

Accelerating Indonesia's digital economy with 3 growth engines

Home to one of the world's youngest, largest, and most tech-centric populations, Indonesia is banking hard on these trends to launch the nation into a golden age of prosperity.

The country's industry has increased more than fourfold while supporting other initiatives, ranking itself as the largest and most attractive investment destination among the ASEAN Member States. The high potential to grow and diversify trumps the current looming economic decline that Indonesia is facing. Also, Indonesia has developed a strong foundation consisting of a strong penetration rate and a large millennial and Gen-Z population, which will play a significant role in the future.

The private sector and the Indonesian government have started numerous projects focusing on key initiatives. These include the following:

- Improving the physical and digital telecommunications infrastructure,
- Unlocking more investments in startup enterprises (micro, small and medium-sized),
- Making business acts easier overall.

Indonesia aims to reach US\$ 228 billion in its digital economy by 2027, with e-Commerce as its primary driver.

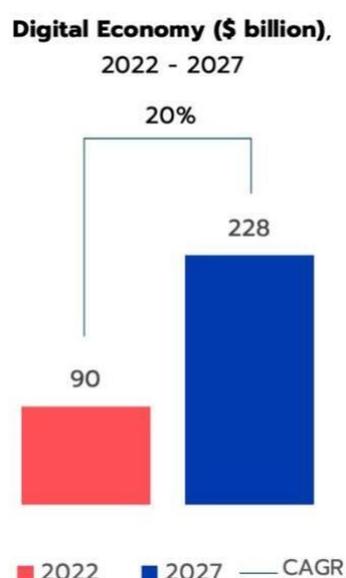


Figure 1: The growth of the digital economy in Indonesia
Source: twimbit analysis

