

SECTOR OVERVIEW

1. Northstar Equity Partners V Limited (NEP V, the fund) aims to provide growth capital to 8-10 mid-sized Indonesian companies operating primarily in the consumer (including education, health care, and agribusiness), financial services, and digital economy sectors (at least [This information has been removed as it falls under the exception to disclosure in ADB's Access to Information Policy, para. 17.2.(v)] of committed capital).¹ The fund may invest up to [This information has been removed as it falls under the exception to disclosure in ADB's Access to Information Policy, para. 17.2.(v)] of aggregate commitments in other countries in Southeast Asia.² The fund may also invest up to [This information has been removed as it falls under the exception to disclosure in ADB's Access to Information Policy, para. 17.2.(v)] of aggregate commitments in 6-8 early-stage opportunities.³

A. Consumer

2. Private consumption is a key driver of the Indonesian economy, representing about 56.3% of gross domestic product (GDP) as of June 2021.⁴ Private consumption has grown at a robust rate of about 5% annually (in line with real GDP growth), driven by demographics and rising economic prosperity, and is expected to remain at this level.⁵ In 2019, Indonesia's GDP per capita grew at 5%.⁶ Indonesia's aggregate annual household consumption expenditure increased by 8.4% in 2019, reflecting higher levels of disposable income.⁷ Furthermore, McKinsey projects that during 2010–2030 Indonesia will add about 90 million people to its consuming class as a result of higher levels of disposable income.⁸ These strong fundamentals were acknowledged in a 2019 ranking by A.T. Kearney, which placed Indonesia as one of the most attractive emerging retail markets in Asia.⁹

3. Indonesia's demographics—and specifically its young, expanding, and urbanizing population—underpin its growing consumer base. As of the end of 2018, the median age in

¹ Northstar Capital Group V Limited, a Cayman Islands exempted company with limited liability, is the managing director of NEP V. The investment manager of the managing director, Northstar Advisors Pte. Ltd., is a Singapore limited liability company. The managing director and its affiliates comprise the Northstar Group (Northstar). Indonesian companies are headquartered or have existing significant operations in Indonesia, or that the managing director reasonably believes will (within a 5-year period), either (i) derive at least 50% of their revenue, profit, or market value from Indonesia; or (ii) expand significantly into or source significant amounts of business from Indonesia.

² Southeast Asian companies are headquartered or have existing significant operations in Southeast Asia, or that the managing director reasonably believes will (within a 5-year period), either (i) derive at least 50% of their revenue, profit or market value from Southeast Asia; or (ii) expand significantly into or source significant amounts of business from Southeast Asia. Southeast Asia includes: Brunei Darussalam, Cambodia, Indonesia, Lao PDR, Malaysia, Myanmar, the Philippines, Singapore, Thailand, Timor-Leste, and Viet Nam. The Asian Development Bank (ADB) will only participate in investments by the fund in portfolio companies operating in Cambodia, Indonesia, Lao PDR, Malaysia, the Philippines, Thailand, Timor-Leste, and/or Viet Nam. Specifically, ADB will have excusal rights in relation to investments in Brunei Darussalam and Singapore (being graduated ADB developing member countries) and Myanmar. Based on discussions with Northstar, ADB considers the likelihood of the fund investing in Myanmar is very low.

³ Early-stage opportunities include any investment opportunity in a portfolio company where the aggregate amount invested by the fund is \$15 million or less.

⁴ CEIC Data. 2021. [Indonesia Private Consumption: % of GDP](#) (accessed 1 September 2021).

⁵ Oxford Business Group. 2019. [The Report: Indonesia 2019](#).

⁶ World Bank. Data. [GDP growth \(annual %\) – Indonesia](#) (accessed 30 March 2021).

⁷ EMIS. 2020. [Indonesia consumer goods and retail sector report 2020/2021](#).

⁸ McKinsey defines consuming class as those individuals with an annual income of more than \$3,600, or \$10 per day at purchasing power parity (PPP), using constant 2005 PPP dollars; R. Oberman et al. 2012. [The archipelago economy: Unleashing Indonesia's potential](#). McKinsey & Company.

⁹ A.T. Kearney. 2019. [The 2019 Global Retail Development Index](#).

