Indonesia Venture Capital Outlook 2017

Google-A.T. Kearney Study
September 2017
Objectives

1. Highlight key global and regional trends in VC investments
2. Review the VC investor and startup landscape and growth in Indonesia
3. Showcase the VC investor confidence and outlook for Indonesia
4. Give recommendations to further strengthen the startup ecosystem in Indonesia
Context

This study provides a deep dive into the Indonesian startup investment environment by analyzing investment flows and directly engaging the investors.

While the startup landscape in Indonesia is still young in comparison to other Asian markets such as China and India, it’s nevertheless growing rapidly. This growth is primarily driven by the e-commerce category.

Several foreign venture capitalists (VCs) and local investors (many in partnership with foreign VCs) have invested in the market over the past five years. They remain extremely bullish on Indonesia’s outlook, driven by the growing economy and a growing population of digitally savvy youth.

While on the right trajectory, future investment in startups is highly dependent on investor confidence in the market and can fluctuate drastically, as seen in other markets like India.

Given the recent entry of Alibaba, the imminent entry of Amazon, and potential additional regulatory changes, it’s important to understand the investor outlook and identify areas of improvement to further stimulate the investment environment.
Google and A.T. Kearney’s joint study on Indonesia’s venture capital (VC) outlook

Methodology

- More than 25 VC interviews
- Data inputs from VCs
- A.T. Kearney research
- Google research
- Third-party research
Global investment values have continued to soar over the past five years, although deal flow has stabilized and shifted to later stages (Series C+) as VCs focus more on the path to profitability versus topline growth. Asia has seen the fastest growth on the back of China and Southeast Asia (SEA) investments. The 2017 YTD investments in SEA have reached $10.1B with Singapore capturing the most deals, but other countries—led by Indonesia—are quickly catching up.

The Indonesian startup ecosystem is young but growing rapidly. Most deals are still in the early stages, but they generate only a small portion of the value. We also see a slight decline in the number of early stage deals from 2015 to 2016. This highlights a shortage of attractive startups where there is a clearer path to profitability. As a result, late-stage investments are generating most of the value, driven to a large extent by private equities. E-commerce and transport categories dominate deals and investment values, and the largest funding rounds have been led by companies such as GoJek, Traveloka, and Tokopedia.

Both local and foreign VCs are optimistic about the Indonesian market. The positive outlook is driven by the fact that Indonesia is still under-tracking regional peers on investment value versus GDP and Internet users, which indicates high room for growth. VCs are also confident in the strong macroeconomic fundamentals and favorable demographics in Indonesia.

Most VCs are looking to diversify from e-commerce because of potential market consolidation, major new entrants, high investments, and the long lead time for profitability. As a result, fintech and healthcare are emerging as top investment categories in Indonesia.

VCs have highlighted four key focus areas for accelerating the growth of the startup ecosystem in Indonesia: talent development, fiscal incentives, funding/exit options, and facilitation. Government has to play a strong role, as evidenced by mature markets.
Content

Global and regional investment trends

Indonesia investor outlook and priorities
Indonesia investment overview
The U.S. remains the international startup hub with more than 50% of the deals and investment value globally.

Global deals trend 2012-2016

Note: Deal value represents only reported deal value. Sources: Crunchbase; A.T. Kearney analysis.
But, Asia is catching up quickly

Global deals trend

<table>
<thead>
<tr>
<th>Year</th>
<th>Total deals (in thousands)</th>
<th>Total investment value (&amp;B)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>14.2</td>
<td>73</td>
</tr>
<tr>
<td>2013</td>
<td>18.7</td>
<td>107</td>
</tr>
<tr>
<td>2014</td>
<td>23.9</td>
<td>212</td>
</tr>
<tr>
<td>2015</td>
<td>24.2</td>
<td>209</td>
</tr>
<tr>
<td>2016</td>
<td>21.3</td>
<td>274</td>
</tr>
</tbody>
</table>

Note: Percentages may not resolve due to rounding.
Sources: Crunchbase; A.T. Kearney analysis
Deal flow seems to have stabilized in the past three years—though it has shifted to later stages—while investment values continue to grow.
As deals shift to later stages, new investment sources—such as PE firms and debt financing—are rapidly gaining share.

