TENGGARA STRATEGICS

BACKGROUNDER
WEEKLY BRIEFING

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Highlights of the week

Parties make maneuvers postelection

Several quick counts released after the April 17 general elections predict some parties would receive votes as predicted, with some exceeding expectations. With the winners and losers now having been identified, the possibilities of parties switching sides after the elections remains high.

Election legitimacy hinges on integrity of KPU

The General Elections Commission (KPU) came under fire after a series of mishaps in the way it organized the April 17 elections. But the problems mostly had to do with logistics and did not affect the overall election procedures. Accusations of "structured, systematic and massive" fraud by Prabowo Subianto, the challenger in the two-horse presidential race, look more like an exit strategy on his part before the KPU announces the final results on May 22.

The conglomeration of state-owned enterprises

Just a few days before the presidential and legislative elections, the government announced its plan to form a super holding company to oversee the operations of all-state owned enterprises in the country.

Garuda accused of misleading income statement

National flag carrier Garuda Indonesia came under the spotlight again after two of airline's commissioners publicly questioned its 2018 financial report, in which the company booked a meager profit of US$5 million, as opposed to a big loss of $213 million.

POLITICS

Winners and losers: Parties make maneuvers postelection

Several quick counts released after the April 17 general elections predict some parties would receive votes as predicted, with some exceeding expectations. With the winners and losers now having been identified, the possibilities of parties switching sides after the elections remains high.

Takeaways:

1. Having been predicted to be the two largest parties after the 2019 legislative election, the PDI-P and Gerindra did not perform as well as predicted. The unexpected rise of several mid-sized parties might have impeded the two from optimally obtaining a coattail effect from Jokowi's and Prabowo's presidency.
2. Now that his coalition looks set to secure the outright majority in the House of Representatives, Jokowi may attempt to consolidate his grip further by winning the speaker post for his party, the PDI-P. One possible measure includes amending the MD3 Law.
3. The Democratic Party and/or PAN might decide to leave the Prabowo-Sandiaga coalition as they failed to reap the coattail effect from Prabowo's candidacy.

Background: Quick counts conducted by several pollsters forecast the winners and losers of the 2019 legislative election. Securing the largest number of votes at 19 percent, the Indonesian Democratic Party of Struggle (PDI-P) remains the top dog not only in Joko "Jokowi" Widodo-Ma'ruf Amin's coalition, but also in national politics. Meanwhile, Jokowi-Ma'ruf coalition parties that gained unexpectedly huge numbers of votes included the National Awakening Party (PKB) and the NasDem Party, which respectively acquired around 10 and 9 percent of the vote.

In contrast, while passing the legislative threshold, both the Golkar Party and United Development Party (PPP) performed worse than their 2014 feat. While its votes dropped by around 1 percent, Golkar will for the first time rank third in the legislative elections. Until this year's elections, Golkar used to finish first or second. Similarly, predicted to acquire slightly above 4 percent of the vote, support for PPP also decreased 2 percent.

Meanwhile, all members of the Prabowo Subianto-Sandiaga Uno coalition passed the parliamentary threshold. What is surprising, however, is the Prosperous Justice Party (PKS), which increased its vote by approximately 2 percent, thanks to the coattail effect from Prabowo's candidacy, which previously had been predicted to go solely to Gerindra.

While not all Jokowi-Ma'ruf coalition parties passed the parliamentary threshold, the coalition would gain an outright majority in the House of Representatives. There will be a shift in power in the House, with Jokow-Ma'ruf coalition parties taking the lead.

Insight: The PDI-P's success is not as tremendous as previously expected. Indeed, in March, surveys on parties' electability released by Kompas and the Centre for Strategic and International Studies (CSIS) predicted that the PDI-P would acquire more than 25 percent of the vote. It is surprising, thus, that the PDI-P only scored shy of 20 percent in the latest legislative

election.[1] Increasing by only 1 percent from the 2014 legislative election, the PDI-P's electoral performance is disappointing, especially considering how Jokowi's presidency should have been able to boost his party's electability.

Likewise, Gerindra, which according to several pollsters gained the second largest number of votes, was not as successful as predicted. While Kompas in March predicted that Gerindra would secure 17 percent of the vote, several pollsters calculated that the party's vote would only reach around 12 percent, or up only by 1 percent from the previous election.