Indonesia was 31, and 84% of the population was below 54, with 42% aged 0–24 and 42% aged 25–54.¹⁰ The population is expected to grow at an average rate of about 1% per year during 2019–2029, adding an average of 2.4 million people annually.¹¹ Indonesia is also urbanizing rapidly, and the proportion of the population living in urban areas expected to reach 64% by 2030, from 55% in 2018, and 42% in 2000 (footnote 5). Urbanization is linked to rising incomes and increasing discretionary spending by consumers.

4. While the coronavirus disease (COVID-19) has dampened domestic consumption across Southeast Asia, Indonesia’s consumer sector is expected to recover beginning in 2021, supported by: (i) the Government of Indonesia’s \$98 billion fiscal stimulus package, the 5th largest in Asia and the Pacific; (ii) an ambitious COVID-19 vaccination program that began in February 2021 and targets 181 million inoculations by early 2022; (iii) passage of the Omnibus Laws, a set of key labor market and financial reforms that are expected to improve the business-enabling environment, generate jobs, and boost investor confidence; (iv) establishment of a \$20 billion sovereign wealth fund to attract foreign investment to finance large infrastructure projects; and (v) a rapidly growing digital economy, with consumers increasingly relying on online platforms for food delivery, groceries, education, health advice, and entertainment.¹²

5. Rising GDP per capita and increasing urbanization of Indonesia’s young population are boosting financial literacy, education levels, and online activity. The young, urbanizing, and increasingly technology-savvy consumer base has a record level of discretionary income, and Northstar expects the underlying macroeconomic fundamentals to continue over the life of the fund. Northstar has been investing in consumer businesses since raising its first fund in 2006. Northstar has significant experience and deep local market knowledge, and believes it is well positioned to capitalize on the projected increase in consumption in Indonesia’s economy.

B. Financial Services

6. Indonesia has been among the fastest-growing financial services markets in Asia, with a compound annual growth rate (CAGR) of banking assets during 2015–2019 of 8.5%, with high return on equity.¹³ However, as of 31 December 2019, an estimated 77% of Indonesia’s population over 15 years old was unbanked or underbanked (i.e. with limited or no access to basic financial services or a bank account) (footnote 12). Furthermore, although Indonesia’s 800,000 small and medium-sized enterprises and micro-entrepreneurs contribute around 60% of total GDP,¹⁴ credit penetration among these businesses is only around 7% of total GDP, pointing to a massive untapped opportunity.¹⁵

7. Despite the economic challenges resulting from the COVID-19 pandemic, Indonesia’s financial sector has proven resilient, although loan growth slowed in 2020 as banks adopted a more conservative approach, which is expected to drive up demand for growth capital. The outlook is positive given the gradual rebound in economic activities and the passage of the job creation and finance sector Omnibus Laws. Furthermore, the COVID-19 pandemic has helped accelerate the digitalization of financial services in Indonesia, with digital financial services

¹⁰ Central Intelligence Agency. [The World Fact Book – Indonesia](#) (accessed 1 September 2021).

¹¹ IHS Markit. 2019. *Global Insight. Global Insight: Population Growth*.

¹² Google, Temasek, Bain & Company. 2020. [e-Conomy SEA 2020](#). Singapore.

¹³ This compares to a CAGR of 6.3% in Singapore and 7.8% in the People’s Republic of China. Morgan Stanley. 2020. [Asia Banking 2025: Digitalization to Redefine the New Normal](#).

¹⁴ International Labour Organization. 2019. [Financing Small Businesses in Indonesia](#). Jakarta.

