

## Highlights of the week



### Prabowo continues fighting as May 22 closing

With the General Elections Commission (KPU) bracing itself for the announcement of the election result, presidential candidate Prabowo Subianto continues his fight, despite having been predicted to lose the race – for the third straight time. What measures will Prabowo and his camp employ?



### Govt on witch hunt against people power instigators

The government is taking the threat of massive protests against the results of the presidential election by the camp of candidate Prabowo Subianto seriously. The former general, who raced against incumbent President Joko “Jokowi” Widodo in the April 17 vote, has not publicly endorsed the plan to launch a “people power” movement, but he has not ruled it out either. The government and the police have declared such a plan an act of treason, and are taking steps to pre-empt the threat.



### Import permit delay leads spiking garlic prices

During this year’s Ramadan, shoppers in many parts of the country have been annoyed by the sharp increase in prices of commodities, especially garlic, which has increased by threefold in a month or so. According to *hargapangan.id*, which monitors staple food prices across Indonesia, the average price of garlic at traditional markets rose nationally to Rp 63,900 per kilogram on May 7 from Rp 49,750 on April 30 and below Rp 30,000 in March. At some markets, such as those in Jakarta, prices skyrocketed to over Rp 100,000 a kg.



### BEI scrutinizes Garuda’s accounting report

The Indonesian Stock Exchange (BEI) decided to pursue an investigation into a US\$239.94 million transaction made between Garuda Indonesia and PT Mahata Aero Teknologi following the first hearing to clarify the flag carrier’s disputed accounting report. The investigation began with a meeting between BEI and the Financial Services Authority (OJK) on May 2 to discuss the investigation into Garuda’s accounting report. In the meeting, the OJK agreed that BEI would lead the investigation and suggested that it cooperate with Indonesia’s professional accounting associations.

## POLITICS

### As judgement day nears, Prabowo continues fighting

With the General Elections Commission (KPU) bracing itself for the announcement of the election result, presidential candidate Prabowo Subianto continues his fight, despite having been predicted to lose the race – for the third straight time. What measures will Prabowo and his camp employ?

#### Takeaways:

1. Until, or even after, the KPU announces the official election results, the Prabowo camp will continue enforcing measures to fight for Prabowo-Sandiaga's unlikely victory. One popular measure is delegitimizing perceived opponents, which, in this case, are rivals Jokowi-Ma'ruf and election organizer the KPU.
2. Prabowo camp has attacked KPU's legitimacy by questioning the credibility of Situng and the large number of polling station workers who died.
3. The Jokowi camp has been delegitimized by the opposition through various allegations of electoral fraud, including bribing civil servants to vote for Jokowi-Ma'ruf and fraudulent acts during C1 form submissions.
4. Prabowo's fight for victory might be benefitted and/or disadvantaged by Jokowi's adoption of tougher measures against political dissent.

**Background:** While it has yet to finalize its vote recapitulation at the national level, the KPU's interim findings strongly signal that incumbent President Joko "Jokowi" Widodo will be reelected. With more than 80 percent of vote across the country tabulated, Jokowi and his running mate Ma'ruf Amin have secured over 56 percent of the vote, leaving Prabowo and his running mate Sandiaga Uno trailing by nearly 13 percent.<sup>1</sup> With such a wide margin between the two tickets, the Jokowi-Ma'ruf triumph is almost certain.

This does not stop Prabowo, however, from keeping up a fight. He has sought many avenues, ranging from questioning the impartiality of pollsters that predicted his defeat<sup>2</sup> to issuing a threat of "people power"<sup>3</sup>. It is very likely that Prabowo will continue to flex his muscles, even after the KPU releases the official election results.

**Insight:** One recurring measure that the Prabowo camp has been taking to snatch an unlikely victory is trying to delegitimize their opponents, namely rivals Jokowi-Ma'ruf and the KPU, in the eyes of the public.

The opposition had attempted to delegitimize Jokowi-Ma'ruf long before the election took place. Now that Prabowo-Sandiaga are predicted to lose the election, efforts to prevent the prediction from manifesting are being reinforced.

On May 10, hundreds of demonstrators gathered outside the Elections Supervisory Agency (Bawaslu) headquarters in a show of support for the Prabowo camp, who were filing an official

<sup>1</sup> <https://pemilu2019.kpu.go.id/#/ppwp/hitung-suara/>

<sup>2</sup> Kumparan.com, "Prabowo: Hei Lembaga Survei, Kau Bisa Bohongi Penguin di Antartika" 19 April 2019 <https://tinyurl.com/y2x43w2u>

<sup>3</sup> Poskotanews.com, "Bila Pilpres Curang, Amien Rais Siap Gelar People Power di Monas" 01 April 2019 <https://tinyurl.com/y3lx795s>

report concerning alleged fraud during the election.<sup>4</sup> In the report, Prabowo demands the disqualification of Jokowi-Ma'ruf for allegedly violating the Election Law in a structured, systematic and massive manner<sup>5</sup>, based on several claims, including bribing civil servants to vote for Jokowi-Ma'ruf and fraudulent acts during the C1 (vote tabulation in polling station) form submission.<sup>6</sup>

