

Expanding Roles of the Government on Digital Startup Trends in Indonesia

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Introduction

Indonesia is an emerging middle-income country and a member of the G-20 which was severely hit by the COVID-19 pandemic, like other nations in the world. However, the world's fourth most populous nation can recover gradually. The economy is rebounding by 3.7 per cent in 2021 and projected by World Bank to grow by 5.2 per cent in 2022 assuming Indonesia does not experience a new severe COVID-19 wave¹². The country continues to meet expectations of being projected on the list of ten largest economies in near future³, while currently the largest in Southeast Asia with a nominal gross domestic product (GDP) of \$1.19 trillion in 2021⁴.

Considered one of the emerging market economies globally, Indonesia's e-commerce market is growing significantly with flourishing digital startups that are convinced to support the projection. One of the main supporting factors is the development of MSMEs and digital startups in Indonesia, which are able to bring some significant developments in product services and businesses in the digital era of commerce. Undoubtedly, MSMEs and startups are critical factors that will rebound the economy post Pandemic⁵. Not just serving the local market, several startups have proved their global level and are one of the few unicorns and decacorns which focus on their "super apps". Such as Gojek, Traveloka, and Tokopedia. However, it is vulnerable and lacks significant contribution to the national economy if the state does not strongly support other "left-behind" small business entities. Indonesia will be lagging behind other countries that focus on developing MSMEs and their startups with optimal support.

Some of the efforts that must be made include reorientation of the roles of the government, from policymakers to becoming more synergistic in further development such as incubation and funding. Several supporting policies to enhance startup developments in Indonesia have been made. However, it is not sufficient to boost the projection of economic prosperity through the contributions of startups. The expanding roles of the government can also be done as facilitators by collaborating with private parties, both local and global, to provide seed funding and next-level investments. Government should also facilitate the creation of new startups and accelerate their businesses. Although some programs have been conducted to accelerate the startups, the government's role as an accelerator should be improved to monitor the outputs, outcomes, and impacts of such programs.