3 key pillars to drive growth for Indonesia

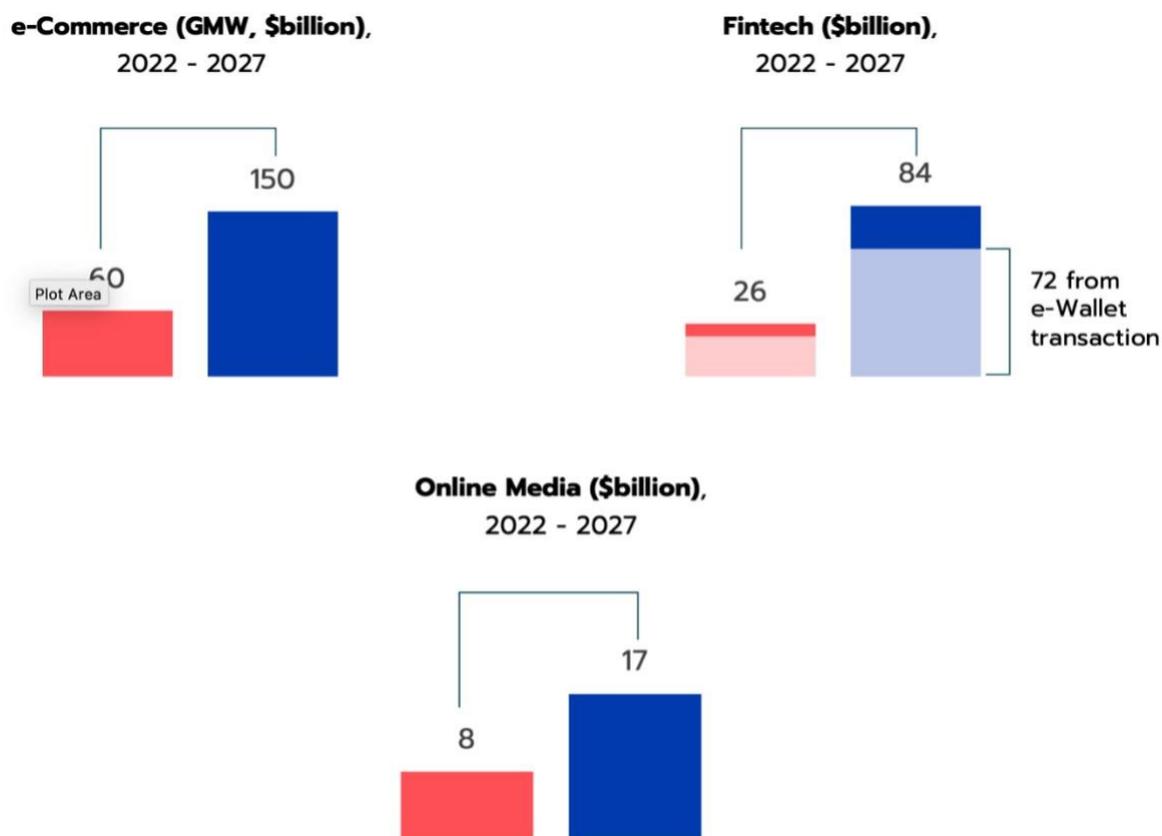


Figure 2: Growth analysis of Indonesia's digital economy in various industries
Source: twimbit analysis

Note: Gross merchandise value (GMV) refers to the value of goods sold via customer-to-customer or e-commerce platforms.

Fintech and e-Commerce continue to dominate Indonesia's digital economy. Also, the country's various industries have more opportunities to prosper as more sectors become more connected.

e-Commerce

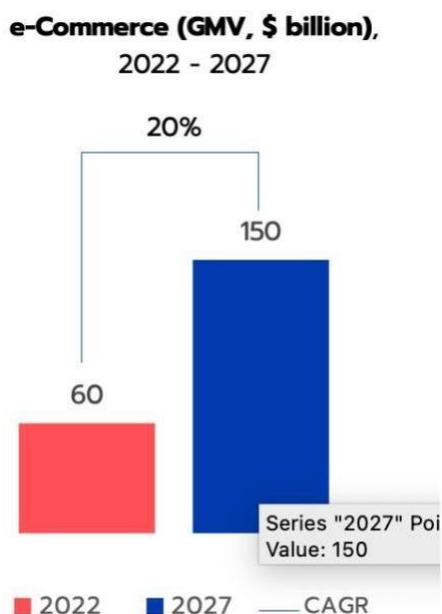


Figure 3: Estimated GMV growth in e-Commerce
Source: twimbit analysis

Key highlights of the e-Commerce industry:

1. Millennials and Gen-Z continue to propel e-Commerce

- Millennials are willing to spend more for premium and exclusive products or services because of their stable spending power and growing family size.
- Gen Z tends to shop more but with smaller transaction values, as they look ready to be the primary demographic entering the labour market within the next 5 years.
- There will be 128 million online shoppers by 2027, the critical driver for e-Commerce to continue growing.

2. The online grocery market place displays potential for growth

- The online grocery marketplace is still in its early stages of development.
- Logistic infrastructure and transport networks have rapidly improved to facilitate and ease online users, significantly increasing the growth and penetration of Indonesian grocery spending.

**Consumer Food Expenditure
(\$ billion),
2022 - 2027**

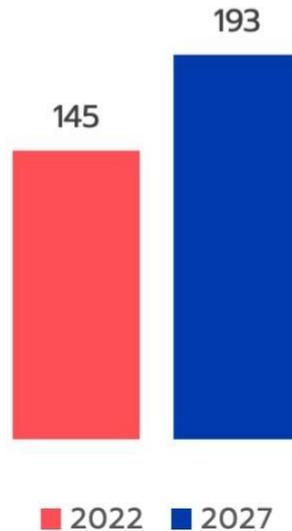


Figure 4: Growth analysis in consumer food expenditure
Source: Tracxn, Crunchbase, twimbit analysis

Food expenditure includes – cereals, tubers, seafood, meat, eggs and milk, vegetables, legumes, fruits, oil, spices, prepared food and beverages.

Urban areas remain the main fighting ground in this segment because of better logistic infrastructure and workforce availability to support rapid delivery and quick commerce.

3. Gen-Z and the rural community are beginning to drive social commerce

16 Social Commerce Startup in 2022	Notable fund raised		
	 \$70m Series C 2022	 \$20m Venture round 2022	 \$30m Series B 2021

Source: Crunchbase, Datareportal, twimbit analysis

What is social commerce?

Social commerce is the process of selling products and services directly through social media. With social commerce, the entire shopping experience from product discovery and research to checkout, takes place right on social media.