Global non-VC investments

Non-VC total investment value ($B)

- Debt financing
- Post IPO debt and equity
- PE, angel, and convertible note
- Others

Large start-ups are turning to debt financing as an alternate source of funds

1 Others includes non-equity, grant, secondary market, and crowdfunding.

Sources: Crunchbase; A.T. Kearney analysis

Note: Numbers may not resolve due to rounding.
Deals stagnated in Asia in 2016, but investment values have soared in China and SEA

Asia deals trend

Notes: Numbers may not resolve due to rounding. SEA is Southeast Asia.
Sources: Crunchbase; A.T. Kearney analysis
SEA in particular is a high-growth market with increasing investment values, reaching $10.1B in 2017 YTD

Number of deals and values, Southeast Asia ($B)

Sources: Crunchbase; A.T. Kearney analysis
Within SEA, Singapore remains the main hub, but other countries are quickly catching up, with Indonesia leading the way.

### SEA deals trend

<table>
<thead>
<tr>
<th>Year</th>
<th>Total deals</th>
<th>Total investment value ($B)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>133</td>
<td>0.3</td>
</tr>
<tr>
<td>2013</td>
<td>237</td>
<td>1.6</td>
</tr>
<tr>
<td>2014</td>
<td>351</td>
<td>1.7</td>
</tr>
<tr>
<td>2015</td>
<td>484</td>
<td>2.9</td>
</tr>
<tr>
<td>2016</td>
<td>482</td>
<td>6.8</td>
</tr>
</tbody>
</table>

Notes: SEA is Southeast Asia. Percentages may not resolve due to rounding. Sources: Crunchbase; A.T. Kearney analysis.
Global and regional investment trends

Indonesia investment overview

Indonesia investment overview
While still young, investments in Indonesia are soaring, reaching nearly $3B in 2017 YTD—2X more than the previous year.

**Numbers of deals and values, Indonesia ($B)**

<table>
<thead>
<tr>
<th>Year (Jan-Aug)</th>
<th>Value ($B)</th>
<th>Number of deals</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>0.0</td>
<td>18</td>
</tr>
<tr>
<td>2013</td>
<td>0.1</td>
<td>26</td>
</tr>
<tr>
<td>2014</td>
<td>0.2</td>
<td>54</td>
</tr>
<tr>
<td>2015</td>
<td>0.7</td>
<td>107</td>
</tr>
<tr>
<td>2016</td>
<td>1.4</td>
<td>123</td>
</tr>
<tr>
<td>2017</td>
<td>3.0</td>
<td>53</td>
</tr>
</tbody>
</table>

- **Average deal value ($M):**
  - 2012: 2.5
  - 2013: 2.2
  - 2014: 4.3
  - 2015: 6.6
  - 2016: 11.1
  - 2017: 56.0

Sources: Crunchbase, A.T. Kearney analysis
Most of the investments are still in the seed or early stages, but late-stage investments are generating most of the value.

Indonesia deals trend

Decline in seed and Series A shows a shortage of early-stage targets and a VC shift of focus to investing in companies with a clear path to profitability.

1 Others includes debt financing, crowdfunding, and private equity.
Sources: Crunchbase; A.T. Kearney analysis.
In Indonesia, VCs largely fall into two broad categories

VC funds in Indonesia

<table>
<thead>
<tr>
<th>Category</th>
<th>Capital ($)</th>
<th>% Value¹</th>
<th>Value proposition</th>
</tr>
</thead>
</table>
| Local investors      | 54%         | 28%      | • Some VCs are backed by conglomerates or state-owned enterprises and have the clear advantage of a strong local presence and knowledge of the Indonesian market  
  • Primarily participate in smaller, early-stage deals |
| Foreign investors    | 46%         | 72%      | • Typically originating from more developed startup markets (Japan, U.S.), these investors bring global expertise and networks  
  • Primarily participate in larger, late-stage rounds |

¹ Calculated based on sample of subset of VCs using number of deals involved and deal value participation (where reported) between 2012 and 2016. Sources: Crunchbase, Techinasia, company websites; A.T. Kearney analysis
E-commerce and transport categories heavily dominated deals and value (where reported)