As the organizer of the election, the KPU is an easy target of those disappointed with the election result. For one, Prabowo has again attempted to delegitimize the KPU by questioning its impartiality, as he did after he was declared the loser in the 2014 election. The Prabowo camp, for instance, has lodged a complaint against the KPU's Situng (real count system) to Bawaslu for allegedly making 73,000 data entry errors during the KPU's ongoing vote tally.<sup>7</sup> A member of the Prabowo-Sandiaga camp, Sufmi Dasco Ahmad, claimed that the Situng's vulnerabilities to error had caused "discontent" and "distrust in elections" among the public.<sup>8</sup>

Moreover, the large number of polling station workers who died following the election has also been used by Prabowo to question the KPU's legitimacy. While a complete explanation regarding the massive number of deceased workers has yet to be offered, Prabowo has urged the officials to conduct a postmortem on their bodies<sup>9</sup>, citing the number of deaths, which exceeds 500, as unprecedented and must be investigated.<sup>10</sup>

Other than to delegitimize the KPU, the debate surrounding the death toll of the workers may have been exploited by the Prabowo camp to muffle Jokowi's narrative of relocating the capital city. As the relocation plan reflects Jokowi's confidence in winning the election, the debate on the deaths might be designed to divert people's attention from Jokowi's plan.

It is likely that the narrative of electoral fraud and the use of people power will remain the Prabowo camp's preferred strategy in challenging the election result. By accusing the Jokowi-Ma'ruf camp of committing electoral fraud in a structured, systematic and massive manner, the narrative could legally demand Bawaslu and the KPU to take further action as stipulated by the Elections Law. Meanwhile, amid uncertainty, the Prabowo camp has mobilized the public to garner popular support for their version of the election result, turning the situation into a posttruth game.

One thing to consider is Jokowi's adoption of tougher measures against political dissent. Following last week's public demonstration in front of Bawaslu's headquarters, the police have named Kivlan Zen and Eggi Sudjana, Prabowo supporters who participated in the demonstration, suspects of treason.<sup>11</sup> Likewise, the police also arrested demonstrator Hermawan Susanto for treason after video footage of the 25-year-old man threatening to behead Jokowi went viral.<sup>12</sup>

<sup>4</sup> BBC.com, "Gelar demo, kubu Prabowo tuntutan Bawaslu 'diskualifikasi Jokowi-Ma'ruf Amin' atas tuduhan kecurangan" 10 May 2019 <https://tinyurl.com/y4n6jgm5>

<sup>5</sup> Koran.tempo.co, "Kubu Prabowo Tuding Pegawai Negeri Ikut Menangkan Jokowi" 11 May 2019 <https://tinyurl.com/y2c939y5>

<sup>6</sup> See note 4

<sup>7</sup> Thejakartapost.com, "KPU: Situng errors benefit, disadvantage candidates" 10 May 2019 <https://tinyurl.com/yx97araa>

<sup>8</sup> Detik.com, "BPN Prabowo Laporkan Situng KPU ke Bawaslu" 02 May 2019 <https://tinyurl.com/y2lqldg6>

<sup>9</sup> CNNIndonesia.com, "Prabowo Serukan Tes Visum Medis Petugas KPPS yang Meninggal" 08 May 2019 <https://tinyurl.com/yxvg2tbq>

<sup>10</sup> Ibid.

<sup>11</sup> VOAlndoneisa.com, "Kivlan Zen dan Eggi Sudjana Dikenai Tuduhan Makar" 13 May 2019 <https://tinyurl.com/y6jogvkl>

<sup>12</sup> Suara.com, "Ini yang Diucapkan Hermawan Susanto, Dijerat Ancam Bunuh Jokowi" 12 May 2019 <https://tinyurl.com/y4lroxhc>

Adding fuel to the fire is Coordinating Political, Legal and Security Minister Wiranto's plan to form an Orwellian "national legal team", whose main responsibility is to supervise and assess the "words, acts and thoughts" from public figures that are "obviously in violation of the law".<sup>13</sup> It is feared that such an abstract definition, coupled with liberal use of the Electronic Information and Transactions (ITE) Law, will allow the government to depict a broad range of actions as possible threats to the country.

Jokowi's stiffer actions against political dissent may indicate the President's decision to fight fire with fire in incapacitating dissent. This, however, has led some to believe that the Jokowi administration has weaponized the law and turned increasingly autocratic. It has yet to be unveiled whether Jokowi's harsher measures will benefit or cripple Prabowo's fight for victory.

## **Government on witch hunt against people power instigators**

**The government is taking the threat of massive protests against the results of the presidential election by the camp of candidate Prabowo Subianto seriously.** The former general, who raced against incumbent President Joko "Jokowi" Widodo in the April 17 vote, has not publicly endorsed the plan to launch a "people power" movement, but he has not ruled it out either. He has, however, denounced the election as a farce and thus void, and proclaimed himself the rightful winner. The General Elections Commission (KPU) is scheduled to announce the results of the election on May 22, but current projections, with more than 80 percent of the votes counted, say Jokowi will win the election by at least a 10 percentage point margin.