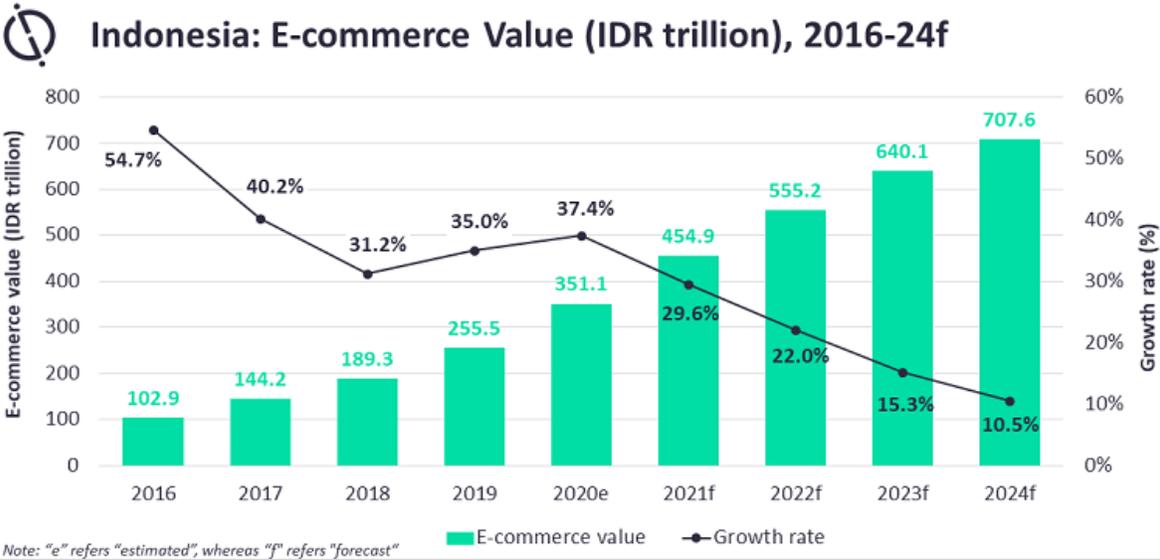
Potential e-commerce market

Indonesia (government) begins to focus on digital services not only on e-government services but also beginning to support e-commerce activities. Yet, because the "healthy" e-commerce industry relies heavily on transaction volume, a gradual increase in e-commerce in Indonesia should become an important reason for the government to increase and expand its support. The increasing e-commerce transactions in recent years stemmed from online/digital culture as a rising phenomenon during pandemics. Online shopping from the marketplace dominates e-commerce transactions, while work from home (WFH) and distance learning and education heavily utilised the Internet.

With a population of more than 270 million people, the impact of the COVID-19 pandemic has made online activity increase. Before the pandemic, there were only 175 million recorded Internet users. In 2022, internet users in Indonesia will reach around 210 million with a penetration of 77%⁶ or 204 million with

73% penetration⁷. This means that there will be at least additional 35 million new internet users in Indonesia. The data also shows that the Internet penetrates the middle-class economy which become a major contributor to the growth of tech-savvy consumers and dominating digital culture.

E-commerce users in Indonesia are 159 million and e-commerce has penetrated 57% of Internet users⁸. Digital financial services are also becoming critical enablers, with 98% of digital merchants now accepting digital payments and 59% of digital merchants now adopting digital lending solutions⁹.