Indonesia deals by category (2012 – Aug 2017)

Breakdown of number of deals

<table>
<thead>
<tr>
<th>Category</th>
<th>% of Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>E-commerce</td>
<td>42%</td>
</tr>
<tr>
<td>Transport</td>
<td>4%</td>
</tr>
<tr>
<td>Finance</td>
<td>8%</td>
</tr>
<tr>
<td>Classified/directory</td>
<td>10%</td>
</tr>
<tr>
<td>Payment</td>
<td>5%</td>
</tr>
<tr>
<td>Others</td>
<td>31%</td>
</tr>
<tr>
<td><strong>Grand total</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

Breakdown of % of total investment value

<table>
<thead>
<tr>
<th>Category</th>
<th>% of Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>E-commerce</td>
<td>58%</td>
</tr>
<tr>
<td>Transport</td>
<td>38%</td>
</tr>
<tr>
<td>Finance</td>
<td>1%</td>
</tr>
<tr>
<td>Classified/directory</td>
<td>1%</td>
</tr>
<tr>
<td>Payment</td>
<td>1%</td>
</tr>
<tr>
<td>Others</td>
<td>2%</td>
</tr>
<tr>
<td><strong>Grand total</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

Note: Percentages may not resolve due to rounding.
Sources: Bloomberg, TechCrunch, Techniasia.com, Crunchbase; A.T. Kearney analysis
The largest funding rounds are led by e-commerce and related transport companies

**Total funds raised (to date)**

- **GOJEK**
  - On-demand logistics service that started with Ojek (motorcycle taxi) transportation services
  - $550M raised in one round from international investors, including KKR, Warburg Pincus, and Farallon Capital
  - In May 2017, raised $1.2B from Tencent Holdings

- **tokopedia**
  - Online C2C e-commerce marketplace/platform
  - $147M investment round with undisclosed investors; previous $100M investment round led by Softbank and Sequoia Capital
  - Raised $1.1B with Alibaba-led investment

- **traveloka**
  - Online travel aggregator and flights/hotels booking services
  - $150M investment from JD, East Ventures, Hillhouse, and Sequoia
  - $350M from Expedia, an American online travel company

Sources: Press articles; A.T. Kearney analysis
In 2017, Chinese investors became heavily involved in Indonesia’s startup environment, accounting for ~95% of its investment value.

Indonesia investment value ($B)

<table>
<thead>
<tr>
<th>Year</th>
<th>Chinese Investors’ Involvement (%)</th>
<th>Others</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>98%</td>
<td>2%</td>
</tr>
<tr>
<td>2017 (Jan-Aug)</td>
<td>94%</td>
<td>6%</td>
</tr>
</tbody>
</table>

Chinese investors’ involvement:
- Tencent 腾讯
- Alibaba Group
- JD.com 京东
- Gojek
- Tokopedia
- Traveloka

Note: The total investment cannot be attributed to Chinese investors, as there were also non-Chinese investors that participated in the funding rounds involving Chinese investors. Sources: Crunchbase; A.T. Kearney analysis.
Content

Global and regional investment trends
Indonesia investor outlook and priorities

Indonesia investor outlook and priorities
We interviewed more than 25 local and foreign investors about their outlook and priorities.

**Respondents**

- By category:
  - 42% Foreign
  - 58% Local

- By fund size:
  - 38% $50-100M
  - 21% <$50M
  - 13% >$500M
  - 29% $100-500M

- By role:
  - 42% Partner/director
  - 21% Founder/CEO
  - 21% Investment officer/manager

Note: Percentages may not resolve due to rounding.
Investors are generally optimistic about the outlook of the Indonesian market, even compared with other Asian markets.

