

## Highlights of the week



### Politics trumps economics in gasoline pricing

Energy and Mineral Resources Minister Ignasius Jonan's decision to revoke his announcement on the government's decision to increase the oil prices less than half an hour after his initial announcement demonstrates how President Jokowi will likely maintain his real politik rules.



### Anies' garbage policies and populist game

The dispute between the Jakarta and Bekasi administrations over waste management once again indicates Anies' populist tendency. As the Jakarta governor has reportedly started eyeing his reelection bid in 2022 and the presidential election in 2024, it remains unlikely that Anies will abandon his populist maneuvers and risk losing most of his staunchest supporters.



### Bribery case is unlikely to stop Meikarta

The Meikarta property project, the Lippo Group's flagship project, is in limbo after the Corruption Eradication Commission (KPK) caught several of its employees and Bekasi Regency officials red-handedly. Investors started shunning Lippo companies soon after the bribery case emerged, although it is not the first bribery case involving Lippo.



### Indonesia's fintech faces structural challenges

Indonesia's fintech holds huge growth potential. President Joko "Jokowi" Widodo's emphasis for friendly and accommodative fintech regulations was correct, despite structural problems besetting the industry persist. If left unaddressed, Indonesia's fintech will be no more than a house of cards.

## POLITICS

### Politics trumps economics in gasoline pricing policy

**On Oct. 10, Energy and Mineral Resources Minister Ignasius Jonan announced the increase in the price of several types of gasoline, including the heavily subsidized Premium, in response to the increase in world oil prices.** But in the space of less than half an hour, Jonan announced again that the price of the widely used Premium would remain unchanged. The flip-flop indicates not only a heated row within the administration of President Joko “Jokowi” Widodo, but it also shows that, once again, politics trumps economics when it comes to the government’s gasoline pricing policy.

**Takeaway:** The flip-flopping gasoline pricing policy indicates that politics still dominates over economic considerations, particularly as the 2019 presidential election is approaching. Such political game, however, may not last long since freezing the fuel prices further may exacerbate the country’s current deficit in the oil and gas trade account. President Jokowi has to tread lightly in regard to fuel price as wrong move may dethrone him as in the cases of his predecessors Soeharto and Megawati Soekarnoputri.

**Background:** The soaring price in the world oil market, inching toward US\$80 a barrel, is straining the government’s finances as it has to keep forking out larger sums of money in energy subsidies. The weakening rupiah against the dollar has not exactly helped as Indonesia imports most of its fuel needs. But with Jokowi seeking his reelection in April, hiking gasoline prices could be political suicide. The lower middle class, the largest and most important segment of voters, will feel the brunt. Their votes are the most decisive, and Jokowi cannot take chances of venting their wrath.

**Insight:** The current price of Premium at Rp 6,550 a liter was set in 2017 when the world oil price was around \$48 a barrel and one American dollar gave you Rp 13,400. At the start of 2018, the oil price had reached \$50, rising still to reach \$75 by September. The rupiah’s slide began around the same time, and in September it broke the psychological barrier of Rp 15,000, now settling at Rp 15,200.

This combination of soaring oil prices and the plunging rupiah literally throws off the government’s budgetary calculations. By July, the Finance Ministry said the overall energy subsidy bill for 2018, originally budgeted at Rp 94.53 trillion, would now reach Rp 163.49 trillion. The large price discrepancy is also known to have led to the smuggling of gasoline out of Indonesia.

The government at the start of 2018 ended the policy of automatically adjusting the prices of subsidized fuel each month in keeping with the changes in the world oil market, on the pretext of “protecting the people’s purchasing powers and helping support the economy.” The price of subsidized fuels, including Premium, kerosene, Solar (diesel fuel) and liquefied petroleum gas in small canisters as well as electricity, would be frozen until 2019. No specific mention of when exactly in 2019, but it is safe to assume that it won’t happen before the April 17 election.

Jokowi came to office in 2014 vowing to phase out the fuel subsidy because it was a gross waste of money better spent on more productive uses. He became the first president to introduce the monthly automatic price adjustments that kept it closer to world oil prices. With the elections around the corner, this was abandoned. Real politik, or rather populism, rules.

Many people were taken by surprise when Jonan on Oct. 10 announced the increase in the price of Premium to Rp 7,000 a liter, along with the increase in the price of other non-subsidized fuels sold by state-owned oil and gas company Pertamina. Even as late as two weeks earlier, Jonan had been telling the public that there would be no increase in the prices of gasoline subsidized by the government, even though many experts have said these old prices are indefensible and would hurt the government's finances and undermine the credibility of the budget.

The flip-flop raised eyebrows and supporters of Prabowo Subianto, the lone challenger in the April 17 presidential race, were quick to link the decision with the fact that top guns of the International Monetary Fund and World Bank were present for their annual meetings in Bali, implying that Indonesia had succumbed to pressures from proponents of neoliberal policies. Alas, with the cancelation, the price of gasoline can no longer be used against Jokowi in the election campaigns.

But this still leaves the question of how long can the government freeze fuel prices. The growing deficit in the oil and gas trade account is a major contributory factor to the widening of the current account deficit, which measures net trade in merchandise and services. In the second quarter, this deficit reached 3 percent of gross domestic product (GDP). This has set the alarm, prompting the government to take measures to curb imports where it could, except when it comes to fuel.

Finance Minister Sri Mulyani Indrawati has publicly dismissed concerns about the impact of rising subsidy bills on government finances, insisting that the 2.19 percent deficit (against GDP) in the budget was a safe distance from the 3 percent maximum allowed by law.