¹⁵ Morgan Stanley. 2020. *Indonesia Equity Strategy & Banks: Digital Economy Driving Transformation*.

revenues of \$1.9 billion in 2019 expected to increase to \$8.6 billion (CAGR of 34%) by 2025, making Indonesia the second-fastest growing market in Southeast Asia after Viet Nam.¹⁶

8. Northstar forecasts further development and investment in financial services in Indonesia. During 2014–2017, the small but growing banked population increasing its digital activity, and (i) the share of digitally active consumers (defined as those who use digital banking at least fortnightly) more than doubled, from 13% of the banked population to 32%; (ii) the moderately digital population (defined as those that use digital banking at least some of the time) increased from 24% to 26%; (iii) the nondigital banked population declined substantially from 64% to 42%; and (iv) the transaction breakdown among the banked population indicated the percentage of transactions made via smartphone apps increased from 17% to 25%.¹⁷

9. Given the increasingly digital and financially literate population, Northstar believes that these growth rates will continue, and overall financial penetration will increase. Northstar has invested in financial services since its inception in 2003. Despite the various challenges of operating in a regulated sector, Northstar has developed a significant depth of knowledge across financial services companies in Indonesia, Thailand, and Viet Nam, which it will leverage to source prudent finance sector investments for NEP V.

C. Digital Economy

10. Internet use in Southeast Asia is increasing at one of the fastest rates recorded globally. During 2015–2019 the number of active internet users increased from 260 million to 360 million (footnote 12). As of 2019 Indonesia had more than 175 million active internet users (representing 64% of population) and 338 million mobile phone connections, representing the largest user base in the region, which is driving Indonesia's position as the digital powerhouse of Southeast Asia.¹⁸

11. Specifically, Indonesia's digital economy totaled \$44 billion in gross merchandise value in 2020, up from \$8 billion in 2015, and is projected to reach \$124 billion by 2025, fueled by secular trends and the scale of Indonesia's user base. E-commerce was the main growth driver, having increased 54% in volume during 2015–2020, to \$32 billion (footnote 12); e-commerce represented \$21 billion in gross merchandise value, or 51% of Indonesia's total digital economy in 2019, while online travel accounted for 24%, online media for 10%, and ride hailing for 15% of Indonesia's market. E-commerce is predicted to grow to 61% of the digital economy by 2025 (footnote 12). E-commerce, online travel and media, and ride hailing have all experienced robust growth since 2015, which is expected to continue through 2025 (footnote 12).

12. In Indonesia, and Southeast Asia generally, smartphones are the primary means used to connect to the internet—it is estimated that more than 90% of users in Southeast Asia connect to the internet via smartphones (footnote 17). There were 106 million smartphone users in Indonesia as of the end of 2017, up from 75 million in 2015, representing a CAGR of 19% (footnote 17). Smartphone penetration is expected to continue to expand given the increasing availability of affordable smartphones and mobile data, as well as faster and more reliable service. Mobile data in Indonesia is relatively affordable, and it is getting cheaper across Southeast Asia (footnote 17). In 2014, the average cost of one gigabyte of mobile data was approximately 2% of gross national income per capita across Southeast Asia, which fell to less than 0.8% in 2018 (footnote 12). The

¹⁶ ADB. 2020. [Country Partnership Strategy: Indonesia, 2020-2024—Emerging Stronger](#). Manila.

¹⁷ McKinsey. 2018. [The digital archipelago: How online commerce is driving Indonesia's economic development](#).

¹⁸ Datareportal.com. [Digital 2020: Indonesia](#).

region also made significant advances in data speed, most notably in rural areas, where coverage is not yet completely reliable. Furthermore, internet engagement levels are high, with Indonesians logging about 4 hours per day on mobile internet, which ranks among the top five levels of engagement globally.¹⁹ For comparison, internet users in the UK and the US log just over 2 hours per day, while users in France, Germany, and Japan spend roughly 1 hour per day (footnote 19).

13. COVID-19-induced lockdowns have helped to accelerate the growth in the number of digital consumers (with Indonesia and Viet Nam the fastest-growing digital economies in Southeast Asia in terms of gross merchandise value), while strong capital inflows and continued infrastructural improvements are expected to fuel further growth in Indonesia's digital economy, where Northstar has demonstrated its ability to access investments given its strong ties to the venture capital ecosystem. The digital economy became a focus segment for Northstar beginning with NEP IV in 2014, given the increase in mobile internet adoption and development of supporting ecosystems in Indonesia and Southeast Asia more broadly. Digital economy investments in the NEP IV portfolio are showing early promise, and Northstar expects to source similarly strong digital economy investments for NEP V.

¹⁹ We Are Social. [*Digital 2019: Global Internet Use Accelerates*](#).