Social commerce startups usually provide innovative solutions such as group buying or buying through an agent to overcome logistic barriers with competitive pricing. The popularity of social commerce is growing in rural areas. It enables businesses to leverage social networks and connections to drive online or offline sales. There are two standard models within social commerce.

A. Agent or Group Buying Model

Shoppers can browse or buy products through an agent on the platform or join a group purchase to enjoy discounts or promotions. This model usually targets small towns and rural areas with innovative solutions to overcome logistic barriers, such as community heads gathering orders and building logistic centres.

Active funding activities, in past two years, indicating investors are optimistic with the market



Source: Crunchbase, Datareportal, twimbit analysis

B. Social Media Platform Model

Businesses engage audiences or shoppers through social media, such as live streams and online posts. As a result, purchases often occur on the same app without diverting users to another marketplace platform. Also, Gen Z can use the social media platform to scour information from cheaper acquisition costs to higher sales conversions.

For instance, Tiktok leverages the media consumption behaviours that Gen-Z inhabits today. As a result, short-form video content is viral in encouraging users to make purchases without diverting to marketplace platforms. This success has led to TikTok being Gen-Z's favourite social media platform, generating GMV (Gross merchandise value) of US\$ 666 million in 2021 in Indonesia.

Fintech

The development of digital finance, e-Wallet mass adoption, and P2P lending has accelerated Fintech growth in Indonesia.

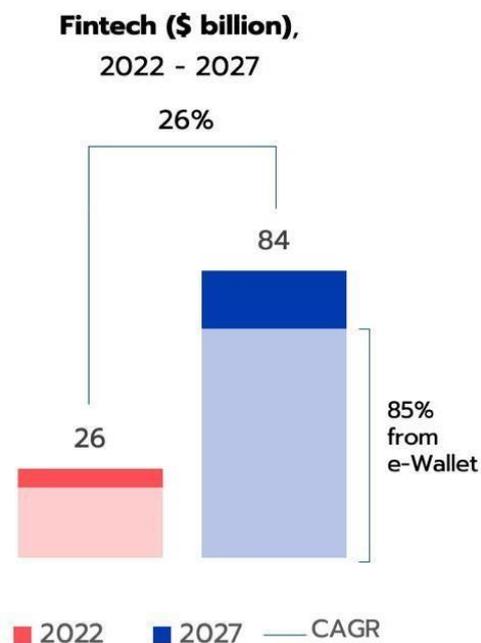


Figure 5: An expected rise in the Fintech industry
Source: OJK, twimbit analysis

Key highlights of the Fintech industry:

1. The rise in Fintechs presents high growth opportunities

e-Wallet

70 licenses were issued with the below 5 e-Wallet players commanding 90% of the market

P2P Lending

As of 2022, there are 102 P2P Lenders regulated by Indonesia Financial Services Authority (OJK)

Source: OJK, Bank Indonesia, twimbit analysis

2. Headroom for e-Wallet to continue penetrating consumer transaction

E-Commerce and e-Wallet adoption has drastically increased in Indonesia since the COVID-19 pandemic. However, only a fraction of consumer spending happens through e-Wallet.