What is your investment outlook for Indonesia? (% of responses)
- Local investors: 21% Decrease investment (-10% or more), 21% No change (+/-9%), 57% Increase investment (+10% or more)
- Foreign investors: 20% Decrease investment (-10% or more), 80% No change (+/-9%)

How does Indonesia’s outlook compare to other Asian markets? (% of responses)
- Local investors: 14% Worse, 57% Similar, 29% Better
- Foreign investors: 30% Worse, 20% Similar, 50% Better

Note: Percentages may not resolve due to rounding.
One key reason for the positivity is that Indonesia has a strong macro-economic outlook and favorable demographics

**Indonesia consumer trends 2016 vs. 2021**

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP per capita (USD)</td>
<td>3.6K</td>
<td>5.7K</td>
</tr>
<tr>
<td>Upper and middle class</td>
<td>63M</td>
<td>128M</td>
</tr>
<tr>
<td>Banked population</td>
<td>88M</td>
<td>150M</td>
</tr>
<tr>
<td>Smartphone penetration</td>
<td>85M</td>
<td>148M</td>
</tr>
<tr>
<td>Online shopper base</td>
<td>11M</td>
<td>42M</td>
</tr>
<tr>
<td>Higher-educated base</td>
<td>13M</td>
<td>23M</td>
</tr>
</tbody>
</table>

Sources: BPS, Bappenas, EIU, Nielsen, World Bank, UN, Statista; A.T. Kearney analysis
Another reason is that Indonesia is still under-tracking peers in VC investment, which indicates high room for growth.

Country comparison (2016)

VC investments as share of GDP (%)

<table>
<thead>
<tr>
<th>Country</th>
<th>VC investments as share of GDP (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>US</td>
<td>0.73%</td>
</tr>
<tr>
<td>China</td>
<td>0.51%</td>
</tr>
<tr>
<td>India</td>
<td>0.36%</td>
</tr>
<tr>
<td>SEA average(^1)</td>
<td>0.28%</td>
</tr>
<tr>
<td>Indonesia</td>
<td>0.15%</td>
</tr>
</tbody>
</table>

VC investments per internet user ($)

<table>
<thead>
<tr>
<th>Country</th>
<th>VC investments per internet user ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>US</td>
<td>$473</td>
</tr>
<tr>
<td>China</td>
<td>$79</td>
</tr>
<tr>
<td>India</td>
<td>$19</td>
</tr>
<tr>
<td>SEA average(^1)</td>
<td>$21</td>
</tr>
<tr>
<td>Indonesia</td>
<td>$15</td>
</tr>
</tbody>
</table>

\(^1\)SEA consists of: Singapore, Malaysia, Indonesia, Vietnam, Philippines, Thailand, Cambodia, Laos, Myanmar, and Brunei.

Sources: Crunchbase, World Bank, Internet World Stats, Statista; A.T. Kearney analysis.
Fintech is emerging as the top investment category in Indonesia, with most VCs looking to diversify from e-commerce.

Top categories in Indonesia

<table>
<thead>
<tr>
<th>Top two categories to invest in (% of responses)</th>
<th>Top two categories to decrease investment (% of responses)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Local investors</strong></td>
<td></td>
</tr>
<tr>
<td>Fintech</td>
<td>E-commerce</td>
</tr>
<tr>
<td>64%</td>
<td>43%</td>
</tr>
<tr>
<td>Healthcare</td>
<td>Social media</td>
</tr>
<tr>
<td>29%</td>
<td>21%</td>
</tr>
<tr>
<td><strong>Foreign investors</strong></td>
<td></td>
</tr>
<tr>
<td>Fintech</td>
<td>E-commerce</td>
</tr>
<tr>
<td>70%</td>
<td>60%</td>
</tr>
<tr>
<td>Healthcare</td>
<td>Social media</td>
</tr>
<tr>
<td>20%</td>
<td>10%</td>
</tr>
</tbody>
</table>

The opportunity in fintech is spurring a growth of startups in this category

Indonesia fintech market outlook

High potential opportunity in the market...

