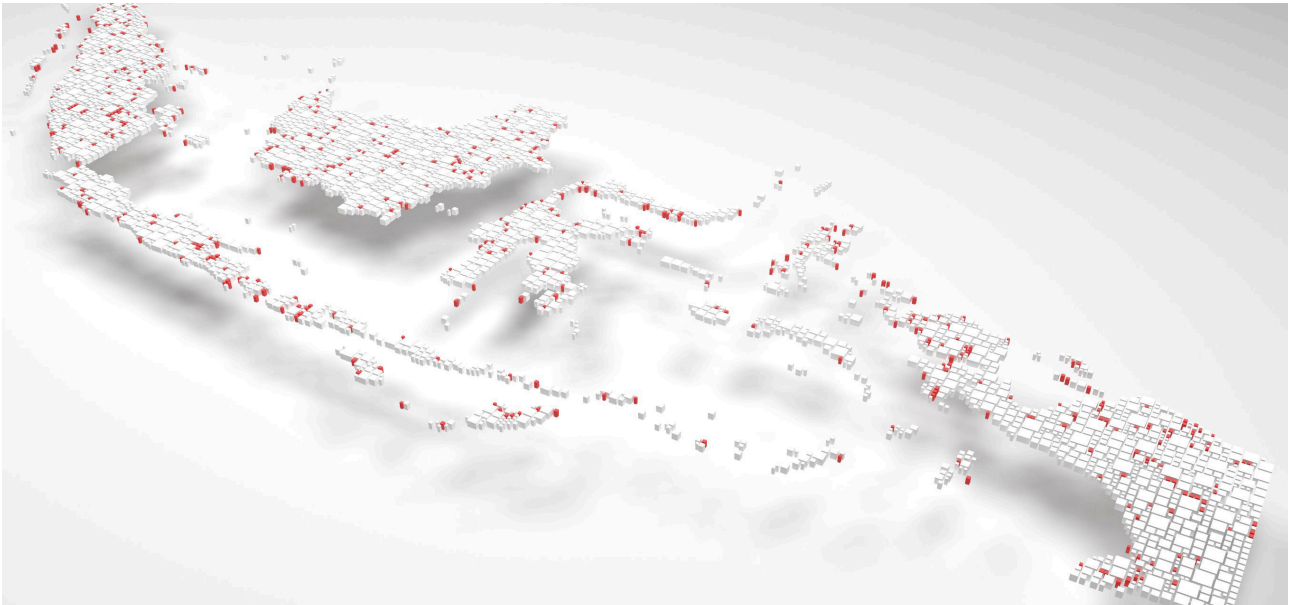


Digitalisation & IT Sector Brief
INDONESIA



COUNTRY OVERVIEW

With more than 17,000 islands, the Republic of Indonesia is the world's largest and most populated archipelago nation. The country's 274 million people also make Indonesia by far the most populated country in the ASEAN region, while Jakarta is the region's second-largest city after Manila. In East Asia, only China and India have larger populations. Indonesia has more than ten cities with populations of more than one million people, yet areas of the country remain as remote and rural as any in the region. The country's sheer size – both geographically and by population – means Indonesia remains a key trading and investment destination in East Asia with numerous sea and airports connecting across the globe.

Indonesia straddles the equator in the southernmost region of ASEAN between Australia and mainland Southeast Asia. Land borders with Timor-Leste and Papua New Guinea remain remote, although Indonesia also shares a 1,880-kilometer frontier with ASEAN partner Malaysia on the island of Borneo, the longest ASEAN land border outside of the mainland. The small islands of North Sulawesi lie 200 kilometres south off the coast of the Philippines, the closest points between ASEAN's two largest archipelago nations.

Indonesia recorded steady economic growth of around 5% in the decade preceding the global pandemic, and in 2020 saw among the smallest recessions in the region as economic output receded by only 2.1%. The country's economic reliability has been built on in-demand commodities and energy, principally oil and gas, rubber and crude palm oil, although the tech industry has witnessed strong expansion in recent years, particularly among companies invested in ride-hailing, Property technology (PropTech) and e-commerce sectors.

Although lockdowns were implemented throughout 2021, these have mostly been staggered to allow non-essential businesses to operate at partial capacity as authorities administered a quarter of a billion vaccines. By the end of 2021, nearly 50% of the population were to be fully vaccinated against Covid-19 as authorities continued plans to protect the whole population during 2022. Forecasters have predicted an immediate, strong recovery in 2021 with GDP growth set to reach up to 3.9%, followed by 4.8 per cent growth in 2022 – the pandemic is therefore only expected to cause a minor economic blip for Indonesia.