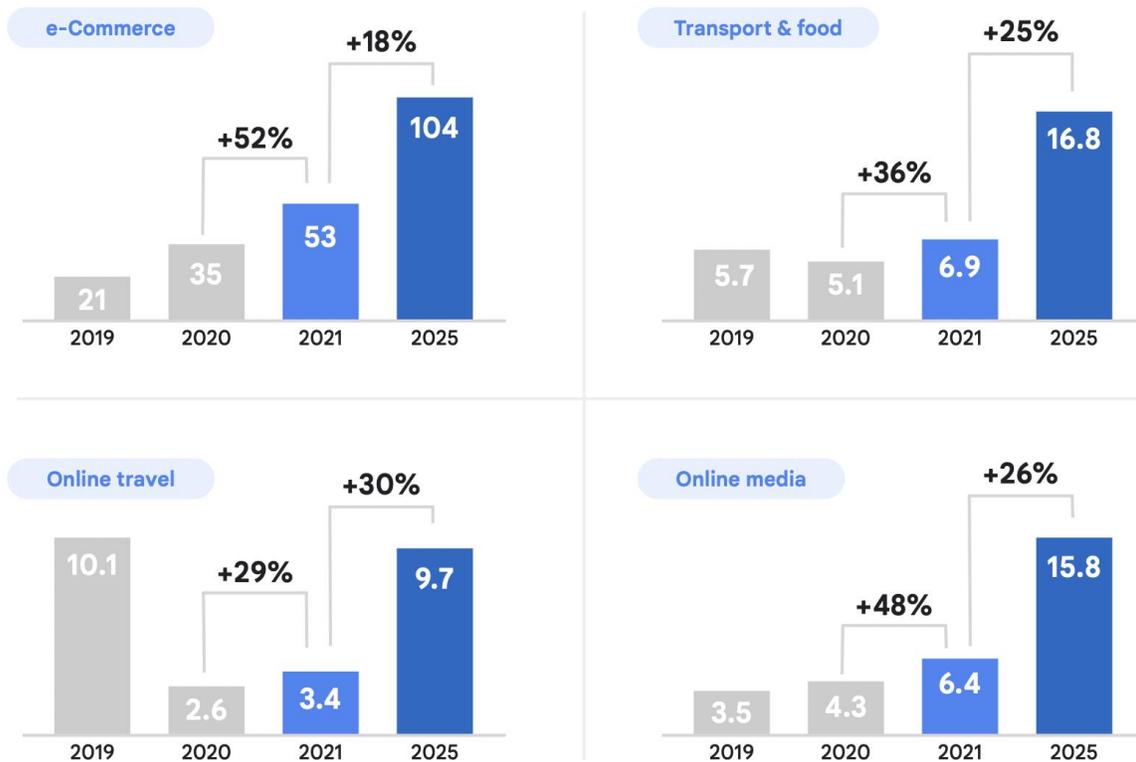


Source: GlobalData Banking and Payments Intelligence Center



Indonesia's e-commerce market is expected to be a major growth contributor in the Asia Pacific. The e-commerce transaction value represents a compound annual growth (CAGR) of 25.3% from the 2020 achievement of IDR351.1 trillion (US\$44.6 billion)¹⁰. E-Commerce Analytics reveals that e-commerce sales are estimated to reach IDR707.6 trillion (US\$51.0 billion) in 2024¹¹. E-commerce leading the growth on double-digit growth in all Internet sectors rebound in Indonesia. Indonesia's GMV is expected to reach a total value of \$70B in 2021, and the overall internet economy will likely reach \$146B in value, growing at 20% CAGR in 2025¹². By these projections, Indonesia is expected to be the largest digital domain in Southeast Asia,¹³ and could become a major growth contributor in the Asia Pacific.

GMV per sector (\$B)



Source: Indonesia e-Conomy SEA 2021 Report.

Digital Startups Trends

The global startup index and startup rankings stated that Indonesia ranks sixth in the world with 1,902 startups, after the US, India, UK, Canada and Germany, meanwhile, The Financial Services Authority of Indonesia (OJK) states that Indonesia has 2,100 startup companies¹⁴. The 2021 G20 Innovation League Forum also awarded two digital startups from Indonesia, *Nalagenetics* and *Ruangguru*, as startups with superior innovations, at the G20 forum 2021. The Complete List of Unicorn Companies also includes the Indonesian startup's valuation of *J&T Express* as a new decacorn with *Gojek*, along with *Traveloka*, *Kopi Kenangan*, *Ajaib*, *Akulaku*, and *Xendit* as new unicorns¹⁵. The projected economic value is based on gross transactions or gross merchandise value (GMV) of five sectors, namely e-commerce, ride-hailing and food delivery, digital media, online travel, and finance.

The number of startups in Indonesia, especially in those sectors, is increasing exponentially from year to year. To this date, there are thousands of start-up companies and some of them have gained success in the international arena. The significant growth of B2B and B2C e-commerce platforms in Indonesia needs to be supported by immediately transforming its logistics system to be more efficient. In addition, digital payment systems in the form of e-wallets and payment gateway systems are developed. Different actors in the e-commerce landscape in Indonesia should create an ecosystem as supportive platforms in digital market research, e-commerce enablers, marketing, payment gateways and mobile wallets, also logistic sectors¹⁶.

Trends in private investments in recent years have also increased. There are three main sectors that investors are most interested in, the financial technology (fintech) sector, logistics, and e-commerce. This attention can be seen from a large number of startup companies in that sector and funding flowing into those sectors. It has been reported that Google, Temasek, and Bain & Company also estimate that Indonesian start-ups will receive an investment of US\$ 4.7 billion or Rp 67 trillion in the first half¹⁷ of the year. However, beyond the numbers, the startup ratio to the total population is quite small. The number of entrepreneurs in Indonesia has only reached about 3.4% of the total population of Indonesia¹⁸. That percentage is still not enough to become a developed country which needs 12 to 14 per cent¹⁹. Indonesia is even still below to neighbour's small-island state Singapore which has 8.7% of entrepreneurs²⁰. Despite major successful startups as the inspiring-role model, most startups are difficult to survive and unleash their potential.

