

DUE DILIGENCE

Beyond the dip: How VCs can bet on Indonesia's resilience

While major cases of fraud have wiped confidence in the country's startups, there are still opportunities in South-east Asia's largest economy. BY GARY KHOENG

SOUTH-EAST Asia's venture market has gone through some challenging times in the past several years.

A recent article by DealStreetAsia showed that deal volumes across the region have been declining for the past eight quarters, though they appear to have stabilised somewhat in the last two or three.

The picture looks bleaker for Indonesia, where deal value slid from a peak of around US\$5.4 billion in the second half of 2021 to less than US\$100 million in the first half of 2025.

To be clear, this does not mean that there is no longer any investment activity in the country. But the opportunities are drastically fewer than before.

The malaise is real, but not without good reason. If one were to surmise the overarching cause for this condition, it would be investor confidence – or the lack thereof.

Eroded investor confidence

Three main issues have contributed to this.

First, news of serious breaches in governance and a lack of integrity among the country's startups that caused significant value destruction have eroded confidence.

Such failures could stem from either ineptitude in leadership, or intent by founders to defraud investors. There were many instances of both in the Indonesian financial technology sector in the last several years.

One case resulted in millions of failed payment losses due to more than 250 fictitious loans, while another led to the Interpol arrest of a founder who managed to evade capture for more than a year after allegedly siphoning millions of dollars. However, none could rival the scale and sophistication of the eFishery saga, in which a complex scheme defrauded many major investors over multiple years.

Second, Indonesia has been grappling with continued macro-economic weakness. Inflation in necessities and higher costs of borrowing have reduced middle and

lower-class purchasing power.

Data from the Central Bureau of Statistics showed that the middle class shrank from 57 million people in 2019 to just over 48 million people in 2024, with many workers still concentrated in low-income sectors.

This has led to more evident and widening variance in different consumer segments' ability to pay.

Third, compared with some other markets, Indonesia has yet to show sustainable exits.

Since the rise of Gojek, which took Indonesia's venture capital market by storm in 2015, there have been fewer than five major initial public offerings (IPOs). GoTo's share price has since collapsed, and is now roughly 16 per cent of its debut price when it went public in 2022.

This has caused many investors, including global ones, to question their conviction in investing in the country.

All that said, there are still opportunities. Investors will need to adapt as the winds of change continue to blow.

The investment thesis

As home-grown pure software solutions continue to search for market fit and artificial intelligence (AI) solutions lag behind peers, the investment thesis will need to be recalibrated towards the country's inherent strengths.

Indonesia is still the largest economy in South-east Asia, with a young, fast-growing population of almost 300 million and a median age of 30.

It is also a strong exporter of coal, minerals and palm oil – accounting for more than 20 per cent of gross domestic product in 2024 – and consumption continues to account for more than half of GDP. The country's consumers are a force to be reckoned with.

Therefore, the Indonesia thesis should centre on its people. Consumer retail, financial services and healthcare, among others, stand out as sectors of opportunities.

The consumer sector, in particular, encapsulates a wide range of

coverage and continues to be of strong interest.

Although purchasing power has weakened, businesses which effectively serve the lower-income segment can still thrive. The evidence is in the success of several low-priced food and beverage establishments.

In retail, young shoppers are still willing to spend almost impulsively on experiences and personal gratification.

For instance, a well-designed retail store experience that appeals on social media and resonates with the Gen Z demographic can attract sizeable foot traffic.

In the direct-to-consumer personal care segment, we have observed companies with formidable founders who were able to identify opportunities in a highly competitive sea of offerings.

For example, when home-grown brands were competing heavily in cosmetics, several companies identified sunscreen as a growing sub-segment. They profited from their first-mover advantage.

Moreover, the supply chain infrastructure players supporting these local brands also benefit and grow in tandem.

As the middle class continues to come under pressure, financial solutions with stronger inherent risk management – such as secured lending – have become a healthier go-to solution.

In the past, most fintech startups focused on unsecured lending and relied on steep rates to offset non-performing loans and provisioned losses from fraud.

Now, we are seeing a return to more responsible lending practices, such as pawnshops and other forms of secured lending, as well as a closer collaboration with the banking ecosystem.

This allows for a more solid balance sheet, and minimises events of non-performance or fraud.

Underserved healthcare sector

As Indonesia's population continues to grow and age, its underserved healthcare sector – where the hospital bed-to-population ra-



Although Indonesian consumers' purchasing power has weakened, businesses which effectively serve the lower-income segment can still thrive. PHOTO: REUTERS

tio remains well below that of regional peers – offers a trove of growth investment opportunities.

There is a proliferation of smaller footprint providers in the form of clinics which specialise in bespoke propositions – such as female health and maternity, or aesthetic and cosmetic care – that are gaining institutional investor attention. The clinic format allows for a lower capital load and wider coverage offering.

At the same time, there is ample opportunity in the modernisation and digitalisation of underperforming hospitals, to capture the growing need for healthcare services outside major metropolitan areas.

This rides on the tailwind of Indonesia's healthcare reform and universal health coverage system.

For investors who can expand their mandate even more, investment opportunities adjacent to the natural resource sectors – such as electric vehicles, batteries and alternative energy – could also be explored.

Returning to the bull cycle

Despite the challenges, what is occurring in Indonesia is cyclical. One may ask: How do we return to the bull cycle of old?

I believe there are three core factors that need to be in place to head in that direction and restore investor confidence.

The first is a strong and practical catalyst – not unlike what we saw during the mobile revolution, which became the foundation for e-commerce and application platform disruption almost a decade ago. Perhaps we are yet to see AI as a driving force here.

Second, early-stage investors must continue supporting seed-level businesses to encourage innovation and would be entrepreneurs.

This will create a virtuous circle whereby more individuals are willing to take business risks and attract more investment money, which will further attract more entrepreneurs, and so on.

Third, the government needs to identify a core sector and anchor it to kindle the spark of innovation. Then, private and institutional in-

vestors can stoke the flames.

Neighbouring countries are already doing this, in the context of semiconductor supply chain and manufacturing infrastructure.

Indonesia is undeniably going through difficult times. But even in this bear cycle, there are pockets of investment opportunities to be discovered, before confidence is fully restored and the next bull cycle starts.

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Wall Street banks are paying their CEOs like it's 2006 again

AFTER YEARS of restraint following the 2008 global financial crisis, Wall Street is handing chief executive officers a record payout.

CEOs at the top US banks all received annual compensation of at least US\$40 million, with their total pay surpassing records set in 2006 and 2021.

Bank of America Brian Moynihan was the latest CEO to have his pay disclosed, with his compensation rising 17 per cent last year to US\$41 million.

Citigroup said last week that it boosted the pay of CEO Jane Fraser by 22 per cent to US\$42 million for 2025, a sign of confidence from the board about her ability to turn the company around after years of underperforming its peers.

The payouts reflect a banner year for the banking industry, with the nation's top financial firms posting their highest annual earn-



Citigroup said last week that it boosted the pay of CEO Jane Fraser by 22% to US\$42 million for 2025. PHOTO: REUTERS

ent today, with 2010's Dodd-Frank regulations cutting big banks' risk-taking to boost their stability and decrease the likelihood they'd need bailouts during economic downturns.

For 2025, Goldman Sachs CEO David Solomon received the high-