Individuals in Prabowo's campaign team have been calling for a "people power" movement to reject the results and to send their candidate to the Presidential Palace. The government and the police have declared such a plan an act of treason, and are taking steps to pre-empt the threat. Finding the instigators is not that difficult: Monitor their statements on online and social media platforms. But to arrest them could be tricky, opening the government to accusations of trampling on the people's right to free speech.

### **Takeaways:**

1. The calls for people power have not been fully endorsed by everyone in Prabowo's camp. One organization that has been most vociferous in championing people power is Islam Defenders Front (FPI), whose leaders mobilized the 212 Movement in 2017.
2. Regarding the seriousness of the people power threat, the possibility is always there and although the idea had come from selected individuals, their messages have gone viral on social media to help build public opinion that the whole election was fraudulently designed to ensure Jokowi's reelection.
3. Wiranto's legal team may recommend actions against particular individuals in the coming days, but the ball is really in Prabowo's court. He may call for a revolt that many of his die hard supporters will surely heed, but exactly how many will join the call is still open to question.
4. More likely, Prabowo will take the legal approach as he did five years ago when he lost the presidential race also to Jokowi.

<sup>13</sup> Thejakartapost.com, "Jokowi administration slammed for attempt to silence political dissent" 08 May 2019 <https://tinyurl.com/y2tnznx>

**Background:** Coordinating Political, Legal and Security Affairs Minister Wiranto announced on May 11 a new team of 13 topnotch independent legal and constitutional law experts and 11 others from various ministries who will advise the government on how to handle the growing threats of treason. A spokesman for the team, Romli Atmasasmita, says they are looking into the actions and statements by 13 figures in the Prabowo team. He mentioned four names among them: Ulema Nasir Bachtiar, former Army general Kivlan Zen, and politicians Eggi Sudjana and Amien Rais.

Nasir has already been named a suspect by the police, not for calling for people power but for allegations that he siphoned off money from a local foundation he ran to support the Islamic state movement, the Islamist rebellion group in Syria, two years ago. Nasir was somehow able to leave the country last week and is now in Saudi Arabia. He played a key role in the 212 Movement that foiled the reelection bid of then-Jakarta governor Basuki Tjahaja Purnama in 2017, exploiting his double-minority status, an Indonesian of Chinese descent and a Christian, as unacceptable to the predominantly Muslim capital city.

Kivlan was barred from leaving the country last week, but police immediately lifted the ban after deciding they had no legal grounds to do so. But on Monday police detained Eggi Sudjana, a politician with the National Mandate Party (PAN), as suspect for treason for calling for the people power movement. Eggi was blamed for organizing the protest outside the Elections Supervision Agency (Bawaslu) last week, seen as a prelude to the people's power movement. No action had been taken against Amien Rais, who has been the most vocal in threatening a people power movement. The founder of PAN was a key figure in the 1998 student-led people power movement that forced strongman Soeharto out of power. But following Eggi's arrest, Amien changed his tune: Instead of calling for people power, he is now advocating a "people's sovereignty movement".

**Insight:** The calls for people power, or whatever name they want to call the movement, has not been fully endorsed by everyone in Prabowo's camp, including the four political parties supporting his presidential bid. Prabowo himself has ducked media questions about the plan, while his running mate, businessman Sandiaga Uno, has kept a distance.

Gerinda, the party founded by Prabowo, has not been forceful in promoting the idea. The Democratic Party of former president Susilo Bambang Yudhoyono says it will accept the results of the elections. The Prosperous Justice Party (PKS) has been critical of the way the elections have been conducted, but has also not publicly endorsed a people power movement.

PAN's endorsement came from individual figures in the party and did not necessarily reflect the official party position. PAN chairman Zulkifli Hasan met with Jokowi a week after the election to bury the hatches and start working together. PAN was a member of Jokowi's coalition government until September and there is speculation the party will rejoin the next government. One organization that has been most vociferous in championing people power is the Islam Defenders Front (FPI), whose leaders mobilized the 212 Movement in 2017. They have made it clear from the beginning that Jokowi had to go and reluctantly endorsed Prabowo even though the former general is known for his strong secular views and is not interested in FPI's Islamist agenda. FPI bears particular grudges against Jokowi since their leader and founder, Rizieq Shihab, is a fugitive from sex scandal allegations, living in Saudi Arabia for the last two years.

So how serious is the people power threat?

That possibility is always there and although the idea had come from selected individuals, their messages have gone viral on social media to help build public opinion that the whole election was fraudulently designed to ensure Jokowi's reelection. Die hard supporters of Prabowo will likely follow his instructions, whatever that may be, after the May 22 announcement of the election results.

Wiranto's team may recommend actions against particular individuals in the coming days, but the ball is really in Prabowo's court.

He may call for a revolt and many of his die hard supporters will surely heed, but exactly how many will join the call is still open to question.

More likely, Prabowo will take the legal approach as he did five years ago when he lost the presidential race also to Jokowi. In 2014, he filed a petition with the Constitutional Court to claim massive cheating. The court dismissed the claim and ruled the outcome as announced by the KPU valid: Prabowo lost 47-53 percent to Jokowi. He accepted the court ruling.

Prabowo has already presented a long list of frauds in the way last month's presidential race was held. He needs to convince the court that it was fraught with cheating which was, using his favorite expression, "massive, structured and systematic", if he is to stand any chance.