Government as Regulator, Facilitator and Accelerator

Digital transformation of private sectors' products and services delivery adapting to the new digital landscape and consumer tech-savvy behaviour has been fundamental to the startup's solutions. However, the fact shows that even though in recent years, startups accelerating in quantitative numbers, there has been unsatisfying results in the successful numbers of new startups. In 2019, only 5% of startups passed their six months of economic activities from their first month of establishment²¹, and in 2021 only 10%²². Therefore, with the rapid development of e-commerce in Indonesia and supported by the proliferation of digital startups, it is necessary for the government as the entity responsible for the country's economy to plan and implement various programs and policies to tackle the challenges of startup survival. For example, policy and regulatory frameworks related to funding, taxation, consumer protection, education and human resources, logistics systems, communication infrastructure, digital literacy and cyber security should be established to create an environment that supports startups.

In this role, the government has already aware of the prospects for the e-commerce industry in Indonesia. Therefore, the government issued PP No.74 of 2017 about the 2017-2019 e-Commerce Roadmap which was later strengthened by the 2021-2024 Indonesia Digital Roadmap. In addition, blockchain technology has been adopted by various government bodies and associations. Indonesia Blockchain Association (ABI) was established in 2017 to start the milestone of blockchain adoption in Indonesia with the following supported regulations such as the Regulation of the Minister of Trade No. 99/2018 which recognised "Crypto as a Commodity". Recently, the government have also published the "Artificial Intelligence" roadmap called "Indonesia AI National Strategy"²³ which tries to oversee and provide the earliest support for the futuristic landscape of new startups in Indonesia.

The regulatory frameworks for startup ecosystems above, however, are sufficient, but not "good enough" to accelerate the economic boost from startup activities. The expansion of roles of the government, not only in the regulatory role but also to be facilitators and accelerators is needed. As facilitators, the government should also start to create a supporting ecosystem such as simplifying various permits for the telecommunications, broadcasting, and postal industries, and has taken an affirmative policy to develop information and communication technology infrastructure. Besides the development of the Palapa Ring project²⁴ as the backbone digital and telecommunication infrastructure, a regulatory sandbox to ensure safe, convenient and efficient innovation for digital transactions, which could create digital startup innovations are important.

Lastly, the function of the government as an accelerator. At least there are two significant initiative programs have been made by the Ministry of Communication and Informatics (MoICT). First, "1000 Digital Startups"²⁵, a national program which expands the roles of the government, not only as a regulator but also as facilitator and accelerator. This program has been started in 2016 and continuously growing and claims to have been educated 1,160 startups and 85,000 "founder candidates". However, from 2016 when this program was launched until now (2022), only a small number of startups survived in Indonesia. Also,

whether successful today's prominent startups are born from this or not as the targets, remains unclear. If the program has started five years ago, there should be more impactful startups to be showcased.

The second program by the government, the "hub. id"²⁶ aims to become a hub between Indonesian tech startups, global venture capitalists, corporations, government entities, and business partners. Hub. id has a two-day summit²⁷, where tech startups are given a forum for looking for "seed funding" up to Series A investment. Tech startups can continue their journey by expanding their business network on a global scale. As the government program to accelerate the growth of the digital economy by maintaining the sustainability of startups in the digital ecosystem, this program could become a next-level accelerating program focused on "vertical startups" to leverage their networks and accelerate their business. Currently, there are 7 (seven) startups in the portfolio of this program. Nevertheless, while the effectiveness of the program is still in question, the initial summit which was held in June 2022 marked the plausible steps for the government as an accelerator.

From the examples, the role of the government as an accelerator should be given more attention, and jointly cooperating and networking with private investors who can bridge the development of digital startups in Indonesia through various incubations, business matchmaking, and investments. Learning from other countries' successful startup incubator programs; would also be beneficial to making successful programs in the future. Regulator, Facilitator and Accelerator are the 'new' roles of government in embracing the trends of Indonesian youth's passion. The digital startup is the main choice of Indonesian youth's future career as entrepreneurs, the highest among youth in Southeast Asia²⁸, and it is believed will make Indonesia not just as largest e-commerce market, but also, a significant e-commerce player in the region.

¹ World Bank, Indonesia Economic Prospects, Dec 2021.