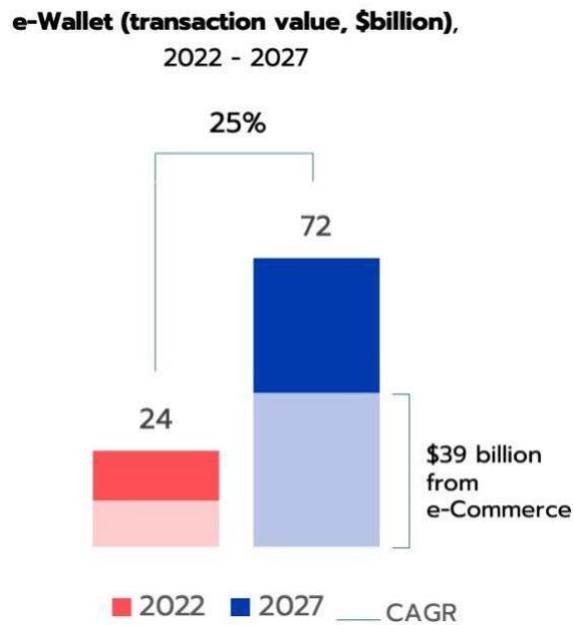


Figure 6: e-Wallet transaction value

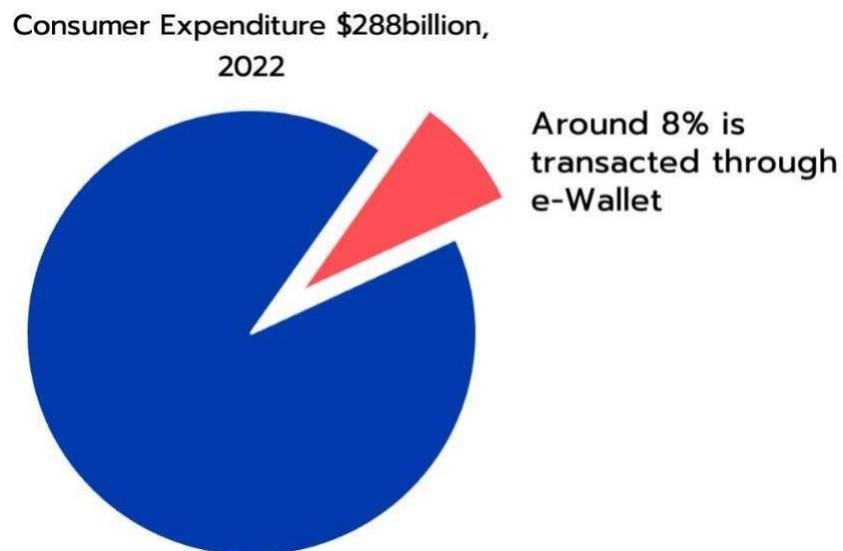


Figure 7: % of consumer expenditure through e-wallet transactions
Source: twimbit analysis

Consumer expenditure includes:

- Food expenditure – cereals, tubers, seafood, meat, eggs and milk, vegetables, legumes, fruits, oil, spices, prepared food and beverages
- Non-food expenditure – Housing/household facilities, Goods and services, clothing/footwear/headgear, Durable goods, Taxes/Insurance, Parties/Ceremonies

3. High growth is expected for P2P lending as a huge credit gap exists

The Indonesian Joint Funding Fintech Association estimated a credit gap of US\$ 70 billion per year.

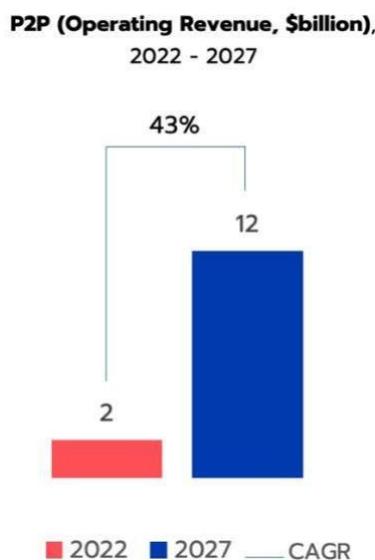
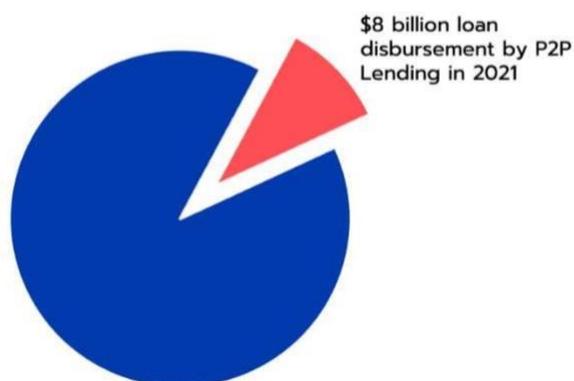


Figure 8: P2P operating revenue
Source: twimbit analysis

Estimated Credit Gap of \$70billion per year



P2P borrowers' profile in 2021:

77% Personal Lending	13% SMEs Business Loan
80% From Java Island	Top Business Category: <ul style="list-style-type: none"> • Wholesale & Retail • Automobile Repair • Food & Beverage • Accommodation services
67% Age 19-34	Top Reasons to use P2P: <ul style="list-style-type: none"> • Unable to secure loan from bank • Fast approval

Figure 9: Share of loan disbursement by P2P lending
Source: OJK, National Financial Literacy and Inclusion Report 2019, Indonesia Joint Funding Fintech Association, twimbit analysis

Only 28% of the population have knowledge or access to credit, indicating a huge untapped market. Besides, areas outside Java Island could fuel the growth as 43% of the population resides outside Java but only accounted for 20% of the P2P borrowers.