Indonesia financing outlook ($B, 2016)

- Financing gap is ~$70B while P2P lending is still under $0.01B

- 117
  - Financing need
- 47
  - Financing capacity

Number of SME (M unit, 2016)

- 59
  - Total SME
- 10
  - Banksable SME

- ~80% of SMEs are unbankable

Payment
- 40-50%
  - GOI, e2pay, OVO, IPAYMU, DOKU, t cash, GO PAY

Lending
- 10-20%
  - investree, uangteman, MEKAR, cicil, modalku, amartha

Aggregator
- 10-20%
  - bareksa, PremiKita, cermati, TEMAN USAHA, cekaja, KreditGoGO

Personal finance/planning
- 5-10%
  - ONLINE PAJAK, Dompet Sehat, akunting mudah, Finansialku

Crowdfunding
- 5-10%
  - KAPITALBOOST, gandengtangan, WeCare, WUJUDKAN

Others¹
- 5-10%
  - priviyid, Ruma

¹Includes digital transaction support and other types of fintech (for example, asset management)

Note: SME is small and medium-size enterprise.

Sources: Indonesia Fintech Report 2016 by Association of Fintech Indonesia; A.T. Kearney analysis

Banksable SME

Funding gap

Financing need

Financing capacity

Total SME

Number of SME (M unit, 2016)
The fintech category has attracted many investors, but regulation remains the key challenge

Indonesia fintech investment and regulatory trend

Investment in Indonesia fintech in 2016 reached more than $30M (disclosed)...

... but regulation remains the key challenge

2016 fintech funding

<table>
<thead>
<tr>
<th>Series</th>
<th>Capital ($)</th>
<th>Investors</th>
</tr>
</thead>
<tbody>
<tr>
<td>EasyPay</td>
<td>Undisclosed</td>
<td>&gt;15M Foreigner</td>
</tr>
<tr>
<td>Modalku</td>
<td>Series A</td>
<td>5-10M Local + foreigner</td>
</tr>
<tr>
<td>Moka</td>
<td>Series A</td>
<td>1-5M Local + foreigner</td>
</tr>
<tr>
<td>KinerjaPay</td>
<td>IPO</td>
<td>1-5M Public (IPO)</td>
</tr>
<tr>
<td>Cermati</td>
<td>Series A</td>
<td>1-5M Local + foreigner</td>
</tr>
<tr>
<td>JojoNomic</td>
<td>Venture</td>
<td>1-5M Local + foreigner</td>
</tr>
<tr>
<td>Redivo</td>
<td>Seed</td>
<td>1-5M Local + foreigner</td>
</tr>
<tr>
<td>Ethis</td>
<td>Seed</td>
<td>&lt;1M Foreigner</td>
</tr>
</tbody>
</table>

Area for clearer or increased regulation (% of fintech players)

- Payment gateway: 61%
- E-money: 58%
- Know your client: 57%
- P2P/online lending: 57%
- Digital signature: 54%
- Data security: 49%
- Financial product sales: 46%
- Cloud service: 26%
- Others: 3%

Sources: Indonesia Fintech Report 2016 by Association of Fintech Indonesia, A.T. Kearney analysis
Most VCs are diversifying away from e-commerce by potential consolidation, long lead time, cash outflow, and major new entrants

Key reasons for diversifying from e-commerce

Potential consolidation of e-commerce

• “E-commerce market is already overcrowded, too many generalist e-commerce players for the size of the Indonesian market.”

• “Naturally, a maximum of two to three players will become the clear winners in the e-commerce market.”

Long lead time and cash outflow until profitability

• “Successful e-commerce players will require lots of investment and many years to establish a distribution network.”

• “As an investor, we want to invest in the startups that had a clear head start and more established infrastructure.”

• “Established e-commerce players are already invested in by foreign investors, so their valuation is already high.”

Potential major new entrants

• “Everyone is in ‘wait and see’ mode with news that Amazon will come to Indonesia.”