A large chunk of the subsidy is not immediately reflected in the budget because it has been assumed by Pertamina before the giant oil company sends the bill to the government. The bill has to be audited by the Supreme Audit Agency first before the government eventually pays the bill, in installments. Pertamina has also had to bear the burden of Jokowi's one-price policy on gasoline in Indonesia, and hence assumes the large costs of transporting fuel to distant places like Papua.

The price of gasoline has always been a sensitive political issue in Indonesia. Strongman Soeharto was forced to step down in 1998 by a massive people's power movement just two weeks after he raised the price when the nation was still in deep economic recession. Indonesia is no longer a net oil exporter at the turn of the millennium, but the fuel subsidy bill has kept growing with the rise in world oil prices, the declining value of the rupiah and rising domestic fuel consumption, primarily from the growing ranks of car and motorcycle owners.

But if raising gasoline prices is not the popular thing to do, freezing them would not guarantee reelection either. Former president Megawati Soekarnoputri froze fuel prices a year before seeking her reelection in 2004. Nevertheless, she lost the election to Susilo Bambang Yudhoyono.

**What we've heard:** The proposal to increase the price of Premium and other subsidized fuels has come up at Cabinet meetings led by Jokowi these past few months. Economic ministers warn about the impact on government finances if the subsidy grows too large to sustain. Jokowi relented in one of these meetings. In fact on Oct. 10, in the middle of the IMF-World Bank meetings, Jonan received a phone call from the president's office asking why he had not made the announcement. But shortly after he made the announcement that afternoon,

he received another phone call on behalf of the President with the order to cancel the increase in the Premium price.

One version says the decision came after a late intervention from Rini Soemarno, the state-owned enterprises minister, who said she had not been aware of the decision (apparently she was in Palu, the site of the devastating earthquake and tsunami, when the meeting took place). Others said Jokowi's political advisors had weighed in, and warned that the impact on voters may be so severe that it could cost him the election. Among the proponents to increase the gasoline prices are Vice President Jusuf Kalla and Finance Minister Sri Mulyani Indrawati.

## **Anies' garbage policies and the populist game**

**The Bekasi and Jakarta administrations have been embroiled in yet another dispute surrounding the regulation on waste management.** Claiming that the Jakarta administration failed to make the agreed upon payment, Bekasi prevented trucks carrying Jakarta's waste from entering the city. Jakarta Governor Anies Baswedan's moves in addressing this garbage dispute may indicate the governor's known populist inclination.

**Takeaway:** Anies' approach in addressing the garbage dispute between the Jakarta and Bekasi administration may be, to certain extent, influenced by his populist predilection. The belief that waste management is mostly a matter of concern to the upper-middle class might be one of the driving factors behind Anies', who is mostly supported by the lower-middle class, nonchalance toward the Bekasi administration's threat following the garbage dispute.

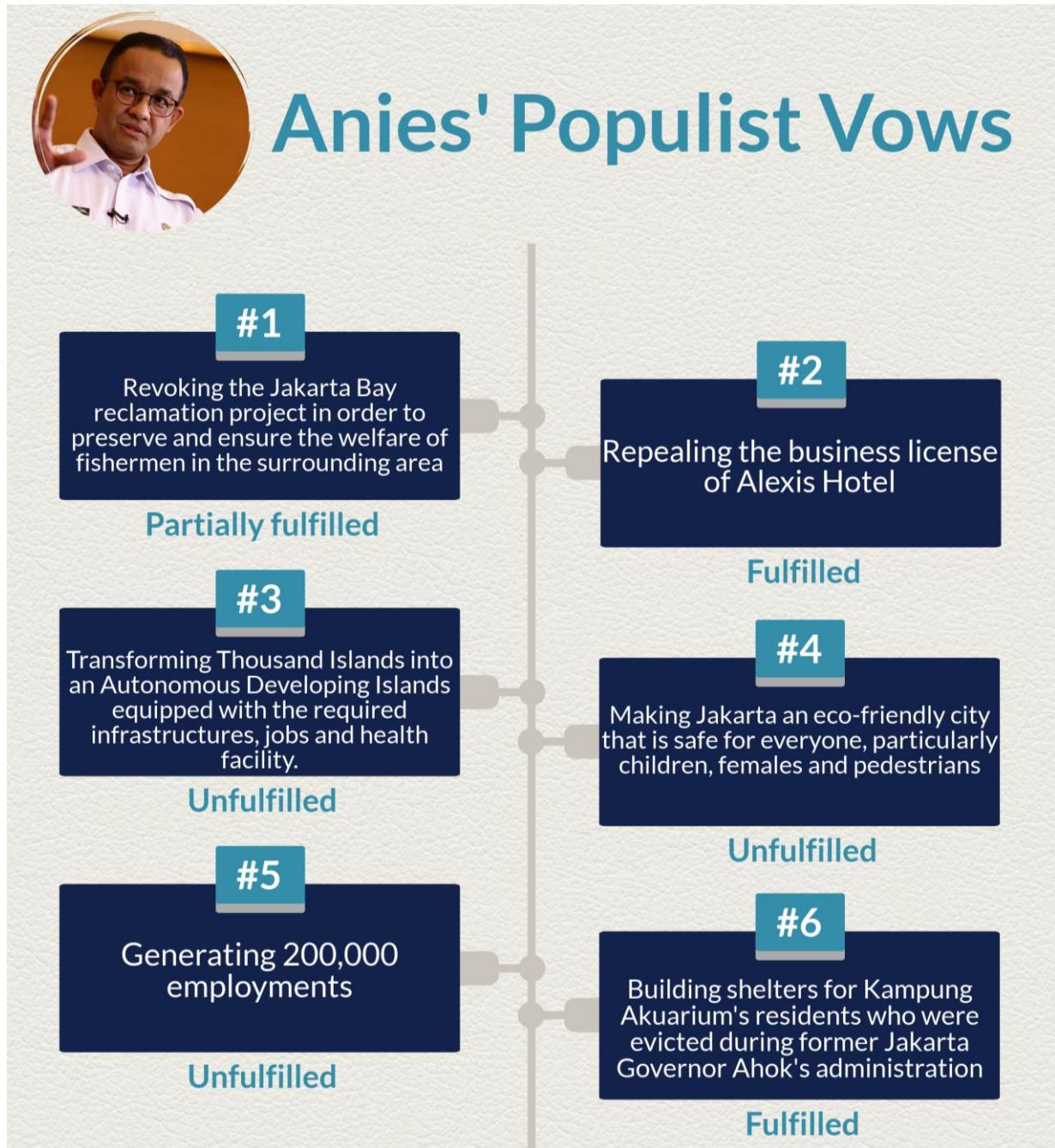
**Background:** The latest garbage dispute between the Bekasi and Jakarta administrations started last week when the Bekasi government blocked Jakarta's garbage truck access to the Bantar Gebang landfill, where approximately 7,000 tons of Jakarta's waste is dumped on a daily basis. The Bekasi administration claimed that Jakarta had yet to pay the settled payment for waste management. There are reportedly two types of payments, namely *uang bau* (smelly money), or compensation distributed to all affected households near Bantar Gebang, and a *dana kemitraan* (partnership grant) to finance Bekasi's various projects.