One possible reason behind PDI-P's and Gerindra's less than sterling performance was mid-sized coalition parties "sabotaging" the vote. In the case of the Jokowi-Ma'ruf coalition, for instance, NasDem's meteoric rise was unforeseen. According to surveys by Kompas and the CSIS as per March, NasDem's electability merely stood at 2.6 and 4.3 percent respectively. Now, predicted to obtain around 8 percent of the vote, NasDem will be the party in the Jokowi-Ma'ruf coalition with the highest increase of votes. NasDem's success, according to several experts, was partly due to its pragmatic approach. For one, NasDem reportedly "stole" politically established legislative candidates from the Hanura Party, a fellow off-shoot of Golkar.[2] Moreover, NasDem has often been perceived as a hub of celebrities-turned-politicians, with the party nominating dozens of well-known celebrities as legislative candidates.[3] Indeed, despite their questionable competence in politics, these celebrities' popularity reaped votes for NasDem.

In regard to the Prabowo-Sandiaga coalition, it is likely that Gerindra's subpar performance was caused by the PKS' rapid ascent. Being the party with the greatest surge of votes in the coalition, the PKS did steal the show. The rise of conservative Islamist groups might have played a role in the PKS' unexpected feat. Indeed, the PKS benefitted from the fact that Prabowo was particularly popular among conservative Muslims. Hence, the conservatives who voted for Prabowo in the presidential election might have voted for the Islamic PKS rather than Prabowo's nationalist Gerindra.

Following the elections, both coalitions have to determine their next maneuvers. Jokowi's coalition, while predicted to rule the House, still has to consolidate its clout. One possible measure to do this is by having one of its members elected as House speaker.

The PDI-P, however, found difficulties in securing the preeminent position back in 2014 as according to the old version of the 2014 legislative institutions law (MD3) article 84, the House speaker must be elected by all legislators. Hence, although the PDI-P won the largest number of votes in the legislative election, it failed to lead the House as the majority of the legislators chose a Golkar member instead.

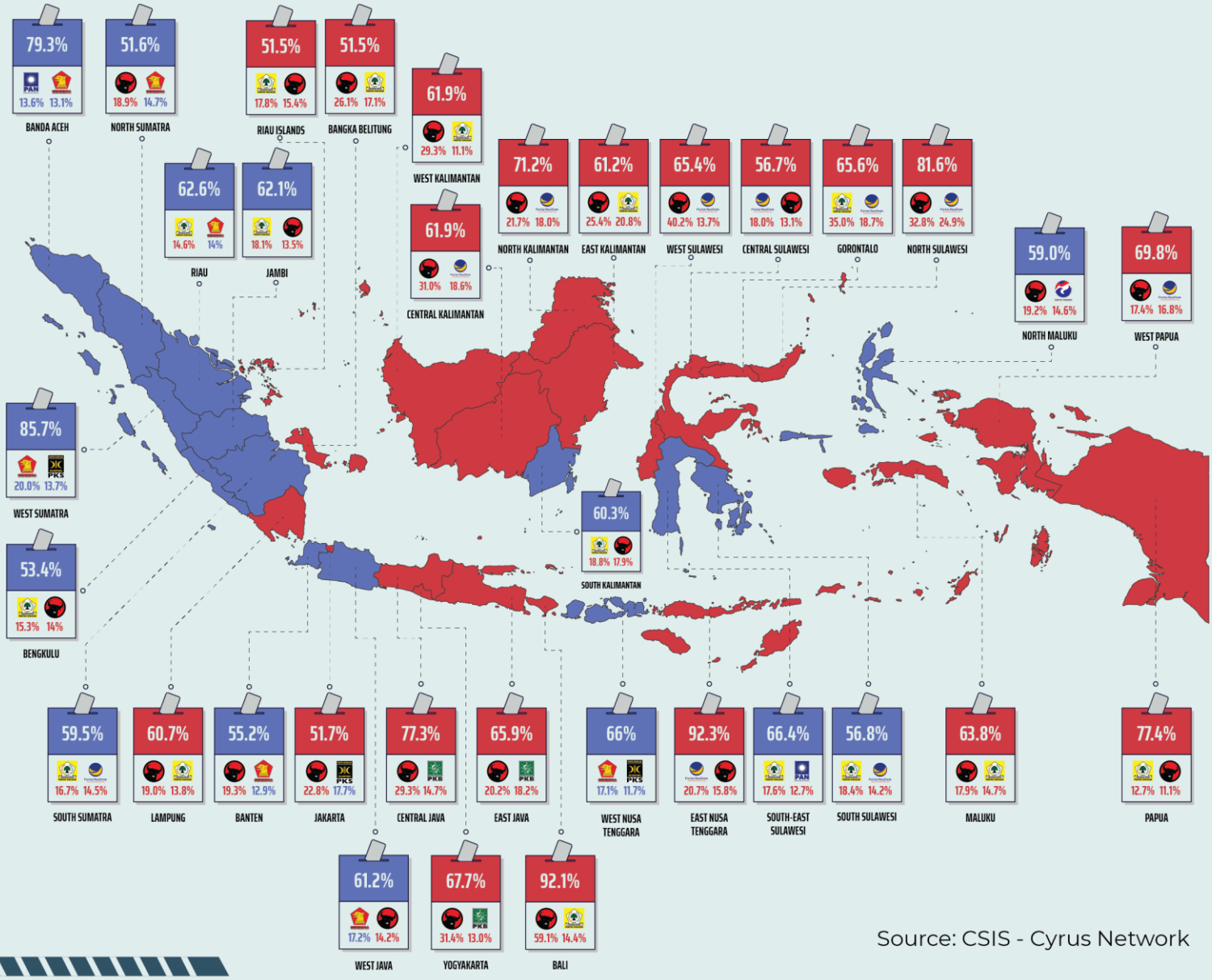
Following its failure, the PDI-P attempted to amend the MD3 law, especially the article 84, to maximize its chances of securing the chief post. The amendment, however, failed to restore the old provision, which stipulated that the party with the largest number of votes would automatically obtain the speaker position.