## **MPR, House leadership discussed**

**The coalition of parties that nominated President Joko "Jokowi" Widodo and running mate Ma'ruf Amin have opened a possibility of cooperating with outsiders concerning the election of the People's Consultative Assembly (MPR) speaker for 2019-2024.** Reports have it that the Indonesian Democratic Party of Struggle (PDI-P) is preparing its nonactive deputy chief and Coordinating Human Development and Culture Minister Puan Maharani for the House of Representatives speaker post. What does this signify?

**Insight:** As Law No. 2/2008 on legislative institutions (MD3) stipulates, the party that wins the most votes in the legislative election is entitled to nominate the speaker of the House. Based on quick counts and ongoing manual counts, it is almost certain that the PDI-P will secure the coveted post. Puan is tipped as the strongest candidate for the House's top job. She is projected to win 404,034 votes, reportedly the largest number at the national level.<sup>14</sup> The fact that she is the daughter of Megawati Soekarnoputri, the chairwoman of the PDI-P, does not hurt either.

One thing to consider is the crucial functions of the House; its legislative roles vary, such as devising regulations to be discussed with the President, discussing draft regulations proposed by the President and authorizing international treaties that may cause fundamental economic or legal changes.

Having Puan, a proxy of Megawati, as the speaker would enable the PDI-P's paramount leader to take a grip on the House. While this benefits the party, it may not be the case for Jokowi. Reportedly, President Jokowi is keeping a distance from the parties, including his own PDI-P, now that he has a big coalition. The PDI-P, having its influence ensconced in the House, thus might jeopardize Jokowi's political independence.

<sup>14</sup> Koran.tempo.co, "Puan Maharani Kandidat Kuat Ketua DPR" 15 May 2019 <https://tinyurl.com/y4dwwqge>

This might be why the MPR's leadership has been made open for the opposition parties, to prevent complete the dominance of the PDI-P or any other coalition parties, in both the House and MPR. On the other hand, the idea to grant the MPR's leadership to the opposition might be to lure them to join Jokowi's side as well.

Currently led National Mandate Party (PAN) chairman Zulkifli Hasan, the MPR's functions include amending and enforcing the 1945 Constitution, presiding over the swearing-in of the president and vice president and deciding on the House's proposals relating to impeachment. Since the amendment of the 1945 Constitution in 1999, the MPR's role has been more symbolic and advisory vis-à-vis the House's functions. MPR's speakership, thus, makes an ideal leverage for the opposition as it has enough political stature without being crucially significant.

## Human rights commission to look into poll officers' death

**The toll of poll workers and other officers who died during and after the April 17 elections has reached 554.** The figure includes administrators from the General Elections Commission (KPU) and the Elections Supervisory Agency (Bawaslu) as well as security personnel from the National Police.<sup>15</sup> The sheer number has triggered speculation as to what was behind the deaths. Now, the National Commission on Human Rights (Komnas HAM) has moved to investigate the cases.

**Insight:** As stipulated by Law No. 39/1999 on human rights, Komnas HAM is a state auxiliary body whose primary functions include conducting evaluations, research, counselling, monitoring and mediating human rights violation cases.

The planned investigation followed public pressures. Demands for an extensive investigation into the deaths poll officers are indeed increasing. The opposition, for one, has been particularly staunch about the need for a thorough investigation. For instance, Prosperous Justice Party (PKS) member Almuzzammil Yusuf requested Komnas HAM to investigate suspected violations of human rights during last month's general elections which resulted in the death of poll officers.<sup>16</sup> Even more surprising is House of Representative Deputy Speaker Fahri Hamzah, who suspects poisoning to be behind the deaths.<sup>17</sup>

It has been pointed out that the opposition's fervor for further investigation was based on the opposition's attempt to delegitimize the elections, in which it has been predicted as the losing side. While Komnas HAM has participated in investigating the death of poll officers, it remains unclear whether the commission will distance itself from any attempts to politicize the death of poll officers or support the opposition's hypothesis instead. The final result of the investigation itself will be released at least a day before the election result is announced.

However, state auxiliary bodies in the country, including Komnas HAM, are relatively ineffective. Its limited jurisdiction has hindered Komnas HAM from solving both major and minor human rights violation cases. Indeed, Komnas HAM is assigned to provide recommendations, which are not binding, to the government.

<sup>15</sup> CNNIndonesia.com, "Total 554 Orang KPPS, Panwas dan Polisi Tewas di Pemilu 2019" 07 May 2019 <https://tinyurl.com/y6ewxlam>

<sup>16</sup> Tempo.co, "PKS Minta Komnas HAM Investigasi Banyaknya Petugas KPPS Meninggal" 06 May 2019 <https://tinyurl.com/y5f6loek>

<sup>17</sup> Tirto.id, "Petugas KPPS Banyak yang Meninggal, Fahri Hamzah: Mungkin Ada Racun" 06 May 2019 <https://tinyurl.com/y67xdoym>

## BUSINESS & ECONOMIC POLICY

### Delay in import permits causes spike in garlic prices

During this year's Ramadan, shoppers in many parts of the country have been annoyed by the sharp increase in prices of commodities, especially garlic, which has increased by threefold in a month or so.