The Jakarta administration paid Rp 141 billion (US\$9.3 million) in May this year for the compensation. Nevertheless, the Bekasi administration reportedly proposed a Rp 2.09 trillion partnership grant to the Jakarta administration on Oct. 15. The figure jumped from Rp 250 billion last year and Rp 200 billion in 2016.

Bekasi Mayor Rahmat Effendi said there had been "miscommunication" between the Bekasi and Jakarta administrations, clarifying that the Jakarta administration had not paid the partnership grant instead of the compensation. Rahmat further explained that the increased fund would be used to manage environment supporting infrastructure, education, health and other facilities. Rahmat and Governor Anies are planning further meetings to resolve the garbage predicament. Nevertheless, despite the two leaders' decision to call a truce, the brouhaha surrounding waste management bears greater implications, namely Anies' growing populist tendency.

**Insight:** Since he first took office last year, Anies Baswedan's leadership has been heavily imbued with populist policies. His gubernatorial campaign in particular reverberated with populist vows. His decision to convert the busy Jl. Jatibaru in Jakarta into a car-free zone, for instance, attracted harsh criticism from the traffic police, pedestrians and commuters alike. The

governor's determination to enforce the controversial regulation was reportedly caused by Anies' desire to preserve the street vendors' support for his administration. Likewise, his low-income housing policy that targets low-wage Jakartans has also met opposition, with experts claiming that Anies' zero down-payment scheme is expensive at best, and downright unrealistic at worst.



In addressing the garbage dispute, not only has Anies vehemently denied the allegation made by the Bekasi administration by saying that Jakarta had paid the compensation, he also denounced Bekasi's proposed partnership grant as not legally binding. Anies lambasted the skyrocketing increase of Bekasi's proposed partnership grant, claiming that both administrations have agreed to design the grant as voluntary in nature.

Anies' great reluctance to conform to Bekasi's demand may be heavily influenced by his populist tendency, which is steadily increasing as Anies is likely to seek reelection in 2022 and eventually the presidency in 2024. Attacking the Bekasi administration, Anies said the hike

would disadvantage ordinary citizens as the funds would come from their pockets. Anies further stated that Jakartans should be first consulted if Bekasi decided to pursue the issue as they would be affected the most. Anies' resistance to the Bekasi administration's demand is also strengthened by the governor's plan to build an Intermediate Treatment Facility (ITF), a waste-management facility, in Sunter, North Jakarta. The new facility, the construction of which is scheduled to start in December, is expected to manage and recycle more than 2,000 tons of waste per day.

Involving the people in the garbage narrative demonstrates Anies' populist penchant. Basing his arguments on the common good, particularly the lower-middle class, has been a constant trend often found in Anies' rhetoric. His decision to build the ITF may also aim to foster a sense of empowerment and self-sufficiency among Jakartans as well as strengthening their support for the governor. Reportedly, Bekasi's residents have criticized Jakartans ever since the garbage predicament arose in the media.

Anies' populist predilection is understandable, considering that his supporters mostly come from the lower-middle class. A study conducted by Charta Politika found that the majority of Anies' supporters have little education and a monthly income of less than Rp 4 million. Similarly, Indonesian Survey Institute (LSI) research found that 54.1 percent of its survey's respondents who favored Anies did not receive education higher than the elementary level.

Anies' indifference toward the garbage debacle is perhaps because of the fact that waste management is not a cause for concern among the lower-middle class, or the majority of his voters; waste management is rather often associated with the eco-conscious citizens who mostly come from the upper-middle class. Such an issue, thus, might incur only slight risk to Anies' political standing.

Indeed, Anies has previously commented on vital issues Jakarta is facing. He argued that poverty surrounding the lower-middle class was the most burning issue that Jakarta had to resolve, yet, he added, poverty had been often overlooked because of the priority of upper-middle class problems. Anies, thus, insisted that lower-middle class problems should be addressed before the government could take further steps in managing Jakarta's various other problems.

The garbage debacle is the latest addition to the long list of problems that Anies has encountered since former Jakarta deputy governor Sandiaga Uno left office. Some point out that Anies' lack of aptitude in bureaucratic matters has become more apparent since he started working solo. How Anies' alleged inadequacy in handling the bureaucracy, coupled with his populist inclination, will affect Jakarta has yet to be fully seen. Regardless, the dispute between the Jakarta and Bekasi administrations remains unlikely to be the last.