[1] Kompas.com, "INFOGRAFIK: Perbandingan Suara Partai Hasil Pemilu 2019 dengan 2014" 18 April 2019 https://tinyurl.com/y3v5bbc8
[2] Thejakartapost.com, "Parties fail to make use of coattail effect: Experts" 22 April 2019 https://tinyurl.com/y2nuoag8
[3] IDNtimes.com, "[INFOGRAFIS] 67 Artis Populer yang Bertarung di Pemilu 2019" 12 April 2019 https://tinyurl.com/y3nu5ldz

TENGGARA STRATEGICS

WINNERS OF 2019 PRESIDENTIAL AND LEGISLATIVE ELECTIONS

PDI-P	19.8%
GOLKAR	12.7%
GERINDRA	12.1%
PKB	9.6%
NASDEM	8.7%
PKS	8.4%
DEMOKRAT	7.3%
PAN	6.4%
PPP	4.8%
PERINDO	2.8%
BERKARYA	2.1%
PSI	1.9%
HANURA	1.6%
PBB	0.9%
GARUDA	0.6%
PKPI	0.3%



Source: CSIS - Cyrus Network

Now that the PDI-P will lead a ruling coalition, it stands a greater chance of securing the coveted post. One possible member that has been frequently rumored to take up the seat is top party official Puan Maharani, daughter of the party's paramount leader Megawati Soekarnoputri.

Meanwhile, the Prabowo-Sandiaga coalition might be engaged in a new tussle following the election. PAN and the Democratic Party might feel double-crossed after Gerindra and the PKS "usurped" the legislative election and got the most out of the coattail effect of Prabowo's candidacy. The Democratic Party, for one, has hinted its willingness to leave the coalition by denouncing a number of Prabowo's actions, including Prabowo's claim of victory in the 2019 presidential election before the General Elections Commission (KPU) announces the official results.[4] Democratic Party patron Susilo Bambang Yudhoyono has also discouraged Democrat members from partaking in any "unconstitutional acts", a possible jab at the threat of people power movements issued by Prabowo's camp.[5]

If PAN and the Democratic Party leave the coalition, it would not be the first time for Prabowo to see his coalition crumble. After the 2014 presidential election, three of his coalition members, Golkar, the PPP and PAN, shifted allegiance. If it recurs in 2019, the opposition camp in the House will only consist of Gerindra and the PKS, comprising approximately 21 percent of the vote.

Regardless, politics belongs in the category of "known unknown", meaning that we know nothing is certain when it comes to politics. Thus, it remains possible that parties that declare support for Jokowi-Ma'ruf will remain fluid in their stance and head-butt with the PDI-P in the next five years, especially if the party's predominance in the House prevents others from pushing for their own agenda.

What we've heard: A senior Golkar politician, who is also a mentor of Sandiaga, recounted Sandiaga's anxiety. When Sandiaga was reported to have fallen sick, the media quickly linked the news to an alleged argument in Prabowo's residence on Jl. Kertanegara, South Jakarta, hours after the vote on April 17. Sandiaga claimed there had been no debate between him and Prabowo, let alone desk slamming or a trade of curses as reported by several media outlets. "[You] can ask a number of people who were inside [the house] yourself. You know them. It's impossible for them to lie to you," the source quoted Sandiaga as saying.

The source said there was a minor argument over the best method to tabulate votes from C1 forms (vote tabulation in polling station) among members of the Prabowo-Sandiaga team, which was later reported as a disagreement between Prabowo and Sandiaga. Rumors about Prabowo-Sandiaga's deteriorating relationship exacerbated the situation. "On the contrary, he [Sandiaga] asserted that he wanted to fight and felt something went wrong with the vote tabulation," said the source.