#### Takeaways:

1. National average garlic prices surged twice to Rp 63,900 a kg on May 7 from below Rp 30,000 in March. At some markets, prices increased by threefold to Rp 100,000 a kg.
2. Late in the issuance of import permits for 115,000 tons of garlic by the Trade Ministry caused the spike in prices. After price skyrocketing, the ministry issued import permits for an additional 125,000 tons of garlic.
3. Indonesia imports more than 90 percent of domestic needs for garlic. The problem will persist as Indonesia has less land area suitable for garlic.

**Background:** According to *hargapangan.id*, which monitors staple food prices across Indonesia, the average price of garlic at traditional markets rose nationally to Rp 63,900 per kilogram on May 7 from Rp 49,750 on April 30 and below Rp 30,000 in March. At some markets, such as those in Jakarta, prices skyrocketed to over Rp 100,000 a kg.

The public furor over garlic prompted the government – in this case the Trade Ministry – to issue import permits for an additional 125,000 tons of garlic to 11 importers in May. Last month, the ministry authorized eight importers to import 115,000 tons of garlic.

After additional imports and market operation, average prices of garlic at traditional markets nationally went down to Rp 50,050 as of May 16. In some markets like those in Jakarta, prices are much higher. At Jatinegara Market, for example, prices stayed at Rp 62,500 a kg, down from Rp 90,000 a kg on May 7.

**Insight:** Price increases of staple foods ahead of Ramadan and Idul Fitri are common as demand tends to increase. However, when the price of garlic increased threefold, it's an anomaly and has logically creates public furor.

Everyone in the government knows that household spending during Ramadan and Idul Fitri is on the rise. And the government should have anticipated any possible spike in demand. Therefore, it is bewildering that garlic has become scarce and that the prices have jumped threefold.

Instead of internal evaluation, the government has blamed garlic importers for playing with the prices of the commodity, causing them to skyrocket before Ramadan. Agriculture Minister Andi Amran Sulaeman even threatened to blacklist importers he suspected of playing with the prices of garlic to get short-term gains. Amran asked the importers to help bring down prices to below Rp 25,000 per kilogram.<sup>18</sup>

<sup>18</sup> The Jakarta Post, "Minister threatens to blacklist 'manipulative' garlic importers," May 6, 2019  
<https://tinyurl.com/yxtmoayj>

Importers could indeed play with prices, but the real cause of the current price spike of garlic lies not with importers but the poor coordination among the Agriculture Ministry, the Trade Ministry and the State Logistics Agency (Bulog). Delays in the issuance of import permits by the Trade Ministry is the main culprit behind the price spike.

The proper management of garlic imports is necessary as the country relies so much on imports. Indonesia imports more than 90 percent of its garlic needs. Statistics Indonesia (BPS) recorded 582,994 tons of garlic were imported in 2018, nearly all of which was from China. So far this year, the Trade Ministry issued permits for 240,000 tons of garlic.

The government has tried to achieve self-sufficiency in garlic by forcing importers to plant garlic. The government had earlier targeted importing no garlic in 2018.<sup>19</sup> But reality tells a different story.

According to experts, Indonesia does not have enough land area suitable for garlic, which is 700 meters above sea level with less rain. The suitable land is mostly located in Java and Sumatra, and that land has been cultivated for other commodities.<sup>20</sup> for operators.

**What we've heard:** According to one source at the Agriculture Ministry, delays in the issuance of import permits by the Trade Ministry had led to a surge in garlic prices.

The source said that the Trade Ministry usually issued permits two months before Ramadan, or one month at the latest. However, this time, the import permits for 115,000 tons of garlic were given to the eight importers at the end of April – a week before Ramadan – although the Agriculture Ministry had issued its import recommendation long before April. The source added that the Trade Ministry normally issued an import permit two weeks after the recommendation from the Agriculture Ministry came out.

The situation worsened due to importers' behavior in delaying distribution of the imported garlic, even though the commodity had arrived in Indonesia. The source said by delaying the distribution of garlic by one week, for instance, importers may obtain a high margin.

Another source said the import permit delay was related to the conflict between Bulog chief Budi "Buwas" Waseso and Trade Minister Enggartiaso Lukita. Previously, Buwas and Enggar had quarreled over whether rice imports were necessary. Buwas was against Enggar's decision to import rice. Since then, their relationship has never been good.

That is why Enggar did not immediately issue import permits, although a limited economic ministers meeting led by Coordinating Economic Minister Darmin Nasution had ordered Bulog to import 100,000 tons of garlic.

What makes things worse, Bulog does not have the network to import garlic in a short period of time. Bulog usually appoints third parties that have networks with garlic exporters overseas to import the commodity.

<sup>19</sup> The Jakarta Post, "Indonesia aims for zero imports of garlic in 2018," 17 May 2019.

<https://tinyurl.com/yx8s992h>

<sup>20</sup> Gatra.com, "Pengamat: Tidak Banyak Lahan di Indonesia yang Cocok Ditanami Bawang Putih," 18 April 2018.

<https://tinyurl.com/yxqsdjyz>

## BEI scrutinizes Garuda's accounting report on Mahata transaction

The Indonesian Stock Exchange (BEI) decided to pursue an investigation into a US\$239.94 million transaction made between Garuda Indonesia and PT Mahata Aero Teknologi following the first hearing to clarify the flag carrier's disputed accounting report.