## BUSINESS AND ECONOMICS POLICIES

### Bribery case is unlikely to stop Meikarta project

**The Meikarta property project, the Lippo Group's flagship project, is in limbo after the Corruption Eradication Commission (KPK) arrested four Lippo Group employees and consultants and five Bekasi regency officials on suspicion of bribery.**

**Takeaway:** The bribery case has pummeled the Lippo Group of companies. Investors started shunning Lippo companies soon after the bribery case emerged, although it is not the first bribery case involving Lippo. In the longer term, the Meikarta project will continue. It involves too many buyers, plus Lippo's political connections remain strong.

**Background:** The KPK arrested four Lippo Group employees and consultants, including Lippo Group operational director Billy Sindoro, and five Bekasi regency officials, including Regent Neneng Hassanah Yasin, on Oct. 14 and 15. The KPK later named them bribery suspects.

Billy, along with two Lippo Group consultants – Taryudi and Fitra Djaja Purnama – and Lippo employee Henry Jasmen, were arrested on suspicion of paying bribes totaling Rp 7 billion to Neneng and her officials, out of an alleged commitment of Rp 13 billion, to expedite the processing of the required licenses for Lippo Group's signature Meikarta project. One source has claimed that commitment was actually Rp 25 billion.

The public had not heard of Meikarta before May 2017, when Lippo Group CEO James Riady announced the project in a press conference followed by an aggressive sales campaign involving thousands of sales agents and extensive advertizing in various media.

Meikarta's permit issue first came into the spotlight when then-West Java deputy governor Deddy Mizwar ordered a temporary stop in the project in August 2017. He argued that the Meikarta project had not obtained approval from the West Java administration.<sup>1</sup>

Despite this, Meikarta construction proceeded smoothly until the KPK arrested the Lippo Group employees and consultants and Bekasi regency officials.

**Insight:** The Meikarta project appeared to be promising at the beginning. The Lippo Group, which owns the project through developer PT Mahkota Sentosa Utama, boasted that it would spend Rp 278 trillion to build 289 towers simultaneously on a 500-hectare site. It was later revealed that the project was not as big as advertised.

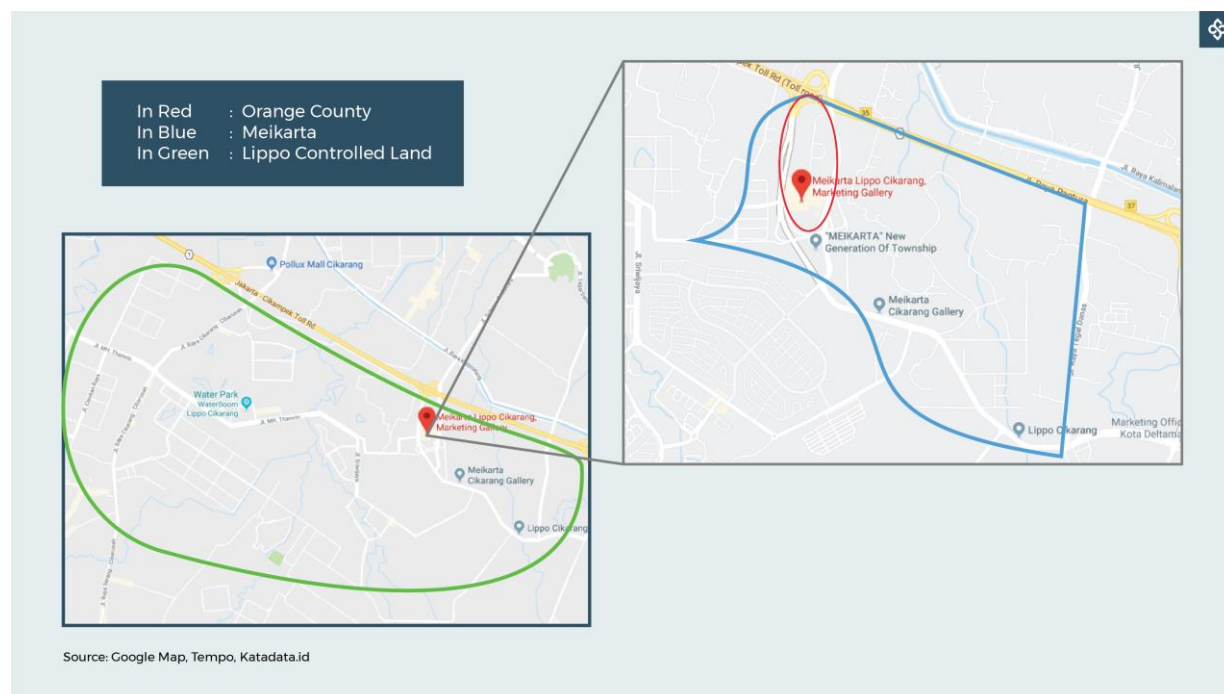
Before Meikarta, the Lippo Group through PT Lippo Cikarang started to build six apartment towers in Orange County on a 19.5-hectare plot of land in Cibatu, Cikarang, in 2016. A building license for the project was secured 2014.

In 2017, Lippo Cikarang planned to expand the project to cover a much larger area. The process proved problematic as Lippo apparently attempted to wield its clout with the central and local governments.