Indeed, a week prior to voting day, both the Prabowo-Sandiaga and Jokowi-Ma'ruf team reportedly obtained the same information that the electability gap between the two pairs had gradually narrowed. "[The electability gap] shrank to only 7 percent," said a source from the Jokowi-Ma'ruf national campaign team. "I was upset that our endeavor did not work as planned," the source said.

[4] Tempo.co, "Dukungan ke Prabowo dan Manuver Demokrat Sepanjang Pilpres 2019" 22 April 2019 https://tinyurl.com/y47jqbom

[5] Mediaindonesia.com, Demokrat tidak Mau Terlibat Aksi Inkonstitusional" 22 April 2019 https://tinyurl.com/y359t3o8

Currently, Sandiaga is trying to cool down. Although he does not believe that the margin between the two pairs will reach 10 percentage points, Sandiaga insists on a more elegant way to challenge the election result. “The ideal way is through political means. Going through the legal channels, on the other hand, seems difficult,” the source quoted Sandiaga as saying.

On a different note, it appears that the planned meeting between Prabowo and Coordinating Maritime Affairs Minister Luhut Pandjaitan will not materialize. Even if they did meet, it would not occur anytime soon and be held secretly.

A mentor of Sandiaga on the economy said Djoko Santoso, Amien Rais and a number of clerics behind Prabowo rejected such a meeting as they deemed Luhut could not represent the Jokowi-Ma’ruf camp. “Furthermore, Jokowi will delegate someone [instead of attending the meeting himself]. As if Jokowi belittles Prabowo,” said the source.

According to the source, Prabowo doesn’t want to look like he can be lobbied easily. Prabowo was adamant to run for president because he was not easily lured by political or economic concessions. “Now, if Jokowi sends Luhut, he will be received by Djoko Santoso,” said the source.

Currently, there are two groups within the Prabowo-Sandiaga camp who share the same agenda but use different measures. They will prove Prabowo is the winner, regardless of the quick counts. “One camp wants to follow the 2017 Elections Law, the other wants to wait for the General Elections Commission’s (KPU) manual calculation while keeping the C1 forms,” said the source.

Any lobby attempt appears difficult, even if Vice President Jusuf Kalla approaches Prabowo. “It will be a different story if Mega (PDI-P chairwoman) intervenes. She must meet Prabowo herself, not anyone else,” added the source.

Another source who is also a political mentor of Sandiaga concurs. “Maybe Mega can [lobby Prabowo].” A meeting between Puan Maharani, Mega’s daughter, as Mega’s envoy and Prabowo’s camp before the election was a good example. “The meeting on Jl. Sriwijaya ended in a good result, right?” said the source. Plans of a meeting between the two camps is a political promise, regardless of who wins the election.

Currently, Mega believes that the party must strengthen itself, especially since Jokowi appears to be relying more on generals and volunteers than party members in securing votes. “The current situation in the party is conducive,” said a PDI-P executive.

Another source, who is close to Mega’s children, said a portion of PDI-P elites felt uncomfortable with Jokowi as he disregards the party that has been supporting him since the start of his presidency. “We’ll see how his next cabinet looks like,” said the source. The PDI-P, on the approval of Mega, has proposed a number of ministerial candidates to Jokowi. However, according to the source, Jokowi, with the help of Team 11 that was established in 2014, has also formulated a cabinet. “There are many discrepancies,” said the source.

Election legitimacy hinges on integrity of electoral commission

The General Elections Commission (KPU) came under fire after a series of mishaps in the way it organized the April 17 elections. But the problems mostly had to do with logistics and did not affect the overall election procedures. Accusations of "structured, systematic and massive" fraud by Prabowo Subianto, the challenger in the two-horse presidential race, look more like an exit strategy on his part before the KPU announces the final results on May 22. As most quick counts are predicting victory for incumbent President Joko "Jokowi" Widodo, Prabowo would likely reject the results by questioning the KPU's integrity and thus the legitimacy of the electoral process. But Prabowo will have a hard time coming up with evidence to support his claim. The KPU has another major scandal on its hands: More than 100 polling station officers — volunteers recruited from local neighborhoods — died of exhaustion.

Takeaways:

1. Prabowo would likely reject the results of quick counts declaring Jokowi-Ma'ruf as the winner by questioning the KPU's integrity and thus the legitimacy of the electoral process. Prabowo may claim that there had been "structured, systematic and massive" fraud during the election, suggesting that the KPU had conspired with Jokowi in fixing the election.
2. The KPU had its flaws and shortcomings in organizing this year's elections, but it could hardly be described as structured and systematic fraud. The shortcomings were also isolated cases rather than on a mass scale.
3. Another major criticism against KPU that should be addressed is the reports of the deaths of more than 100 polling station workers.