### Takeaways:

1. BDO became Garuda's auditor, following pressure from Bank Mandiri to reject loan applications from companies that use Deloitte as their auditor.
2. Mandiri made the move to punish Deloitte for its failure to properly audit SNP Finance's financial statements.
3. The auditing process was messy for BDO, not only because BDO started the audit process late in October, but also because of difficulties in navigating Garuda and its 30 subsidiaries within a tight working schedule, as well as pressure from the new Garuda CEO to achieve his target of reducing Garuda's 2018 loss to below \$100 million.

**Background:** The investigation began with a meeting between BEI and the Financial Services Authority (OJK) on May 2 to discuss the investigation into Garuda's accounting report. In the meeting, the OJK agreed that BEI would lead the investigation and suggested that it cooperate with Indonesia's professional accounting associations.<sup>21</sup>

After the meeting with the OJK, BEI held two other meetings with the Financial Accounting Standards Board of the Indonesian Accounting Association (DSAK-IAI) and Indonesia Public Accountant Institute (IAPI), a member of IAI that represents public accounting firms (KAP).<sup>22</sup> As a follow up, the IAPI will conduct an audit of Garuda's auditing company, KAP Tanubrata, Sutanto, Fahmi, Bambang and Co., which operates as an affiliate of BDO International.<sup>23</sup>

BEI held a second hearing with Garuda on Thursday.<sup>24</sup> Also, the Finance Ministry's Financial Profession Development Center (PPPK) might be involved in the investigation.<sup>25</sup>

**Insight:** In the past few years, the reputation of Indonesia's public accounting firms has been tarnished by various accounting scandals. In February 2017, the Public Company Accounting Oversight Board (PCAOB) of the United States fined KAP Purwantono, Sungkoro and Surja, the Indonesian affiliate of Ernst and Young (EY) global network, \$1 million for violating PCAOB rules and standards in connection with the audit of Indosat's 2011 financial statement.<sup>26</sup>

In October 2018, the OJK prohibited KAP Satrio, Bing, Eny and Co. or Deloitte Indonesia from auditing banks, financial companies, and companies listed in the Indonesian stock exchange as a

<sup>21</sup> Detik.com, "OJK serahkan kisruh laporan keuangan Garuda ke Bursa." 2 May 2019 <https://tinyurl.com/yyl8xxya>

<sup>22</sup> Viva.co.id, "Temui IAI, BEI dalam masalah laporan keuangan Garuda Indonesia." 10 May 2019 <https://tinyurl.com/y5dcb9da>

<sup>23</sup> CNNIndonesia.com, "Institut Akuntan Publik telaah lapkeu Garuda Indonesia." 15 May 2019 <https://tinyurl.com/y3x8w3n4>

<sup>24</sup> CNNIndonesia.com, "Garuda tak minta pendapat ahli soal transaksi dengan Mahata." 16 May 2019 <https://tinyurl.com/y4uwuu92>

<sup>25</sup> Detik.com, "Kisruh laporan keuangan Garuda bikin BEI pusing." 13 May 2019 <https://tinyurl.com/y358xreg>

<sup>26</sup> PCAOB.org, "Order instituting disciplinary proceedings, making findings, and imposing sanctions in the matter of KAP Purwantono, Sungkoro & Surja, Roy Iman Wirahardja, and James Randall Leali." 9 February 2017 <https://tinyurl.com/yy9bhs52>

punishment for its failure in auditing SNP Finance's 2012-2016 financial statement.<sup>27</sup> According to the OJK, Deloitte's auditing failure had misled not only 14 banks by giving loans to SNP Finance with an estimated credit loss of Rp 2.2 trillion but also many individual investors by issuing medium-term notes (MTN) in November 2017 with an estimated investment loss of Rp 1.8 trillion.<sup>28</sup>

Garuda's disputed accounting report, which was audited by BDO Indonesia, might add to Indonesia's long list of accounting scandals. However, the story behind the scene is more complicated. According to our source from the auditing sector, there is a connection between Deloitte's punishment in the SNP Finance scandal and Garuda's disputed financial statement. Before the SNP Finance scandal, Deloitte was Garuda's auditor. They had been working together for nine years, beginning with the audit of Garuda's 2009 financial statement. After the OJK's announcement, Deloitte was still allowed to audit Garuda's 2018 financial statement.

However, Bank Mandiri which suffered from an estimated credit loss of Rp 1.2 trillion in the SNP Finance scandal, warned companies that it would not recognize financial statements audited by Deloitte for loan applications. To make its warning credible, Mandiri threatened to file a criminal lawsuit against Deloitte in September 2018.<sup>29</sup> Because of Mandiri's threat, Garuda and other companies that had business relations with Mandiri cancelled their auditing contracts with Deloitte.

For listed companies like Garuda, changing auditor in September is troublesome. Unlike unlisted companies, listed companies have a tight deadline to release its audited financial report.

According to OJK Regulation No. 29/POJK.04/2016, they should submit their audited financial report before the end of April. To meet this deadline, public accounting firms usually start auditing listed companies' financial reports in September. If they start in October, they lose one-month worth of working time.