Selected quotes
Investors have highlighted four key areas for improvement: talent, fiscal incentives, funding/exit options, and facilitation

**Key asks from investors**

<table>
<thead>
<tr>
<th>Area</th>
<th>Key Asks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Talent development</td>
<td>• “Develop more-qualified founders and technical engineers”</td>
</tr>
<tr>
<td></td>
<td>• “Streamline work permit process for foreign talent”</td>
</tr>
<tr>
<td>Fiscal incentives</td>
<td>• “Lower capital gains tax to attract more investment into the tech sector”</td>
</tr>
<tr>
<td></td>
<td>• “Introduce tax shield for returning expats (or repatriation of skilled Indonesians)”</td>
</tr>
<tr>
<td>Funding and exit options</td>
<td>• “Create an exchange to buy and sell privately held tech shares”</td>
</tr>
<tr>
<td></td>
<td>• “Create an Indonesian sovereign fund to actively invest in the tech sector”</td>
</tr>
<tr>
<td>Startup facilitation</td>
<td>• “Simplify regulatory processes relevant to startups, (e.g. company incorporation, patent certification)”</td>
</tr>
<tr>
<td></td>
<td>• “Build “startup parks” with a conducive infrastructure and synergistic ecosystem”</td>
</tr>
</tbody>
</table>

Selected quotes
Currently, Indonesia faces challenges across these four areas

**Current status in Indonesia**

<table>
<thead>
<tr>
<th>Talent development</th>
<th>Fiscal incentives</th>
<th>Funding and exit options</th>
<th>Startup facilitation</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Indonesia is not producing enough talent. Every year, Indonesia produces only 278 engineers per 1M population, far behind Malaysia (1,834), Thailand (1,248), Vietnam (1,094), and India (1,159)</td>
<td>• Currently, there are no special fiscal incentives for investments in startups or in startup operations</td>
<td>• Foreign companies are allowed to own 100% of e-commerce companies with investment value of more than IDR 100B</td>
<td>• No clear facilitation mechanisms for startups exist currently, even though relevant associations have now been set up and plans are in place</td>
</tr>
<tr>
<td>• No specific government programs or initiatives are in place to attract foreign talent or to retain local talent from going overseas</td>
<td>• Government plans to develop two initiatives: 1) a special tax treatment for e-commerce players with less than IDR 4.8B in revenue and 2) a tax incentives scheme for VCs and angel investors</td>
<td>• No startup has yet gone to IPO, and there are no clear exits with high returns for any VC yet</td>
<td>• Several associations have been established, such as Indonesia eCommerce Association (idEA) and Indonesian Fintech Association</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• By end of year, government is planning to develop various funding schemes, such as:</td>
<td>• Government is planning to develop a national incubator program for startups, especially in early stages</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Grants for business incubators</td>
<td></td>
</tr>
</tbody>
</table>
Government can play an important role to further stimulate the startup industry

**Recommendations**

| Talent development | 1. Work with educational institutions to develop engineers and entrepreneurs  
2. Attract overseas entrepreneurs and talent |
|---------------------|-------------------------------------------------------------------------------------|
| Fiscal incentives   | 3. Provide tax incentives for investments in startups and for startup operations  
4. Set up government funds/government-led VCs aimed at startups |
| Funding and exit options | 5. Establish multi-tier system in the public market for high-risk, high-tech startups  
6. Simplify legal/administration requirements to start and operate startups |
| Startup facilitation | 7. Develop startup ecosystem to facilitate start-up growth  
(for example, mentoring) |

- **French Tech Visa**, a four-year visa for startup founders/employees/investors
- **French Tech Ticket**, a one-year benefits package
- Establish **startup Intellectual Property Protection (SIPP)**
- Various **tax exemptions** for investments by VC and incubator funds in startups
- Set up **national VC fund**
- Set up **SME Board/ChiNext/New Third Board**, special board/market for high-tech and fast-growing enterprises
- **Start-Up Chile**, a public startup accelerator that helps startups at all stages of growth by providing funding and mentorship

Source: A.T. Kearney analysis
Government should develop programs to build and attract overseas talent to close the human capital gap

Talent development

Develop engineers and entrepreneurs

- Technology for Enterprise Capability Upgrading (T-Up): A program to boost innovation by seconding scientists/engineers to SMEs

Attract overseas talent and entrepreneurs

- Society for the Acceleration of Technology Transfer: A program to foster technology transfer
- French Tech Visa: A four-year visa for startup founders/employees/investors
- French Tech Ticket: A one-year benefits package (including grants, training)

Note: SME is small and medium-sized enterprise.
Sources: A STAR, Singapore MoM, CNRS; A.T. Kearney analysis
Preferential tax treatment can encourage startup investments