Background: All eyes are on the KPU, the agency responsible for organizing the general elections, as it is counting and verifying the ballots cast on April 17 for the five elections: president/vice president, the House of Representatives, the Regional Representatives Council, the provincial-level legislative councils and the regency/city-level legislative councils.

Manual counting of the ballots, already carried out at each of the 810,329 polling stations on April 17, will be repeated at the district level, then the provincial level and finally the national level. This four layers of counting, conducted in the open and witnessed by representatives of the candidates and parties, makes it virtually impossible for the KPU to commit fraud. It will be more than a month before the KPU announces the results.

Most quick counts, conducted independently of one another, gave Jokowi a lead of about 10 percent points. But one quick count gave Prabowo the victory -- this was enough for him to declare himself the winner. Jokowi, meanwhile, pleaded to wait for the official results, but this did not prevent some 20 foreign leaders from congratulating him for his reelection.

Insight: The Prabowo camp's claim of "structured, systematic and massive" fraud goes straight to the integrity of the KPU, for it suggests that it was conspiring with Jokowi in fixing the outcome. This prepared the ground for Prabowo to reject the final results if they went the wrong way. He did not wait for the KPU results and has already been holding thanksgiving prayers with his supporters.

Prabowo pulled off the same trick five years ago when he lost the race, also to Jokowi. When the KPU gave a 53-47 percent victory for Jokowi, he challenged the results at the Constitutional

Court. The court rejected his claim of fraud and confirmed Jokowi's election victory. This time around, Prabowo worked up his supporters into believing he was the winner and they should reject the KPU results if it shows otherwise. It remains to be seen whether Prabowo will fight his battle in court again, or in the streets by mobilizing people as his camp has threatened.

The KPU has its flaws and shortcomings in organizing this year's elections, but unless Prabowo comes up with the evidence, it could hardly be described as structured and systematic fraud. The shortcomings were also isolated cases rather than on a mass scale. It did show incompetence on the KPU's part, which to be fair worked under a tight deadline. The Electoral Law was completed in late 2017, giving barely enough time to prepare for what has been billed as the biggest one-day election in the world, as well as one of the most complex, involving more than 250,000 candidates contesting the 20,000 seats at stake.

The biggest problem was with voter registration, although updated four times in the past year, many people were still not registered, including those who live and work overseas. In Malaysia and Sydney, there was a shortage of ballots and the voting period had to be extended as the KPU had not anticipated a large turnout. The Prabowo camp was quick to claim that those deprived of their rights were his supporters. It also blamed the KPU of fraud for the discovery by Malaysian police of Malaysians punching thousands of ballots for the Indonesian election. The Malaysian police are still investigating the case.

In Indonesia, the KPU set a maximum of 300 voters for every polling station, ensuring easy access and convenience for people to vote in their neighborhood without waiting in long lines. Pressed for time in updating voter registration, the KPU at the last minute allowed people to vote in their own district upon showing their electronic ID card, which carries their single identity number. The KPU also let people vote in different districts or cities from their designated one provided they give notification beforehand. With this flexibility, no one can say that the KPU deliberately prevented people from voting. The reported turnout of more than 80 percent suggests the KPU has done a good job.

There were reports of logistical problems, with polling stations not getting the ballots on time before the scheduled 7 a.m. opening, or not getting enough ballots for the number of voters assigned to the stations. But none of these were deliberate and was certainly not massive.

Claims of mispunching data at the KPU were quickly discovered and corrected, precisely because of the multiple layers of verification. Both candidates have access to the raw data by compiling the results at all the 800,000 or so polling stations, which conducted the count on the same day and was witnessed by the public. The candidates or their parties have their data that they can compare with the final results from the KPU.

The biggest criticism against the KPU is the reports of the deaths of more than 100 polling station workers. The KPU recruited more than 7.2 million volunteers to help conduct the elections, assigning nine people to each polling station. These are ordinary people, volunteering their time and energy. They were given basic training and most conducted their work efficiently, at least there were no complaints. But no one had foreseen that the work would be so arduous and tiring.

This aspect of the KPU's operation, rather than Prabowo's claims of fraud, deserves more attention.

Rejection, indignation, anti-intellectualism: Postelection dangers

On election day, hours after the release of several quick count results, presidential candidate Prabowo Subianto declared his victory, claiming that his internal real count acquired from more than 320,000 polling stations resulted in 62 percent of the vote in his favor. Quick counts conducted by several credible pollsters, including the Centre for Strategic and International Studies (CSIS) and Cyrus Network, Saiful Mujani Research & Consulting (SMRC), Litbang Kompas and Indikator Politik Indonesia, predicted that Jokowi-Ma'ruf would win the election with approximately 55 percent of the vote.