After cancelling its auditing contract with Deloitte, Garuda contacted six public accounting firms, namely EY, PricewaterhouseCoopers (PWC), KPMG, RSM AAJ and BDO, and invited them to participate in a bid to audit its 2018 financial statement. Unfortunately, only PWC and BDO responded to Garuda's call.<sup>30</sup> Eventually, BDO won the bid, but the working schedule was tight because it had already lost at least a month worth of work time.

According to our source, auditing a new company is always difficult, because the auditor needs to learn a great deal about its client's business processes, as well as develop working relationships with people and sections that have the required documents. For BDO, its auditing experience with Garuda was daunting. Not only did it have a late start, BDO also needed to navigate Garuda and its 30 subsidiaries, from budget airline Citilink Indonesia to various travel and accommodation businesses.

<sup>27</sup> CNNIndonesia.com, "OJK 'depak' auditor SNP Finance dari daftar akuntan publik." 1 October 2018 <https://tinyurl.com/y5t3otgv>

<sup>28</sup> Detik.com, "Mengupas masalah SNP Finance yang bikin rugi hingga Rp 4 T." 26 September 2018 <https://tinyurl.com/y6oha8y7>

<sup>29</sup> CNNIndonesia.com, "Kasus SNP Finance, Bank Mandiri pidanakan Deloitte Indonesia." 26 September 2018 <https://tinyurl.com/y4hhx4m9>

<sup>30</sup> Detik.com "Garuda tak tunjuk tenaga ahli pemeriksaan transaksi 'aneh' dengan Mahata." 16 May 2019 <https://tinyurl.com/yy7ettru>

Furthermore, BDO needed to deal with pressure from new Garuda CEO I Gusti Ngurah (Ari) Askhara Danadiputra, who was inaugurated on Sept. 12, 2018. The CEO vowed to reduce Garuda's 2018 loss to below \$100 million, from a loss of \$213 million in 2017.<sup>31</sup> To achieve this target, Ari conducted a business deal with Muhammad Fitriansyah<sup>32</sup> and his financier Muhammad Hadi Bil'id<sup>33</sup>, both of whom are affiliated with the Association of Young Indonesian Businessmen (HIPMI) under the banner of Mahata Aero Teknologi. In fact, Ari's connection with HIPMI was developed during his previous term as Pelindo III CEO.<sup>34</sup> Another source said that Ari got his way in pressuring BDO, using Garuda's status as a big client that offers a lucrative auditing contract.

## **Issue Update: IOGI – Blunder or ploy to revive ailing oil and gas industry?**

**The Upstream Oil and Gas Regulatory Task Force (SKKMigas) established the Indonesia Oil and Gas Institute (IOGI) last month as an alternative data provider in the oil and gas sector.** The new oil and gas data center and research institute, established by Deputy Energy and Mineral Resources Minister Arcandra Tahar and others, aims to become a leading institution, "a center of excellence and center of knowledge in Indonesia's upstream oil industry"<sup>35</sup> that would attract investors, SKK Migas DwiSoetjipto has said.

In its first study called Indonesia's Proven Play and Yet To Find, the IOGI claims to have identified 19 production sites with 8.3 billion barrel-oil equivalent potential in North Sumatra, South Sumatra, northeast Java, Kutai, Papua and the Pre-Tertiary Passive Margin.<sup>36</sup> Dwi also indicated that the new research institute would strengthen SKK Migas' capability and credibility in taking action to change the perception that Indonesia's oil and gas investment data is inaccurate. He added that the IOGI would publish some of its data for investors for free.

The launch of the IOGI was organized at the same time as the Gross-Split Coaching seminar led by Arcandra to educate investors about the gross-split scheme, after several potential investments had not been realized as investors prefer the cost-recovery scheme.

Introduced in 2017, the gross-split scheme requires investors in the upstream oil and gas industry to pay for exploration and production costs. It replaced the cost-recovery scheme, in which the government reimbursed investors the real cost of exploiting oil.

IOGI, however, will likely compete with the Research and Development Center for Oil and Gas Technology (Lemigas) under the Energy and Mineral Resources Ministry's Oil and Gas Directorate General, which has been the benchmark institution for oil and gas research and data provider, based on Ministerial Decree no. 17/1965.

<sup>31</sup> Merdeka.com, "Ari Askhara target tekan kerugian Garuda Indonesia di bawah USD 100 juta." 12 September 2018 <https://tinyurl.com/yyuxnehk>

<sup>32</sup> Bisnis.com, "Jadi mitra bisnis Garuda Indonesia (GIAA), siapa sosok di balik kemudi Mahata Aero Teknologi?" 8 May 2019 <https://tinyurl.com/yynd4glr>

<sup>33</sup> Kumparan.com, "Sandi syukuran kemenangan Bersama pengusaha HIPMI." 23 April 2017 <https://tinyurl.com/y3hm3qzg>

<sup>34</sup> Jatimprov.go.id, "Gerakkan ekonomi, HIPMI Jatim perkuat kolaborasi dengan Pelindo III." 22 March 2018 <https://tinyurl.com/y2dwejh8>

<sup>35</sup> Sindonews.com, "Perkenalkan IOGI, SKK Migas jadi sumber data terpercaya investor migas," April 30, 2019. <https://tinyurl.com/y4ffk2gy>

<sup>36</sup> Sucofindo, "SKK Migas paparkan temuan cadangan gas raksasa," May 9, 2019. <https://tinyurl.com/y25w7las>

**What we've heard:** Some players in the oil and gas industry have questioned the establishment of the IOGI. In their view, the new institution's duties overlap with the function of Lemigas.