SECTOR OVERVIEW

With up to 230 million internet users projected by the end of 2021, Indonesia still has much room for connectivity expansion – about 80% of the population use the internet, a figure that climbed more than 15% during 2020. Mobile connections have already exceeded 100% and this saturation is expected to lead to growing connectivity as the government and private sector look to offer data services in the most remote parts of the country. Recently Indonesia completed work on the ambitious ‘Palapa Ring’, an internet superhighway connecting 35,000 kilometres of land and sea cables, a key driver behind recent connectivity gains. The Communications and Information Ministry has also launched the BAKTI Project, a satellite internet initiative in partnership with Teleglobal, a local telecoms firm, which will ultimately connect 150,000 remote locations across the country. Soon a new satellite, Satria, will be launched to provide free high-speed connections to schools, health clinics and local offices of the government. These initiatives combined with the rapid adoption of services when they are made available mean Indonesia is expected to see its digital economy expand to US\$125 billion by 2025, almost three times the level currently. The project also greatly improve internet services in the remote Indonesian-owned Riau Islands between the peninsula and Borneo Malaysia.

General characteristics and trends

- **Rural connectivity:** When the Palapa Ring internet connectivity project was completed in 2019, uptake in some of these rural areas of the country was slow but there are signs now that this is changing. The initiative helped to add about 27 million new internet users across the country in 2020, many of them in the remote East of the country in North Sulawesi, North Maluku and Papua. The project also greatly improved internet services in the remote, Indonesian-owned Riau Islands between the peninsula and Borneo Malaysia. The result is that areas of the countries which previously had little or no connectivity are suddenly online, offering among the most rapid inclusion of rural Southeast Asian communities anywhere in the region.
- **Mobile-driven growth:** Fixed-line internet services remain limited in Indonesia, a factor of the countries wide geographical spread across tens of islands and large expanses of sea. As a result, more than 96 per cent of internet users are connecting via a mobile device rather than a fixed-line – among the highest rates in the world. This creates a significant advantage for start-ups looking at app development given many devices are new compared to older fixed-line computers which remain a feature in some rural areas of the country.

- **Large consumer base:** With an estimated 230 million people online, Indonesia is home to as many internet users as all of the other nine ASEAN nations combined – the Philippines has the next largest contingent of online users with 75 million people. Therefore, in East Asia, only China and India have more people online. Indonesia was the 27th largest economy in the World in 2000, and by 2019 had reached 16th – by its sheer size, the country is expected to become among the top 10 largest by the end of the decade. Its sheer size and pace of growth combined with recent connectivity gains provide near limitless opportunities for SMEs looking to enter the country’s digital economy.
- **Faster internet:** Following the completion of the Palapa Ring two years ago, internet speeds have climbed sharply – signal testing across the country revealed that nine out of 12 regions of the country enjoyed 90% or higher 4G availability by the end of 2020. Maluku, Papua and Sulawesi recorded the biggest gains with 4G connectivity climbing by at least 14 percentage points in these remote regions in the two years up to the end of 2020 – the period in which the Palapa Ring was switched on. In 2020, internet speeds on mobile devices in Indonesia soared nearly 25%. With 4G now the norm, Indonesia is looking ahead to expanding 5G across the country – Greater Jakarta launched 5G services for public use in May 2021.
- **Social media saturation:** Indonesia added 10 million social media users in 2020 – more than the entire populations of fellow ASEAN members Laos and Brunei combined. This represented a 6% increase in the number of Indonesians using platforms including Facebook and Twitter. Fewer than 16% of the population now have a mobile device that is not a smartphone meaning that as Indonesians upgrade, ever-larger numbers are using devices with pre-installed social media apps. Currently, 170 million people in the country are active social media users, and that number was expected to climb above 200 million before the start of 2024.



MAIN PRODUCTS, SERVICES, AND SEGMENTS

E-Commerce

During the pandemic, Indonesia witnessed a rapid expansion of its popular e-commerce sites including Tokopedia and Bukalapak. The latter launched the country's largest initial public offering on Jakarta's Stock Exchange with an initial value of US\$1.5 billion which soared 25% on debut in August 2021 – much of the interest in the new stock factored in the sheer speed and scale of growth in the sector. Indonesia was due to add 63 million new online shoppers in 2021 alone, bringing the total to more than 220 million which represented unprecedented annual regional growth of 40% in the sector.

