or top leaders who have studied or worked overseas for a period of time.²⁸ Similar trends were also seen in other entrepreneurship hubs during their initial boom, such as Israel in the 1980s, or China in the early 2000s.²⁹ 'Sea turtles' and the wider Indonesian diaspora bring a perfect mix of good local understanding and strong international exposure, which in turn allows for the rapid development and success of the ecosystem. The trend of an increasing number of 'sea turtles', diaspora members and foreign talent coming to Indonesia thus foreshadows strong prospects for the local ecosystem.

²⁶ Stiaji, I. (2020, January 3). Merajut Diaspora Indonesia Guna Membangun Sumber Daya Manusia Indonesia Unggul. Lembaga Ilmu Pengetahuan Indonesia.

<http://lipi.go.id/publikasi/merajut-diaspora-indonesia-guna-membangun--sumber-daya-manusia-indonesia-unggul/31784>

²⁷ Setijadi, C. (2017, December). Harnessing the potential of the Indonesian diaspora. Singapore Management University.

https://ink.library.smu.edu.sg/cgi/viewcontent.cgi?article=4145&context=soss_research

²⁸ Maulia, E. (2019, May 22). Southeast Asian "turtles" return home to hatch tech startups. Nikkei Asia.

<https://asia.nikkei.com/Spotlight/The-Big-Story/Southeast-Asian-turtles-return-home-to-hatch-tech-startups>

²⁹ Sun, W. (2013, April 25). The productivity of return migrants: the case of China's "Sea Turtles." IZA Journal of Development and Migration.

<https://izajodm.springeropen.com/articles/10.1186/2193-9039-2-5>

Notable Industries

E-Commerce

E-commerce and FinTech are amongst the two largest and fastest growing sectors in Indonesia, which are expected to continue seeing higher growth and entrants due to the growing internet economy and large unbanked or underbanked population. E-commerce sales currently only accounts for approximately 5% of Indonesia's total retail volume, but is expected to more than quadruple within the next five years according to estimates by McKinsey.³⁰ The market has a mix of early, growth and late-stage players, including unicorns like GoTo, Bukalapak and Shopee (under Sea Group), making space for tough competition.

FinTech

As aforementioned, the mobile-centric and underbanked population has made FinTech a major market in Indonesia. Only 12% of SMEs have access to credit, and over 65% of the population is totally unbanked.³¹ As such, investors have flocked to start-ups solving these problems and FinTech was the highest-invested single space by VCs in 2020.³² Multiple solutions and sub-verticals currently exist, including P2P lending solutions, digital payments, earned wage access, personal finance management, alternative credit scoring, etc. However, as opposed to e-Commerce, the FinTech space has much fewer mature players, with a majority still in early stages, and the market appears to be highly fragmented with few dominant players. Consolidation is underway, further boosting the attractiveness of the industry, but the heavy involvement of the government and regulators also adds a layer of unpredictability.³³

³⁰ McKinsey & Company. (2018, August). The digital archipelago: How online commerce is driving Indonesia's economic development. https://www.mckinsey.com/~media/McKinsey/Featured%20Insights/Asia%20Pacific/The%20digital%20archipelago%20How%20online%20commerce%20is%20driving%20Indonesias%20economic%20development/FINAL_The-digital-archipelago-How-online-commerce-is-driving-Indonesias-economic-development.ashx

³¹ Fintechnews Indonesia. (2020, December 3). Indonesia Fintech Report and Map 2020. Fintech Singapore. <https://fintechnews.sg/45513/indonesia/indonesia-fintech-report-and-map-2020/>

³² Greenhouse Team (2021, January 25). Startup Ecosystem in Indonesia: Ingredients, Challenges, Strategies. Greenhouse. <https://greenhouse.co/blog/indonesias-startup-ecosystem/>

³³ KPMG. (2017, September). Finance in Indonesia: Set for a new path? <https://assets.kpmg/content/dam/kpmg/id/pdf/2017/09/id-finance-in-indonesia-set-for-a-new-path.pdf>

EdTech

The COVID-19 pandemic has also accelerated adoption and normalisation of EdTech solutions, which also cover many sub-verticals ranging from online learning platforms to AR/VR, for user bases ranging from pre-school children to post-graduate students. The market currently has a mix of early, growth and late-stage players, of which a significant number grew massively and raised multiple funding rounds during the pandemic. Even outside the pandemic, long-standing trends such as unequal or substandard teaching resources across the country, and the aforementioned skills gap or talent shortage, make EdTech an attractive industry full of opportunities.³⁴

³⁴ Huang, S. (2020, September 30). Indonesian edtech's unexploited opportunities. Tech in Asia. <https://www.techinasia.com/indonesian-edtechs-unexploited-opportunities>

Conclusion

Major prevailing trends are reducing some of the traditional challenges typically associated with the Indonesian ecosystem, such as strong growth within lagging cities countering 'access gaps' within these locations, or human resource development initiatives by various stakeholders alleviating talent shortages. However, some challenges such as Indonesia's long-standing business complexity still remain, further exaggerated by the presence of business-friendly neighbours around it.

Nonetheless, the overwhelming opportunities and potential in the Southeast Asian giant are making up for these shortcomings, and the ecosystem appears to be stronger than ever, particularly in comparison to other emerging markets. The COVID-19 pandemic has accelerated technology acceptance and adoption, and players from e-commerce, FinTech and EdTech have leveraged these circumstances to grow further, and look well-poised to continue doing so. Both investors and start-ups remain optimistic of growth in the future, with frequent talk of 10 more Indonesian unicorns in the next decade being floated as the new target, which for the most part, seems to be becoming more and more realistic with time.

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