<sup>1</sup> Detik.com, "Deddy Mizwar Minta Proyek Meikarta Disetop." Aug. 2, 2017 <https://tinyurl.com/y9qpmwpg>

Lippo's strong clout at the Bekasi regency, West Java, was apparent in the process of obtaining the license for land use (IPPL) for the Meikarta project:

- On May 2, PT Lippo Cikarang lodged a request with the Bekasi administration for an IPPL covering 164 hectares of land in Cikarang.
- On May 10, the Bekasi Legislative Council approved the Bekasi Regency Spatial Plan (RTRW), which accommodated the areas requested by Lippo Cikarang.
- On May 12, Regent Neneng issued the IPPL for Lippo Cikarang covering 84.6 hectares out of 164 hectares.
- On May 13, the Lippo Group CEO launched the Meikarta project in Maxxbbox Cikarang and deployed thousands of sales agents.



The problem started when the then-West Java deputy governor ordered a temporary stop in the project in August 2017. He deemed that the Bekasi Legislative Council had included the Meikarta project in the Bekasi RTRW without obtaining a formal recommendation or permission from the West Java administration.

Despite the objection of the West Java administration, the Meikarta project continued. The central government, through the Home Ministry, facilitated meetings of the West Java administration, the Bekasi administration and the Lippo Group in early October 2017.

Later in October, Coordinating Maritime Affairs Minister Luhut Pandjaitan joined Meikarta's top management in a topping-off ceremony at Meikarta. In December 2017, the West Java administration issued a recommendation for the 84.6-hectare Meikarta project.

All went well in 2017, with claims of more than 140,000 apartments being sold. Entering 2018, there was optimism that additional sales would generate Rp 10 trillion. Despite a few problems, such as a lawsuit by two of Meikarta advertising vendors, the project proceeded relatively smoothly during 2018. At the end of August, Meikarta handed over 863 apartments to buyers.

The project hit a snag after the KPK arrested the four Lippo Group employees and consultants and five Bekasi regency officials. The future of the project came into question. The bribery

case has hit the Lippo Group hard. Share prices of listed companies under the Lippo Group have all tumbled.

Some businesspeople spoken to said that it was just bad luck for Lippo as most property companies-built projects at the same time as processing the necessary licenses. They also so said bribery was common because licensing procedures were not transparent.

Despite the current drama following the bribery case, the Meikarta project is likely to continue, but not at a scale initially promised on 500 hectares of land. First, the project involves many buyers. Also, Lippo's political connections remain strong, as evident in the number of prominent people on PT Lippo Karawaci's board of commissioners.

If figures on Meikarta are correct, that more than 140,000 apartments have been sold, many people would have put their money in Meikarta. According the Financial Service Authority (OJK), 12 banks have extended mortgages worth Rp 8 trillion for Meikarta apartments.<sup>2</sup>

Denny Indrayana, the lawyer for PT Mahkota Sentosa Utama, has given assurances that the company will continue the construction of Meikarta property and "make sure all processes are carried out according to the law".

Agrarian and Spatial Planning Minister Sofyan Djalil has given assurances that the Meikarta project is being developed in accordance with spatial planning regulations, particularly regarding the 84.6 hectares of land so far acquired by the developer.<sup>3</sup>

Sources reckon the bribery case will not go to higher levels and will stop at Regent Neneng at the government level and Billy Sindoro at the company level. After a number of searches, including of the house of James Riady, the KPK is said to have obtained no strong proof to name suspects at a higher level.

**What we've heard:** Lippo Group CEO James Riady's alleged involvement in the Meikarta graft case was revealed during a Corruption Eradication Commission (KPK) interrogation of Bekasi Regent Neneng Hassanah Yasin, who admitted that she had met James and Billy Sindoro several times.

One of the meetings allegedly took place at her home in East Cikarang in November 2017. She claimed the three had talked about the progress of several Meikarta permits.

James and Billy reportedly asked the regent to speed up the issuance of the permits. After the meeting, Billy and his subordinates frequently met with Neneng and several department heads of the Bekasi administration, she said.

To ensure the permits would be issued without further delay, Lippo allegedly promised a commitment fee of Rp 25 billion (US\$1.647 million). Billy reportedly made the first payment of Rp 13 billion. By the time the KPK declared the three suspects, Rp 7 billion had allegedly been paid.

According to another law enforcement official, Billy was seen meeting with James several times, during which he allegedly reported about the progress of Meikarta's permits.

<sup>2</sup> Kompas.com, CNN Indonesia, "OJK: Penyaluran KPA Meikarta Rp 8 Trillion" 23 October 2018.  
<https://tinyurl.com/yd5jkr43>

<sup>3</sup>Thejakartapost.com, "Meikarta project abides by spatial regulation: Minister" 21 October 2018.  
<https://tinyurl.com/y8xnz8nb>

It is said that James and his father, Lippo Group founder and chairman Mochtar Riady, allow only a small number of trusted people to live close to their homes in Lippo Karawaci, Banten. Billy is reportedly one of the people the Riady family trusts the most and owns a house close to them.

The KPK obtained access to Billy's and James' communication with several suspects in the bribery case far before their arrests. The anti-graft body also gained information about Billy's alleged role as the mastermind and coordinator of giving out bribes through the same method.

The KPK used the information about the meeting at Neneng's residence, the result of its interrogation of Billy and a number of other leads as the basis for a search of James' house last week.

A source in the KPK said the antigraft body had been monitoring Meikarta since May last year. Lippo began to massively market the Meikarta project even though it had yet to acquire several permits, such as an Environmental Impact Analysis (AMDAL), a building permit (IMB) and land and water permits.

This prompted the KPK to start looking for signs of corruption surrounding the project.

The commission intensified its monitoring after receiving information about an alleged plan to hand bribe money over to one of Neneng's subordinate. The intel was the result of the KPK's observations of Taryudi, one of Billy's most trusted subordinates.