As a result, e-commerce is considered among the biggest growth industries in the country with fashion the main sub-segment followed by electronics, food and personal care items, and toys and hobbies. Among the most recent additions to the sector is KitaBeli, a group-buying online marketplace that allows buyers to benefit from economies of scale to reduce prices. The proliferation of local sites as well as regional giants including China's JD.com means small businesses can benefit from a range of online platforms with which to partner or use for retail services.

Cryptocurrency

Among the few sectors to witness growth above that of the e-commerce sector is the small but rapidly expanding cryptocurrency market in Indonesia – in 2021, the country witnessed near 300% growth in the number of people owning and investing in the likes of Bitcoin and Ripple, up from 1.5 million to more than 4.3 million. Daily trading volume reached more than US\$ 117 million by mid-November, 2021, and was expected to continue to grow quickly amid a legal environment that has remained less prohibitive than many in East Asia.

Ride-hailing

The local e-taxi market is dominated by two key players: Gojek, a local firm that launched more than a decade ago which merged with Tokopedia in May 2021, and Grab, a Singapore and Indonesia based company that took over Uber's regional services in 2018. Both companies operate throughout Indonesia and in other countries in Southeast Asia. Gojek also offers e-wallet services through Go-Pay, the country's fourth-largest e-payments service by transaction volume, a food delivery service and a grocery shopping app called G-Mart. GoRide, Gojek's motorbike hailing service, operates one million riders across the country which gives SMEs access to low-cost passenger and courier services. Many Indonesian homes and businesses relied on ride-hailing apps during pandemic lockdowns to guarantee supplies of essential goods including food and medicine.

Proptech

In the past five years Indonesia's Proptech sector has grown from almost nothing to a sector that now boasts close to 100 companies. Previously the market had been dominated by overseas firms but now local start-ups are joining this vibrant sector – recent local market leaders include Jendela360 a property management firm specializing in apartment lets, and Rukita which provides managed co-living spaces including shared flats. Co-working and co-living have become particularly popular among the new wave of Proptech services in Indonesia, affording young entrepreneurs housing and office rental opportunities that can be shared with like-minded individuals to help save on start-up costs.



REGULATIONS

After remaining relatively regulation-free for years, Indonesia has in the past few years enacted a series of new laws applied specifically to the digital economy regulating everything from e-commerce to cryptocurrency usage. Start-ups and SMEs have had to be vigilant in taking into account these new regulations over the past two years as the regulatory landscape has been transformed.

Legal requirements

A new e-commerce law, dubbed GR80, came into practice in late November 2021 following a two-year grace period since its passing at the end of 2019 following a series of delays. GR80 includes a compliance checklist for e-commerce operators and includes rules on electronic contracts and personal data protection. The law also takes account of foreign business actors which are loosely defined as companies that are located and registered outside of Indonesia that conduct business with customers inside the country. GR80 requires e-commerce companies to acquire a business license, including all individuals and SMEs.

In July 2021, Indonesia brought into practice a new e-payments law, called 'PJP Regulation', which regulates both bank and non-bank institutions and states that these organizations must obtain a license to operate from the central bank. A non-bank payment solutions provider is required to maintain a minimum of 15% local ownership meaning such organizations cannot be wholly foreign-owned.

The Ministry of Trade officially decreed crypto assets could be traded as an investment in an announcement in 2018, and a regulatory framework was published the following year – nonetheless, cryptocurrencies remain banned as a currency to pay for goods and services. This official government ruling mostly correlates with that of the quasi-governmental Ulama Council, an Islamic body, which later issued a fatwa, or non-binding religious ruling, which states that cryptocurrency is forbidden under Islamic law. This has since been qualified to state that cryptocurrencies could be traded as a commodity or digital asset if they meet certain Islamic requirements, but are not used for payments. Reports in late 2021 suggested the central bank was considering issuing its own cryptocurrency.

Taxes

The GR80, or e-commerce law, which went into practice in late 2021 offers considerable tax advantages to top SMEs – it states that small businesses need only pay an income tax rate of 0.5% compared to 25% for large enterprises operating in the country. All e-commerce operators are required to provide sales tax receipts to the Directorate General of Taxes.