Prabowo denounced the polling organizations as liars. His statement has prompted support from a considerable number of his backers, including his campaign volunteer and an attorney of the Coalition of Anti-Corruption Activists, Pitra Romadhoni, who filed a report against the pollsters for spreading fake news and siding with the incumbent.

Insight: In order to defend the validity of their results, eight pollster grouped under the Indonesian Association for Public Opinion Surveys (Persepi) held a joint event on April 20, where they invited the media and the general public to examine the raw data that they obtained from polling stations and the methodology used to study the data, which, as expected, proved to be accurate.

The validity of the data or methodology used by the pollsters, however, is irrelevant in addressing Prabowo's claim of victory. While Prabowo's claim might seem absurd for those who are fluent in survey data processing, there are those who readily accept it as truth, exemplified by the emergence of the *#IniCurang* (ThisIsCheating), *#AuditForensikKPU* (ForensicAuditKPU) and *#KPUJanganCurang* (KPUDontCheat) hashtags on Twitter after several pollsters predicted Jokowi-Ma'ruf would win the presidential election.

How can people vehemently defend Prabowo despite his refusal to prove his claim scientifically like the survey organizations have done? One possible answer is the grandiose statements made not only by Prabowo himself, but also several members of his campaign team. Prabowo, for one, boldly stated that he acquired 62 percent of the vote.[6] His national campaign team chairman Djoko Santoso even put the figure at 80 percent of the vote.[7] The pollsters predicted that Jokowi-Ma'ruf won with approximately 55 percent as against Prabowo-Sandiaga's 45 percent of the vote. Instead of perceiving the enormous numbers presented by Prabowo's camp as absurd, some people might think that the numbers are too big to be implausible.

On the other hand, Prabowo may genuinely believe that pollsters have been deceitful, particularly as the electability gap between Jokowi-Ma'ruf and Prabowo-Sandiaga had narrowed before the election. Furthermore, it is reported as well that the Prabowo-Sandiaga camp will not accept the election results that go in Jokowi-Ma'ruf's favor. Prabowo's refusal to accept quick count results might be due to the presidential candidate experiencing "cognitive dissonance", that is an individual's attempt to seek consonance by undermining information that contradicts their belief.

[6] CNNIndonesia.com, "Prabowo: Hasil Real Count Kita Menang 62 Persen" 17 April 2019 https://tinyurl.com/yysznm4h

[7] Detik.com, "Djoko Santoso Klaim Prabowo Bisa Menang 80 Persen" 24 April 2019 https://tinyurl.com/y5q6nku3

However, Prabowo's overestimation of his electability might be deliberately employed as a strategy to challenge the election results in the Constitutional Court and to bargain with the incumbent to prevent further collateral damage. Prabowo's willingness to bargain with the incumbent was hinted by several reconciliation efforts employed in the past week, including Jokowi's attempt to send Coordinating Maritime Affairs Luhut Pandjaitan as his delegate to a meeting with Prabowo.

Regardless, Prabowo's vehemence to publicly reject pollsters' quick counts may pave the way for the emergence of anti-intellectualism in the country as more people attempt to discredit survey organizations. One of the biggest threats to modern society, anti-intellectualism provides a leeway for anyone, including those with minimum credentials, to tinge public discourse with irresponsible uninformed arguments.

Fate of newcomers

According to quick counts conducted by several pollsters, only nine political parties – the Indonesian Democratic Party of Struggle (PDI-P), Golkar Party, Gerindra Party, the National Awakening Party (PKB), NasDem Party, Prosperous Justice Party (PKS), Democratic Party, National Mandate Party (PAN) and United Development Party (PPP) – are predicted to pass the parliamentary threshold. Meanwhile, none of the new parties, the United Indonesia Party (Perindo), Berkarya Party, Indonesian Solidarity Party (PSI) and Garuda Party, acquired more than 3 percent of the vote, according to the pollsters, thus have to wait for another five years to win House of Representatives seats. Where will the newcomers go now?

Insight: Although predicted to miss the cut, the newcomer parties may have the chance to maneuver in regional legislative councils (DPRD). Perindo, led by media mogul Hary Tanoesoedibjo, is optimistic to rule in Bali, grabbing at least 11 seats at the provincial level and 25 more at the district level according to the party's internal real count. While waiting for the General Elections Commission (KPU) to release its official vote recapitulation, Perindo remains hopeful that it can pass the parliamentary threshold. Meanwhile, the Garuda Party also claimed that it reaped a considerable number of votes in eastern Indonesia, namely Papua, Maluku, North Maluku and Central Sulawesi. On the other hand, the Berkarya Party, citing the ongoing capitulation of C1 forms, stated that it won one seat in Makassar II electoral district (dapil), which covers Tallo, Bontoala, Wajo, Ujung Tanah and Sangkarrang subdistricts in Makassar, South Sulawesi.