They were apparently skeptical that the launch of the IOGI was organized at the same time as the coaching seminar on the gross-split scheme, the brainchild of Arcandra. The coaches at the seminar were Arcandra and two of his acquaintances from Houston, the US; Prahoro Nurtjahjo, who is one of Arcandra's expert staff members at the ministry; and SKK Migas deputy for planning Jaffee "Buyung" Suardin.

This makes it unsurprising that several oil and gas companies may view the new research unit as a means to impose the gross-split scheme on all future oil and gas investment. Moreover, it has been said that Arcandra, Prahoro and Buyung were the pioneers of the IOGI. Buyung has been appointed as the IOGI chairman.

A source who attended the IOGI launch at City Plaza in Jakarta on April 30 said Arcandra "roasted" the attendees, who were mostly executives of oil and gas companies, because of their unfamiliarity with the gross-split scheme. The source said Arcandra tried to test their knowledge of the gross-split scheme. Arcandra reportedly humiliated them, which the source said created discomfort among the oil and gas players attending the forum.

During the session, Arcandra talked a lot about the principles of the scheme, such as the gross split formula, variable components and progressive components in gross-split calculation. In an attempt to lure investors, Arcandra revealed several fiscal incentives that would be offered through the gross-split scheme.

## Macroeconomic commentary: April's trade deficit

Indonesia recorded a trade deficit of US\$2.5 billion in April, the worst in the country's history, according to the latest trade data issued by Statistics Indonesia (BPS) on Wednesday.

| January – April foreign trade performances (US\$ million) |             |                 |          |             |                 |          |               |                 |          |
|-----------------------------------------------------------|-------------|-----------------|----------|-------------|-----------------|----------|---------------|-----------------|----------|
| Period                                                    | Export      |                 |          | Import      |                 |          | Trade Account |                 |          |
|                                                           | Oil and Gas | Non-oil and gas | Total    | Oil and Gas | Non-oil and gas | Total    | Oil and Gas   | Non-oil and gas | Total    |
| January                                                   | 1,234.7     | 12,693.2        | 13,927.9 | 1,656.6     | 13,334.8        | 14,991.4 | -421.9        | -641.6          | -1063.5  |
| February                                                  | 1,110.2     | 11,445.7        | 12,555.9 | 1,584       | 10,654          | 12,226   | -473.8        | 791.7           | 329.9    |
| March                                                     | 1,140.5     | 12,981.4        | 14,121.9 | 1,520.8     | 11,930.3        | 13,451.1 | -380.3        | 1,051.1         | 670.8    |
| April                                                     | 741.9       | 11,855          | 12,596.9 | 2,235.4     | 12,863.4        | 15,098.8 | -1,493.5      | -1,008.4        | -2,501.9 |

Source: Statistics Indonesia (BPS)

The value of oil and gas imports increased 46.99 percent to \$2.23 billion month-to-month in April, while imports of non-oil and gas products rose 7.82 percent to \$12.86 billion in the same period. Most of the imported products came from China, Japan and Thailand. The value of exports of non-oil and gas products, on the other hand, fell 8.68 percent to \$12.98 billion. The trade deficit in the non-oil and gas sector shows that the current trade policies have failed to boost exports and should be evaluated.<sup>37</sup>

<sup>37</sup>Kontan, "Perangdagang+defisitneracadagang = badaibagai bursa," May 16, 2019. P.1

**Insight:** The deficit was caused by contracting exports from \$14.1 billion in March to \$12.6 billion in April. Meanwhile, imports surged by \$1.7 billion to \$15.1 billion.

The sudden surge in imports was caused by increasing oil imports from \$1.5 billion to \$2.2 billion. Oil exports shrunk from \$1.1 billion to \$742 million, creating a deficit of \$1.49 billion in oil and gas trade.

Non-oil and gas trade recorded a \$1 billion deficit due to shrinking exports and growing imports. Weak global demand for coal<sup>38</sup> and falling palm oil prices<sup>39</sup> contributed to shrinking non-oil and gas exports from \$13 billion to \$11.8 billion. According to the BPS, the growth in non-oil and gas imports by \$1 billion to \$12.8 billion in April was seasonal, caused by the approaching Ramadan and Lebaran holiday.<sup>40</sup>

<sup>38</sup> Montelnews.com, "Coal to remain weak on gas price slump, sluggish demand." 14 May 2019 <https://tinyurl.com/y3o3zpgg>

<sup>39</sup> Thestar.com.my, "Palm oil price at 6-month low." 14 May 2019 <https://tinyurl.com/y4px8wpb>

<sup>40</sup> Republika.co.id, "Mengapadefisitneracaperdagangantinggi?" 16 May 2019 <https://tinyurl.com/y3nblaar>

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