4. Improvement in financial literacy driving digital finance in Indonesia

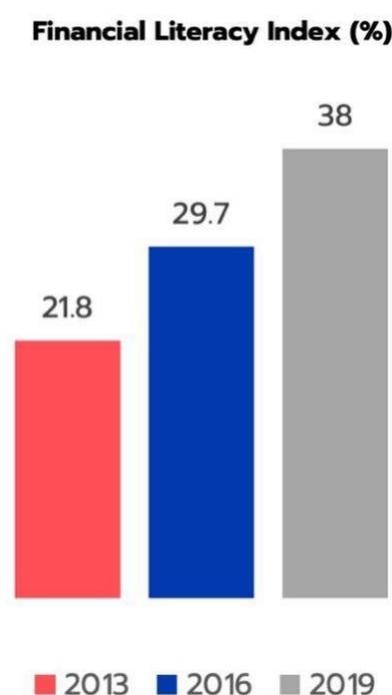


Figure 10: Indonesia's financial literacy index over the years

Source: Bank Indonesia, National Financial Literacy, and Inclusion Report 2019, twimbit analysis

Wealth management platforms and digital insurance are still in the early development stage in Indonesia but with substantial untapped potential.

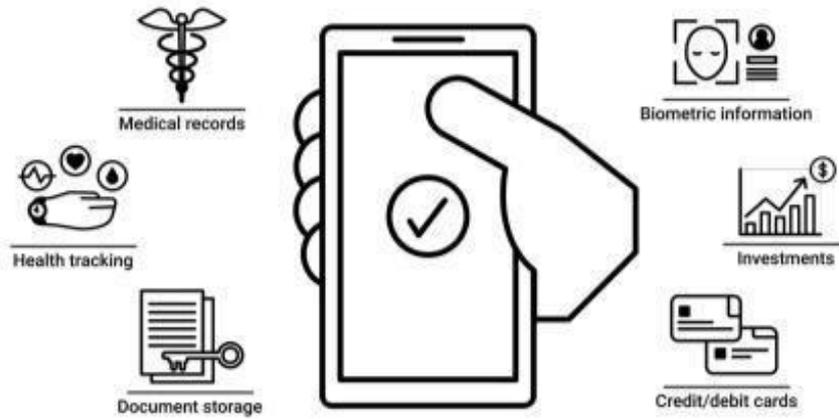
- \$150 billion Individual Outstanding Savings as of July 2022

Improvement in financial literacy will see a growing number of capital market investors. As of 2021, only 2% of the total population traded in the stock market. \$150 billion of outstanding savings could stimulate the vitality of Indonesia's capital market to drive economic growth.

- \$17 billion Life insurance and General insurance premium income in 2021
- 28% of Indonesia is well-informed on insurance. However, the insurance penetration rate in Indonesia is only 3% which is extremely low. Digital insurers could play a role in closing the opportunity gap.

5. The rise of the all-in-one super e-Wallet, an integrated digital financial services platform

The mobile wallet of the future



Online media

Digital ads spending will drive the online media sector in Indonesia by an expected spending growth of 19% by 2027.