MARKET ENTRY

Setting up a business in Indonesia

Within ASEAN, Indonesia is mid-ranking when it comes to the ease with which it is possible to establish a business organization as other countries in the region have caught up. Typically a new business can be set up in under a month, and in 2019 the average time was 19 days, an improvement on the previous year and considerably faster than the Asia-Pacific average.

Indonesia has eased restrictions on certain sectors to foreign ownership and participation in recent years but curbs remain – foreign companies are permitted 67% ownership in the data communication sector, and the same level of participation in telecoms networks, internet services for the public, content services and theatres and art galleries. In 2018, the government opened online retail to full foreign ownership for the first time, as well as machinery leasing and surveying services. Authorities have issued comprehensive details of sectors open to foreign companies and their investment caps in the Negative Investment List.

Foreign SMEs seeking to start-up in Indonesia face fairly substantial minimum capital requirements by regional standards, depending on the sector and business structure, which can be as high as IDR 10 billion (US\$750,00).

Foreign companies seeking to set up in Indonesia have a choice between three main business structures: a Foreign Limited Liability Company, known locally as a 'PT PMA', a Local Limited Liability Company, or a 'PT' or a representative office. The PT PMA structure has remained the most popular because this structure permits full foreign ownership in most sectors and the hiring of foreign staff.

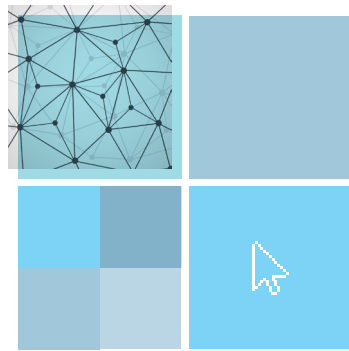
Registration bodies

The Indonesian Investment Coordinating Board, the BKPM, is the main registration body for new businesses in Indonesia. A One-Stop-Service-Center, launched in 2015, provides advice and registration for foreign and local businesses. SMEs can also solicit the services of small agencies, particularly online and in Jakarta, to aid the set-up process.



RECOMMENDATIONS AND TRENDS

- **Easing travel restrictions:** The government re-opened the country to international tourism in mid-October, 2021, with certain caveats – entry was only permitted through Bali, at Ngurah Rai International Airport, and the Riau Islands hub Haji Fisabilillah International Airport. Following the spread of the Omicron variant, the government required 10 days quarantining in a hotel located in the city of arrival and restricted entry altogether from certain countries. SMEs and small business owners travelling to and from the country on tourist visas are therefore advised to check the latest restrictions as they change frequently. Nonetheless, the government has stated a commitment to reopening to reboot tourism and foreign investment.
- **Rapidly changing digital laws:** Few countries in the region have witnessed the implantation of so much new legislation for the digital sector as Indonesia in recent years. Many of these are considered favourable to SMEs and small start-ups, a key industry focus of the government, and have helped to bring clarity and stability to what was a rapidly and mostly unregulated section of the economy. Nonetheless, SMEs are advised to seek out up-to-date legal advice prior to registering a new entity or business activity to make sure all necessary compliance requirements are met. Indonesia is expected to pass further laws relevant to e-commerce and cryptocurrencies, among other digital sectors, in the near term.
- **Spending rebound:** With the economy rebounding quickly, optimism has returned among ordinary people in Indonesia quicker than in most other countries. One comprehensive poll in late 2020 found that 38% of Indonesians expected the economy to rebound much stronger, more than three times the average levels surveyed across the rest of Southeast Asia. There are already signs that this level of optimism has translated into positive consumer sentiment with e-commerce and other key digital sectors showing strong growth in 2021. This bodes well for SMEs as the economic rebound quickens, affording new opportunities for growth and profits.
- **Stable prices:** Indonesia has used fiscal stimulus to resuscitate the economy following the onset of Covid-19 and has benefitted from a robust recovery without the levels of inflation witnessed in Europe, North America and other parts of East Asia. The official inflation rate stood at just 2% in 2020 and fell further in 2021 to about 1.5%, roughly half the rate of 2019. This has allowed SMEs to better anticipate costing without concerns that materials and services costs are on the rise. Furthermore, the cost of internet services in Indonesia has steadily fallen and remains cheaper than in neighbouring Malaysia and Singapore per gigabyte of data, a major advantage for start-ups reliant on reliable, inexpensive connections.



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