The former environmental activist is known to always carry SG\$90,000 (\$65,275) wherever he travels. It was reported that he had taken the cash with him to a school reunion in Jakarta, before being caught red-handed offering it to Neneng's subordinate.

During KPK's investigation on Eddy Sindoro's alleged involvement in the Meikarta bribery case, Eddy's attorney, Lucas, was also apprehended. Lucas has previously handled a number of high-profile civil and criminal cases. Lucas was arrested for allegedly hindering KPK's investigation on Eddy, who escaped to Malaysia.

KPK's team of investigators reportedly has data, which proves Eddy's involvement in property projects, one of which is the Cikarang project. Yet, KPK originally did not want to reveal Eddy's involvement in the project until the anti-corruption commission acquired further proofs of hush money payments.

KPK, however, could not keep to its initial plan since another investigation team, which also acquired data and proofs of money transfers between the Bekasi regent and Billy's henchman, had already conducted further moves. This is one of the reasons why the KPK could not investigate and manage the bribery case thoroughly and comprehensively.

One of the main challenges that KPK's investigators face is acquiring data and evidence. Although the commission's red-handed operation can help the KPK to apprehend corruptors, further legal basis is still required in order to obtain documents as evidence. Confession from witnesses and suspects is not enough.

## Lippo ownership in Meikarta

PT Lippo Karawaci surprised investors in the stock market by excluding PT Mahkota Sentosa Utama, the developer of Meikarta, from its 2018 first half financial report.

How did this come about?

Lippo Karawaci excluded Mahkota Sentosa Utama in its consolidated report for the first half of 2018. Because of this, the company booked an investment income of Rp 2.35 trillion. As a result, the company's net profit jumped 135 percent to Rp 1.15 trillion.<sup>4</sup>

In fact, Lippo sold 50.01 percent of its shares in Mahkota Sentosa Utama long before the Meikarta brouhaha emerged. Based on the 2017 financial report of PT Lippo Cikarang, a subsidiary of Lippo Karawaci, Lippo sold 49.99 percent of its Mahkota Sentosa Utama shares to Hasdeen Holding Ltd., based in the British Virgin Islands in March 2017 for US\$300 million, or Rp 4.2 trillion to be paid in installments until the end of 2018. As of the end of 2017, Hasdeen, through PEAK Asia Investment Pte. Ltd., had paid Rp 3.1 trillion.

In addition, Mahkota Sentosa Utama shareholders sold an additional 0.002 percent of shares to Masagung Ismail Ning, the son of Hasjim Ning. The entrance of Masagung Ismail Ning was apparently to avoid Mahkota Sentosa Utama being controlled by foreign investors.<sup>5</sup>

**Lippo Karawaci's financial performance (Rp billion)**

| Indicator     | First Half 2018 | First Half 2017 |
|---------------|-----------------|-----------------|
| Total revenue | 5.56            | 4.91            |
| Net Profit    | 1.14            | 4.87            |
| EBITDA        | 1.19            | 1.08            |

Source: Lippo Karawaci Financial Report

## Sindoro brothers

Lippo Group operational director Billy Sindoro and his older brother Eddy Sindoro are no strangers to the Corruption Eradication Commission. The Sindoros have been implicated in graft cases handled by the antigraft body.

The Corruption Eradication Commission recently named Billy Sindoro a suspect in a bribery case where he allegedly ordered Lippo Group consultants and employee to bribe Bekasi Regent Neneng Hasanah Yasin and her officials a total of Rp 7 billion out of a commitment of Rp 13 billion to expedite licensing for the Meikarta project.

The Meikarta case is the second corruption case that Billy has been implicated in, as he was convicted of bribery in a broadcast monopoly case in 2009. At the time, the anti-graft body suspected Billy of bribing a member of the Business Competition Supervisory Commission (KPPU), Muhammad Iqbal, to influence the ruling of a case pertaining to broadcasting rights of a sports program.

A team of KPK investigators arrested Billy, who served as the then-president director of cable

<sup>4</sup>Kontan.com, "HilangkankonsolidasiMeikarta di LPKR, beginitanggapananalisisPaninSekuritas", Oct. 25, 2018. <https://tinyurl.com/y89466us>

<sup>5</sup>katadata.co.id, "LippoSudahAlihkan 49,9% SahamMeikartake Perusahaan LuarNegeri", Oct. 24, 2018. <https://tinyurl.com/yd8wjgpa>

television company First Media, a subsidiary of the Lippo Group, at a hotel lobby in Jakarta during an operation in September 2008 and seized Rp 500 million that the businessman gave to Iqbal.

The corruption court eventually found the businessman guilty in the case and sentenced him to three years behind bars and a fine of Rp 200 million.

Billy is not the only Sindoros to have been implicated in a graft case handled by the antigraft body. His younger brother Eddy Sindoro was also named a suspect in November 2016 in a bribery case involving Supreme Court secretary Nurhadi.

Eddy was accused of tampering in the handling of a case review in the court by instructing his subordinate to bribe Central Jakarta District Court clerk Edy Nasution to influence two cases relating to the Lippo Group at the Supreme Court.

After being named a suspect in the case, Eddy fled abroad and lived in different places in the span of two years between 2016 and 2018. He eventually surrendered to Indonesian authorities in Singapore earlier this month. The KPK has detained Eddy ever since.