Last, according to quick counts conducted by Indikator Politik Indonesia, the PSI is predicted to secure 8 and 6 percent of the vote in DKI Jakarta and Papua respectively. This makes the PSI the party with the fourth largest number of votes in DKI Jakarta, an impressive achievement for a new party. The party also claimed to reap a considerable number of votes in Surabaya, Semarang and Solo, as they targeted those areas during the campaign.

Securing seats in the Regional Legislative Councils may pave the way for the parties to prepare for the 2024 contest and widen their political clout. In the case of the PSI, the party has started its attempt to preserve public support by reasserting its distinct commitment to religious tolerance and minority rights that are particularly popular among urban voters. Meanwhile, its current task is to figure out how to win votes in rural areas, where the PSI's moderate values are less popular.

BUSINESS & ECONOMIC POLICY

The conglomeration of Indonesia's state-owned enterprises

Just a few days before the presidential and legislative elections, the government announced its plan to form a super holding company to oversee the operations of all-state owned enterprises in the country.

Takeaways:

1. Jokowi supports the conglomeration of Indonesia's SOEs through the establishment of a super holding company as the main part of his state-developmentalism strategy.
2. The establishment of a super holding company is expected to bring professionalism to Indonesia's SOEs, as well as protect them from becoming cash cows for politicians, as shown in the case of the PLTU Riau-1 corruption case.
3. Establishing the super holding will be challenging, because Jokowi's coalition at the House of Representatives wants to strengthen the House's supervisory role of Indonesian SOEs for their own political interests.

Background: Speaking to the press on April 15, State-Owned Enterprises (SOE) Minister Rini Soemarno explained that the establishment of a super holding company would be needed to improve SOEs' borrowing and investment capability and allow them to operate globally like other SOEs in Southeast Asia — particularly Temasek Holdings of Singapore and Khazanah Nasional of Malaysia — under the direct supervision of the President.[8]

Rini said the super holding company would take over the role currently assumed by the SOE Ministry. Unlike the ministry, the super holding company would be outside of the government's formal line of command — essentially turning Rini from a minister into a super CEO. The firm would be independent and run by professionals.

Insight: The government's initiative is not surprising. In fact, this policy has already been underway since the establishment of Inalum as an SOE holding company in the mining sector in November 2017, and Pertamina as a holding company in the energy sector in April 2018. Besides Inalum and Pertamina, Rini also plans to establish eight more holdings, namely state-owned aerial surveillance company PT Survai Udara Penas as a holding company for the aviation industry, state-owned investment management company PT Danareksa in banking and financial services, as well as unspecified companies as holdings in the insurance, defense, pharmaceutical, port, cement and real estate sectors.

The idea of establishing a super SOE holding company has received the support of President Joko "Jokowi" Widodo. The President actually coined this idea during the presidential and vice-presidential debate on April 13. Not only targeting the domestic market, Jokowi even laid out an ambitious target whereby Indonesian SOEs would participate in business projects across the world, such as in the Middle East. Considering SOEs' increasing contribution to the national

[8] Kontan, "Indonesia merintis pembentukan super holding BUMN," April 16, 2019. P.1

economy by an average of 9.8 percent per year since 2015,[9] Jokowi seems to be doubling down on his state-developmentalism strategy for his second term.[10]

With the establishment of a super holding, Rini is planning to run Indonesia's SOEs like the Astra Group conglomerate. It seems like Rini was inspired by her experiences in Astra, where each of the group's business is headed by a divisional head divided into the businesses' respective sector.

For example, Astra's joint ventures with Toyota, Daihatsu and Honda motorcycle are under the supervision of its Automotive division. Likewise, Astra's investment in Bank Permata with Standard Chartered Bank is under the financial services division.[11]

Under this scheme, Indonesia's SOEs will be run by professionals, turning many that are financially struggling into profitable companies. Moreover, the organizational arrangement, whereby the super holding will be under the direct supervision of the President, is expected to protect Indonesian SOEs from political interests, such as demonstrated in the Riau-1 coal-fired power plant (PLTU) corruption case.[12] More importantly, in case of an emergency or an economic crisis, the government can mobilize the SOEs to rescue the economy or saving the private sector, like in the case of Malaysian Khazanah Nasional.[13]

However, achieving these goals will not be easy for both Jokowi and Rini. The House of Representative (DPR) is currently amending the SOE Law. Based on a reported draft, the House wants to have greater authority in selecting directors and commissioners, as well as supervising SOEs' business strategy.[14]

Many would think that Jokowi's coalition parties would oppose this law as NasDem Party did.[15] However, the Indonesian Democratic Party of Struggle (PDI-P), of which the President is a long-time member, supports the draft.