<https://openknowledge.worldbank.org/bitstream/handle/10986/36732/166956.pdf>

² Forbes, Dec 2021. <https://www.forbes.com/sites/rainermichaelpreiss/2021/12/14/indonesias-wealth-creation-southeast-asias-largest-economy-picks-up-steam/?sh=4778abe36e5a>

³ <https://en.antaranews.com/news/193613/indonesia-poised-to-become-seventh-largest-economy-globally-by-2030>

⁴ <https://www.asiafundmanagers.com/us/indonesia-economy/>

⁵ <https://techwireasia.com/2021/06/millennial-msme-owners-will-drive-indonesias-economic-rebound-heres-how/>

⁶ Association of Internet Service Providers Indonesia (APJII), 2022. "Survey of Internet Profile Indonesia 2022".

<https://apjii.or.id/survei>

⁷ Data Reportal, 2022. "Digital 2022 Indonesia". <https://datareportal.com/reports/digital-2022-indonesia>

⁸ Statista, 2021. eCommerce in Indonesia 2021 Country Report. <https://www.statista.com/study/85341/ecommerce-in-indonesia/>

⁹ Google-commissioned Kantar SEA e-Conomy Research 2021; Google-commissioned Dynata SEA-6 Digital Merchant Survey 2021; Bain Analysis; VC partners; industry reports.

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¹⁰ Red Seer, 2020. Report on Indonesia Ecommerce, Metamorphosis in A Post Covid World.

<https://redseer.com/reports/indonesia-ecommerce-metamorphosis-in-a-post-covid-world/>

¹¹ <https://www.globaldata.com/indonesias-e-commerce-market-continues-surge-amid-covid-19-pandemic-says-globaldata/>

¹² Google-commissioned Kantar SEA e-Conomy Research 2021; Google-commissioned Dynata SEA-6 Digital Merchant Survey 2021; Bain Analysis; VC partners; industry reports.

https://services.google.com/fh/files/misc/indonesia_e_conomy_sea_2021_report.pdf

¹³ <https://ekonomi.bisnis.com/read/20211222/9/1480662/opini-membidik-peluang-e-commerce-2022>

¹⁴ <https://myskill.id/blog/dunia-kerja/perkembangan-startup-indonesia/>

¹⁵ CB Insights, 2020. Complete Lists of Unicorn Companies. <https://www.cbinsights.com/research-unicorn-companies>

¹⁶ <https://aseanup.com/insights-trends-e-commerce-indonesia/>

¹⁷ <https://katadata.co.id/desysetyowati/digital/618bb2c52a669/investasi-ke-startup-ri-rp-67-triliun-dalam-6-bulan-lampau-4-tahun>

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- ¹⁸ <https://www.marketing-interactive.com/indonesia-eyes-entrepreneur-ratio-of-4-by-2024>
- ¹⁹ <https://ekonomi.bisnis.com/read/20220319/9/1512926/pengusaha-ri-baru-34-persen-butuh-14-persen-untuk-jadi-negara-maju>
- ²⁰ <https://www.cnbcindonesia.com/market/20220119174508-17-308809/erick-thohir-entrepreneur-ri-masih-tertinggal-dari-singapura>
- ²¹ <https://www.cnbcindonesia.com/tech/20190402102200-37-64239/rudiantara-hanya-5-startup-yang-survive-95-lainnya-gagal>
- ²² <https://www.kompas.id/baca/desk/2021/07/17/sebanyak-90-persen-startup-berakhir-dengan-kegagalan>
- ²³ See more on official website <https://ai-innovation.id/stranas-ka>
- ²⁴ See more on official website <https://palaparing.id>
- ²⁵ See more on official website <https://1000startupdigital.id>
- ²⁶ See more on official website <https://hub.id>
- ²⁷ See more on official website <https://summit.hub.id>
- ²⁸ <https://www.weforum.org/agenda/2019/08/indonesia-young-people-entrepreneur/>