#### **Board of Commissioners of Lippo Karawaci**

| <b>Name of Commissioners</b> | <b>Previous Strategic Position/Political Connections</b>                                                                                                                  |
|------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Theo L. Sambuaga             | Public Housing and Public Works Minister 1998-1999, House of Representatives Member (1982-1999)                                                                           |
| Agum Gumelar                 | Transportation Minister (2001-2004), Defense Minister and Coordinating Minister of Politics, Legal and Security Affairs (2001), National Resilience Institute (1998-1999) |
| Farid Harianto               | Indonesian Vice President Staff (2009-now), Advisor to Bank Indonesia Governor (2009-now)                                                                                 |
| Sutiyoso                     | Jakarta Governor (1997-2007), State Intelligence Agency Director (2015-2016)                                                                                              |

**Despite opportunities, Indonesia's fintech faces structural challenges**  
**During the October 11 Bali Fintech Agenda, President Joko "Jokowi" Widodo emphasized the importance of creating *light touch* (business friendly) and *safe harbor* (accommodative) regulations to stimulate the growth of financial technology (fintech) in Indonesia.<sup>6</sup>**

**Takeaway:** Indonesia's fintech holds huge growth potential, and President Jokowi was right when he emphasized that this sector needs business friendly and accommodative regulations. However, his proposed regulations must address structural problems that beset Indonesia's fintech. If left unaddressed, Indonesia's fintech will be no more than a house of cards.

**Background:** Indonesia is on the verge of a financial revolution. In January-July 2018, the amount of peer-to-peer (P2P) lending amounted Rp 9.2 trillion, of which 88 percent was conducted in Java. Although this number is miniscule compared to the Rp 5,000 trillion in loans in the banking sector in 2017, the size of P2P lending in July 2018 is only Rp 1 trillion less than the amount of financing conducted by Sharia Banks in the BUKU I category (core capital less than Rp 1 trillion).

Unlike the conventional banking system, P2P lending is easier to access. Borrowers only need to take a selfie while holding their electronic-ID card. The lending process is faster too, as it takes less than 2 weeks – in some cases 2-3 hours – to process individual borrowing requests.<sup>7</sup>

P2P lending has a low likelihood of default too. As shown by the Financial Services Authority's (OJK) statistics, the share of P2P lending in the "doubtful" and "loss" categories declined from 5.3 percent in January 2018 to 3.9 percent in July 2018.

Fintech also revolutionizes Indonesia's electronic payment business. Big banks, such as Mandiri and BNI, are developing their own digital wallet products to tap into Indonesia's lucrative digital payments market with a total transaction value amounting to US\$22 billion in 2018.<sup>8</sup> In some cases, they establish strategic alliances with non-bank digital wallet companies, such as the collaboration between BNI's Yap! and Go-Pay.<sup>9</sup>

**Insight:** Despite its huge market and growth opportunities, Indonesia's fintech sector still faces many challenges. For example, the trans-national nature of the digital payment industry has only been addressed recently, such as in the WeChat Pay case. Since mid-year, Chinese tourists have been using WeChat Pay as their means of payment in Bali, though the app has not been registered yet in the National Payment Gateway (GPN).<sup>10</sup> If left unaddressed, this could result in a potential tax loss for Indonesia. To avoid unwanted controversies, WeChat Pay as well as Alipay are pursuing partnership opportunities with local banks with assistance from Bank Indonesia.<sup>11</sup>

<sup>6</sup> CNBCIndonesia.com, "Jokowi soal fintech: sikapi dengan lembut." 11 October 2018 <https://tinyurl.com/y7j3aazo>

<sup>7</sup> Investree.id, "Peer-to-peer lending vs pinjaman bank." 28 November 2015 <https://tinyurl.com/y83bmb6u>

<sup>8</sup> Statista.com <https://tinyurl.com/y9gu2h3e>

<sup>9</sup> Kontan.co.id, "Bukan cuman antar bank, persaingan uang elektronik kini merambah ke fintech." 23 October 2018 <https://tinyurl.com/y8u3vswu>

<sup>10</sup> Kontan.co.id, "WeChat jadi sorotan karena tidak terhubung dengan Gerbang Pembayaran Nasional." 15 September 2018 <https://tinyurl.com/yd7ckznu>

<sup>11</sup> TheJakartaPost.com, "Alipay, WeChat pursuing partnership path to enter Indonesian market: BI." 24 October 2018 <https://tinyurl.com/yahe4jed>



Another issue is QR code standardization. In Indonesia's fast growing digital payment market, each digital payment company needs to provide its own QR code generator at payment points, resulting in serious cost inefficiency. To solve this problem, Indonesia needs to develop a nationally standardized QR code that is connected with the GPN and can be scanned by customers regardless of which digital payment app they are using. Currently, Bank Indonesia is developing a national QR code with support from 20 digital payment companies, including Alipay and WeChat Pay.<sup>12</sup>

| P2P Lending Interest Rate |               |
|---------------------------|---------------|
| P2P Lending Company       | Interest Rate |
| Uang Teman                | 35%           |
| Tunai Kita                | 28.5%         |
| Modalku                   | 12% - 26%     |
| Danakita                  | 56%           |

Source: CNBC Indonesia (<https://tinyurl.com/yapvdmxm>)

In the P2P lending market, the challenges are more daunting. Although P2P lending is easily more accessible than loans from conventional banking, there is a strong indication that Indonesia's P2P lending companies lack prudence in carrying out lending risk assessment. Rather than following the "know your customer" (KYC) principle, Indonesia's P2P lending companies are targeting high-risk borrowers that would not pass the screening of conventional banks, and in return charging high interest rates that vary between 12 and 56 percent.<sup>13</sup>

This fact raises questions over the validity of the OJK's NPL statistics for P2P lending, which it claims to be under the level of 1 percent.<sup>14</sup> Currently, there is a rumor circulating that the true P2P lending NPL is in double digits. With sky-high interest rates, there is high possibility that this rumor is true.