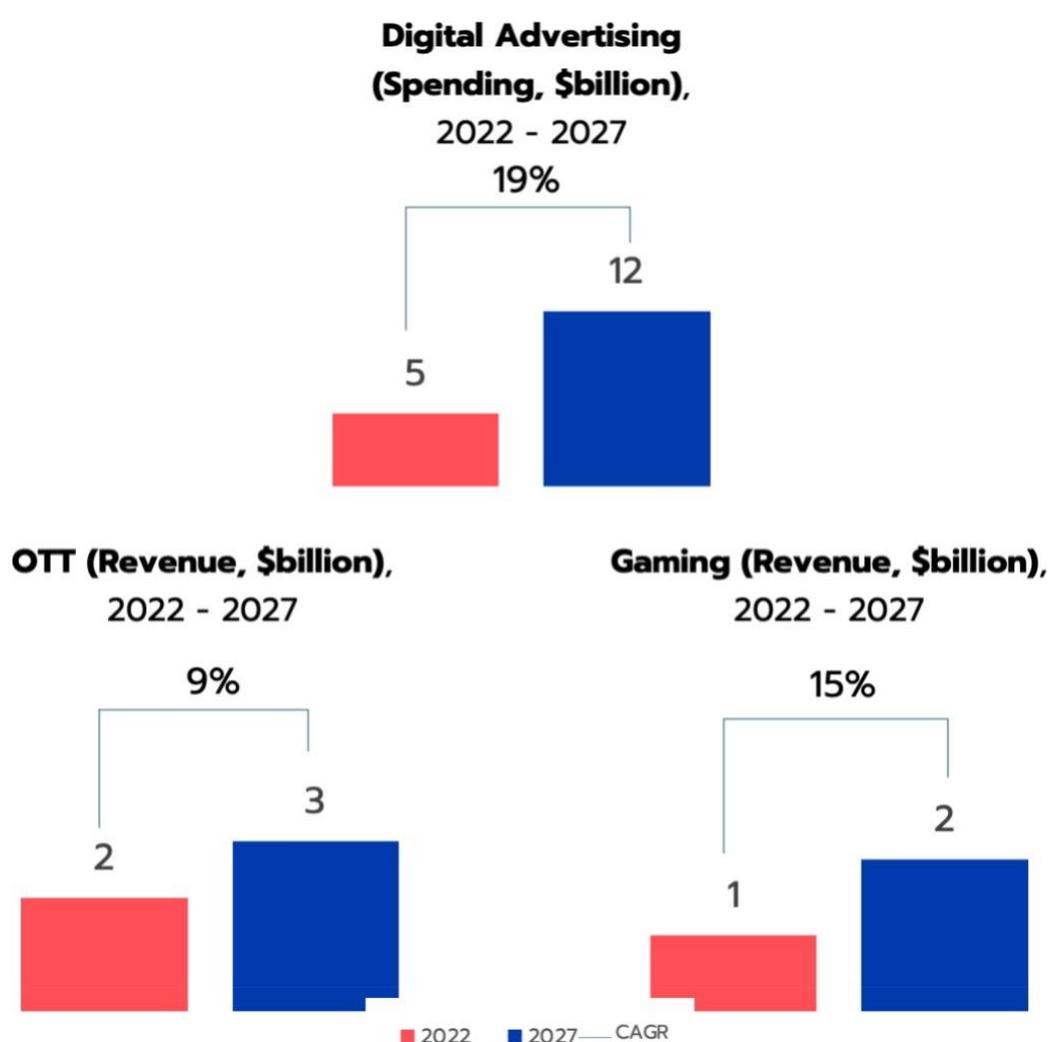


Figure 11: Analysis of Digital advertisement spending, OTT (Over the top) revenue and Gaming revenue Source: App Annie, APJII, Magna Global Ads Forecast Report 2022, Media Partner Asia, Peta Ekosistem Industri Game Indonesia 2021, twimbit analysis

Key highlights of the online media industry:

1. Indonesians spent 5.5 hours on the phone on average

Indonesia is the top country spending the most hours on the phone daily. This sets the base for digital advertising spending to skyrocket in the next five years. In addition, Internet users ages 15+ are set to reach 190 million by 2027, pushing businesses to spend more on digital advertising.

2. OTT platforms growth to be driven by telco bundles

Disney+, Netflix, Vidio and Viu dominate Indonesia. However, with Amazon and Hulu entering the Indonesian market, competition will intensify in the next 5 years. On average, consumers subscribe to around 3 SVoD (video streaming) platforms, and this habit is likely to stay as subscriptions to an OTT platform usually come with a telco bundle package.