Fiscal incentives

Provide tax incentives

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Startups Intellectual Property Protection (SIPP) scheme provides up to 80% tax rebate on patent applications

VCs investments are exempted from income tax, capital gains tax, and investments above fair market value (FMV)

INVEST Grant Scheme reimburses angel investors for 20% of the investment value and compensates for taxes paid on capital gains (25% of the profit)

Sources: start-upindia, Germany Federal Ministry for Economic Affairs and Energy; A.T. Kearney analysis
Active government participation in funding and exit options can also accelerate growth of the startup ecosystem

**Funding and exit options**

**Provide state-based funding**

National VC fund was set up by the State Development and Investment Corporation (SDIC)

Local government-led fund was set up, i.e. Shanghai Science and Technology Investment Corporation

**Establish multi-tier system in the public market**

ChiNext, a NASDAQ-style board to attract high-tech and fast-growing companies

SME Board, a special sub-board to cater to SMEs

New Third Board Market, an OTC market that serves as a platform for financing high-tech, high-growth enterprises

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Note: OTC is over the counter.
Sources: China SDIC, Shenzen Stock Exchange; A.T. Kearney analysis
Administrative aid and knowledge-sharing platforms facilitates creation of a growing startup community

**Startup facilitation**

### Simplify legal and administrative requirements

- Lower costs on legal support and fast-tracking patent exam
- Relaxed norms of public procurement for startups

### Develop start-up ecosystem

- Introduce an online platform to allow company incorporation within as little as two days.

Launched **Startup India Action Plan** that includes 13 startup centers and 18 technology business incubators.

**StartUp Chile**, a public startup accelerator which helps startups at all stages of growth by providing funding and mentorship.

Sources: start-upindia, InvestChile, Start-up Chile, Desk Research, World Bank Doing Business Report, A.T. Kearney analysis
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## Glossary

<table>
<thead>
<tr>
<th>Term</th>
<th>Definition</th>
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<tbody>
<tr>
<td>Amvesindo</td>
<td>Asosiasi Modal Ventura Untuk Start-up Indonesia</td>
</tr>
<tr>
<td>Banked population</td>
<td>Population that has an account at a financial/banking institution</td>
</tr>
<tr>
<td>Debt/PE</td>
<td>Deals that are driven by non-VC sources such as private equity, debt financing, IPO; VCs may be involved in the deals, but are not the lead investors</td>
</tr>
<tr>
<td>Foreign investors</td>
<td>Investors that are based and/or have majority of investments outside of Indonesia</td>
</tr>
<tr>
<td>Higher-educated base</td>
<td>Population that has at least a university degree</td>
</tr>
<tr>
<td>Local investors</td>
<td>Investors that are based and/or have majority of investments in Indonesia</td>
</tr>
<tr>
<td>Smartphone penetration</td>
<td>Smartphone-using population</td>
</tr>
<tr>
<td>SME</td>
<td>Small and medium-sized enterprise</td>
</tr>
<tr>
<td>Upper and middle class</td>
<td>Socio-economic group based on the number of households earning more than $10,000 per annum</td>
</tr>
<tr>
<td>VC</td>
<td>Venture capital</td>
</tr>
</tbody>
</table>
At IDR 40T (or $3B), investment in the start-up sector is one of the top drivers of investment growth in the Indonesian economy.

**Investments in Indonesia by sector (H1 2017, Rp T)**

<table>
<thead>
<tr>
<th>Sector</th>
<th>Investment in Rp T</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oil and gas</td>
<td>65</td>
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<tr>
<td>Mining</td>
<td>44</td>
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<tr>
<td>VC start-up</td>
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</tr>
<tr>
<td>Food and beverages</td>
<td>37</td>
</tr>
<tr>
<td>Electricity, gas, and water</td>
<td>36</td>
</tr>
<tr>
<td>Metal, machine, and electronics</td>
<td>33</td>
</tr>
</tbody>
</table>

Note: VC start-up investment value is Jan-Aug 2017, while other industries are Jan-Jun 2017.
Sources: Crunchbase, BKPM, SKK Migas, web search; A.T. Kearney analysis.