#### Challenges in Indonesia's main fintech sectors

| Digital Payment            | P2P Lending                                          |
|----------------------------|------------------------------------------------------|
| Standardization of QR code | Poor lending risk assessment                         |
| Transnational switching    | Lending at high interest rate to high risk borrowers |
|                            | Poor NPL statistics                                  |

<sup>12</sup> Katadata.co.id, "20 perusahaan sudah uji coba, standarisasi QR code dirilis awal 2019." 24 October 2018 <https://tinyurl.com/y97zhxli>

<sup>13</sup> CNBCIndonesia.com, "Bunga fintech P2P di Singapura 18%, di Indonesia 35%." 6 March 2018 <https://tinyurl.com/yce73p4q>

<sup>14</sup> Bisnis.com, "OJK jaga NPL fintech lending di bawah 1% hingga akhir tahun." 5 June 2018 <https://tinyurl.com/ydxmfn8a>

## Insider's insight: PT Mika Informatika Indonesia

Following the announcement of the Bali Fintech Agenda at the Annual Meetings of the International Monetary Fund and World Bank Group in Bali, Tenggara Strategics spoke with **Pandu Nuhuswantoro**, an industry player from **PT Mika Informatika Indonesia**, an information and technology expert that focuses on open source solution, virtualization, cloud solution, network security and databases. The company utilizes its expertise to partake in the highly developing financial technology (fintech) industry in Indonesia. Now, they are working on a new payment system called Mika with Bank Indonesia (BI), the Financial Services Authority (OJK) and the banking sector. Pandu shared his insights and perspective as an industry player about the current state of Indonesia's fintech industry, particularly focusing on lending.

### **Question: How does Mika work?**

**Answer:** Mika is an electronic data capture (EDC) system that requires no swiping, QR code-based. This system is used by Go-Pay, T-Cash and other digital payment apps. Pertamina gas stations use Mika, only in the form of printed tickets. We want to make it available offline. The target is to make it usable not only at SPBU [gas filling stations], but also at shopping malls. You can buy clothes and everything else using the QR code, just like using a credit or debit card.

Now, the technology is still limited to electricity and phone credit payment. A QR code system would cut the lengthy identification process and promote safer payment. We are working together with several department stores on a pilot project. Hopefully, it will be fully operating by the end of the year.

### **What is your experience in fintech?**

We are currently in the process of learning with the central bank. They are very welcoming. However, we cannot deny that we are all still learning. BI is still learning, the OJK is still learning, we as practitioners are also learning. We do not deny that we are learning from abroad. We are trying whatever innovative financial technology they have abroad. We, the ones adopting this, are also learning. In Mika, no one is experienced. We are all still new. I am included. I studied accounting and am more familiar with venture capital and investment.

### **What is the scoring system in lending fintech?**

They have a scoring system that observes our behavior. They see the way we purchase things, our habits, where we live. Then they will look at our daily activities. They can see it from our social media or various things. And, they have their own Google-like system. They can find out who is Pandu and his personal information such as where he goes to school and who is his parents, including what's around his area of living. The data will come out, then the company will judge if Pandu is worthy of borrowing.

This is not something regulated by the OJK, yet. The company just take the borrower's selfie photo holding his ID card, then the funds will be disbursed on that same day. Using our social media, they could find out where we have worked, who our friends are, and they can even figure out who to call to collect the payment. That is the way fintech lending conduct scoring.

### **What are your concerns about fintech lending?**

The government, through OJK, should issue a regulation that standardizes the scoring system. Has it seen what the fintech scoring system is like? It is highly confidential, so I do not know if OJK has looked into the system. As far as I know, there is no standard regulation on scoring. Scoring is critical because it is the main procedure that determines lending decision.

In banking, BI has set standards. They maintain the non-performing loan (NPL) at safe level to avoid default. For banks, it's 2 to 3 percent. For fintech lending, it might be more. Because, based on reality on the ground, fintech's NPL is at double digit level.

What make it dangerous is this: all fintech lending receives big funding. Based on my experience, we receive millions of dollar investment for each fintech company. If the default risk is at double digits, how do fintech lending services return the capital for break-even investment? If everyone enters fintech lending but all is default, then it would lead to another crisis.

### **What do you think of the scoring technicalities?**

Taking a selfie with your ID card is questionable. An electronic signature can be easily forged. So we never see the person, and the funds can be made available immediately.

### **Why does fintech exist?**

Fintech companies are more flexible. They can increase financial inclusion. But the risk is also higher. Fintech includes people who have been excluded by banks. Simply put, fintech provides what people cannot obtain from banks. Fintech companies can effortlessly find out someone's history; not only through their platform, but also on others that they have partnership with, such as credit card companies.

### **What about the risks?**

It is riskier but simpler. This is exactly why OJK emphasizes what risk mitigation should look like. Currently, if we want to become a lending fintech company, we need to submit forms and a statement of terrorism prevention to the government as well as the Agency for the Assessment and Application of Technology (BPPT). Fortunately, it is an easy procedure. Then, the company must obtain training on terrorism and money laundering, in which the effectiveness is questionable. We gathered as if there was training and took pictures.

The audit level is something else. I have been internally audited by OJK and found loopholes. I am concerned with the loopholes. When one establishes a fintech company, OJK will put the company into a probation period, officially called "sandbox", to assess the business worthiness of the company in question. I think the government needs to develop standardized evaluation system to prevent the evaluation turning into subjective evaluation. It should also see the operational capability and how a company fits into the market. If the company is incapable, it will harm both borrowers and lenders. Without a proper evaluation system, lenders will be in disadvantage.

### **Where do startup investors come from?**

It's a mix of foreign and local investors. There are many foreign firms, some of them are from China, that co-invest with local investors. Many of them have begun to look here [the Indonesian market]. The Indonesian fintech market offers equally promising opportunities for both small and big companies.

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