3. The continuous growth of internet penetration to fuel the gaming market

Indonesia is one of the most promising markets for game makers, following China, India, and the US. This is because 90% of Indonesians access the internet through mobile phones. Hence, mobile gaming is the main contributor to the Indonesian gaming market.

A surge in funding and investments, especially in Fintech during 2022

Investors have dramatically shifted funding flow from e-Commerce to Fintech between 2021 to 2022 as the adoption and usage of Fintech are growing. Fintech funding surged by US\$ 2 bn – players are poised for development.

B2B e-Comm funding has taken a significant chunk of the 2022 total e-Commfunding. Similarly, mobility has received limited interest due to market maturity. This has been a downward trend since 2019. As a result, ed-tech and health-tech players receive lower amounts of funding. However, today, leaders from these sectors generate revenues with positive cash flow, allowing them to reinvest in growth.

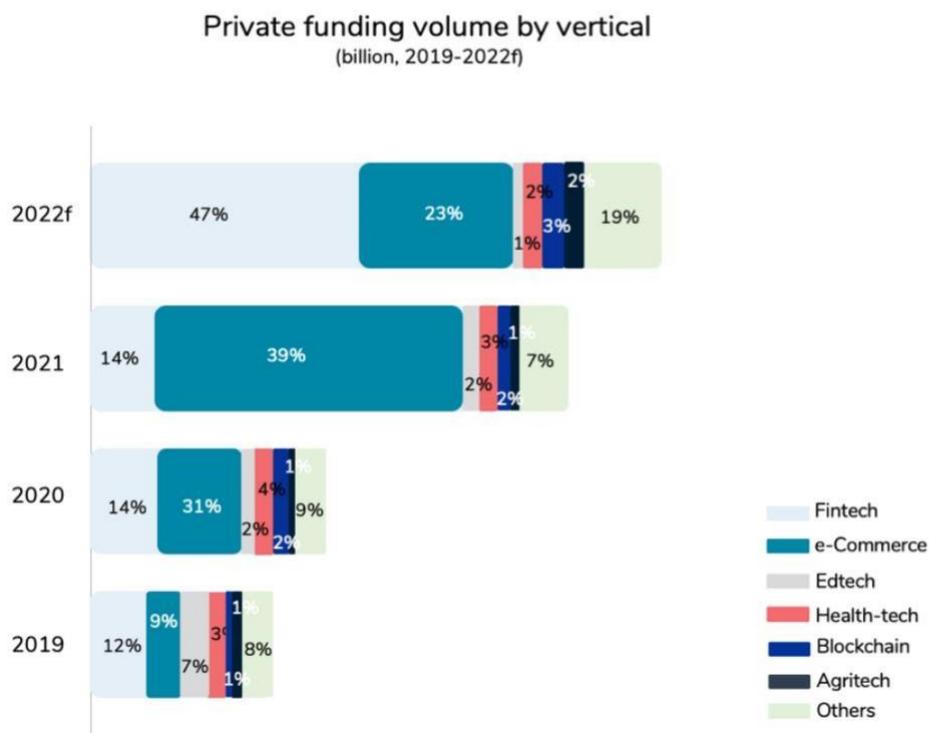


Figure 12: Year-wise % of private funding in different verticals

Institutions can now identify the best opportunities by learning more about Indonesia’s wider market and developing strong in-market partnerships. With the next 10 years shaping to be Indonesia’s digital decade, now is the perfect time for global investors to invest and benefit from everything this incredible nation offers.

A way forward

The digital economy will continue attracting new customers, businesses, and startups. Many have become used to buying their products and services online, from tech products to food. For instance, digital wallet apps such as GoPay, GrabPay, OVO, and Shopee Pay in Indonesia continue to remain popular. In addition, digital entertainment, e-sports, and online mobile gaming have also experienced a rise in popularity among the millennials and Gen-Z, with the industry anticipating continuous growth and innovation.

In conclusion, the large and young population, the improving digital infrastructure, and the supportive government policies prove that the digital economy in Indonesia looks ready to create new job opportunities, boost economic growth, and improve access to goods and services for the country’s citizens in 2023.

End notes:

¹(East Ventures, 2021)