EXPLAINER

Could the eFishery scandal be a wake-up call for Indonesia's startup ecosystem?

In 2023, PT Multidaya Teknologi Nusantara, better known as eFishery, shot to fame as Indonesia's first aquaculture tech startup to achieve unicorn status, with a valuation of around $1.4 billion.

The company's innovative approach to using technology to improve the lives of rural farmers and its ability to attract investments from big-name investors, including Softbank and Temasek made it a darling of the startup scene. Co-founder and CEO Gibran Huzaifah Amsi El Farizy was regarded as the man of the hour.

However, the magic was short-lived. In December 2024, an investigative audit alleged that the company's financial statements had been fraudulently inflated by $600 million. Notably, the investigation revealed that during the first nine months of 2024, the company had reported profits of $16 million while actually losing $35.4 million.

This revelation led to the removal of Gibran from his position, and he, along with other company executives and employees, could face criminal charges and imprisonment under Indonesian law.

Lawyers say the eFishery incident exposed weak regulatory supervision and governance standards in Indonesia. It also highlighted systemic forces in the country's tech sector that prioritise growth over profitability, raising concerns about the role of investors and their due diligence processes.

1 What happened?

Before the scandal, eFishery was seen as a successful startup that used technology to help fish farmers work more efficiently, sell their products, and secure the credit they needed to grow their businesses.

Then in 2024, whistleblower allegations surfaced accusing the company of falsifying its financial statements under Gibran's direction. A subsequent investigation unveiled that eFishery had allegedly been deceiving banks and investors by providing them with fake financial statements that showed profitability, despite the company consistently operating at a loss since 2021.

Specifically, the allegedly fraudulent financial statements were found to contain fabricated profits linked to companies indirectly owned by Gibran, which were falsely presented as legitimate customers. These companies allegedly generated fake invoices, contracts, ledgers, and financial statements, further perpetuating the deception.

"The allegedly fraudulent financial statements were not widely known within the company but were reportedly orchestrated by Gibran, along with several company executives and employees. Thus, the potential legal consequences of the alleged accounting fraud would fall on Gibran and any company executives and employees directly involved in the alleged fraud," says Winnie Yamashita Rolindrawan, partner at Indonesian law firm SSEK.

Under Indonesian law, Gibran and those involved could face serious legal repercussions, including criminal charges that could lead to imprisonment.

2 What problems did the scandal expose?

The eFishery scandal has exposed vulnerabilities in regulatory oversight and corporate governance in Indonesia. According to Rolindrawan, "It highlights the need for stronger financial oversight and mandatory financial disclosures."

She adds that "stricter compliance requirements and improved corporate governance should be implemented, along with clearer disclosure obligations regarding conflicts of interest, especially in cases where key executives have ownership stakes in related companies."

The scandal has also raised questions about the quality of due diligence conducted by investors, and the need for more comprehensive and rigorous scrutiny of startups.

To mitigate such risks, Rolindrawan advises that investors should adopt a more thorough due diligence approach across legal, financial, and other crucial areas.

Additionally, investors should implement closer monitoring and post-funding audits to ensure that startups are operating transparently and honestly, she adds.

3 What are the broader implications in indonesia's tech sector?

In addition to calls for stronger financial oversight, improved corporate governance, and more comprehensive due diligence practices, the eFishery scandal also highlights the need for a shift away from the "hypergrowth paradigm" and towards more sustainable business models in Indonesia's startup ecosystem, according to Rolindrawan.

"Since startups often prioritise rapid expansion and achieving unicorn status, they may place growth ahead of sustainable business practices. The eFishery case exemplifies how this hypergrowth mindset can lead to financial misreporting and operational shortcuts, ultimately jeopardising the company's long-term viability," says Rolindrawan.

To address this issue, Rolindrawan suggests that the Indonesian government should take steps to enhance corporate governance and financial reporting standards among startups, and encourage investors to adopt more comprehensive due diligence practices.

"One would hope the government will revisit existing regulations to address these issues and close any regulatory gaps," she adds.