Eriko Sotarduga, a PDI-P House member, said that strengthening the House' supervisory role was critical to protecting SOEs as the country's assets.[16] The question is whether President can resist pressure from the PDI-P and, possibly, other coalition parties in legislating the draft of the new SOE Law.

[9] Kontan.co.id, "Di tengah gejolak ekonomi, kontribusi BUMN meningkat 9.8% per tahun," April 17, 2019.
[10] Warburton, Eve. 2016. "Jokowi and the New Developmentalism." Bulleting of Indonesian Economic Studies, Vol. 52 (3), pp. 297 – 320. https://doi.org/10.1080/00074918.2016.1249262
[11] Sato, Yuri. 1996. "The Astra Group: A Pioneer of Management Modernization in Indonesia." The Developing Economies, Vol. 34 (3), pp. 244 – 280. https://doi.org/10.1111/j.1746-1049.1996.tb00740.x
[12] Detik, "Dirut PLN Sofyan Basir jadi tersangka baru suap PLTU Riau-1." 23 April 2019 https://tinyurl.com/y6g3sxvt
[13] Lai, Jikon. 2012. "Kazanah Nasional: Malaysia's Treasure Trove". Journal of the Asia Pacific Economy, Vol. 17 (2), pp. 236-252. https://doi.org/10.1080/13547860.2012.668023
[14] Hukumonline. "Menyoal superioritas DPR dalam revisi UU BUMN." 13 December 2018 https://tinyurl.com/y5v38kew
[15] Detik, "Tolak RUU BUMN, Fraksi Nasdem: Kental kepentingan politik." 11 December 2018 https://tinyurl.com/y6og69kx
[16] MediaIndonesia, "Fraksi PDIP: Revisi UU BUMN dibutuhkan untuk lindungi kekayaan negara." 12 December 2018 https://tinyurl.com/y69h4wzr

Issue Update: Garuda accused of misleading income statement

National flag carrier Garuda Indonesia came under the spotlight again after two of airline's commissioners publicly questioned its 2018 financial report, in which the company booked a meager profit of US$5 million, as opposed to a big loss of $213 million.

The two commissioners, Dony Oskaria and Chairal Tanjung representing CT Corp conglomerate, raised their objection to the financial report during the company's special shareholders meeting on Wednesday, arguing that the income listed in it seemed implausible.[17]

Garuda Indonesia's special shareholders meeting on Wednesday ended with a sudden decision to reduce the number of commissioners from seven to five, reducing the slot for CT Corp from two to one commissioner. Dony lost his position as commissioner. CT Corp owns 28 percent of Garuda shares through a subsidiary company TransAirways.

Chairal, who is the brother of CT Corp chairman Chairul Tanjung, told the media after the meeting that he and Dony were "silenced" by meeting facilitators who only allowed written objections during the meeting. He pointed out to the fact that Garuda should not have booked a profit in 2018 because there were some unrealistic receivables being claimed as income.

In million USD	2017	2018
Operating revenues (from flights)	4,177	4,373
Operating Expense	4,237	4,579
Other Operating Income (Charges)	-15.7	306.8
Net Profit	-213.3	5.01
Other income (net)	19.7	278.8

Sources: Garuda Indonesia Financial Reports

What Chairal tried to highlight was the inclusion of a $239.4 million in-flight entertainment facility installation fee from technology start-up PT Mahata Aero Teknologi, which was included in other income accounts. Of the total fee, $28 million actually belonged to Garuda's subsidiary PT Sriwijaya Air.[18] Chairal claimed that although the agreement with Mahata started in 2018, Garuda had not received any payment by April 2.[19]

CNBC Indonesia, which is part of the CT Corp, reported that the transaction with Mahata was eventually written down to $172.9 million, and it was disclosed by Garuda on April 4. The revision was not yet included in Garuda's first quarter financial report, which showed the company booking a profit of $19.7 million, as compared to a loss of $63.4 million in the same period of last year.[20]

Garuda corporate secretary M. Ikhsan explained that the surge in profit for the first quarter of this year was mainly due to increasing revenues form scheduled flight services, which increased by 11.6 percent to $924.9 million, and ancillary incomes from subsidiaries, which rose by 27.5 percent to $171.8 million.[21]

What we've heard: The objections raised by two Garuda commissioners over the carrier's latest financial report, according to an internal source at CT Corp, was the result of

[17] Detik.com, "2 Komisaris tolak laporan keuangan Garuda," April 24, 2019. https://tinyurl.com/y3bnl6ju
[18] See Note 18
[19] Bisnis Indonesia, "Polemik pelaporan keuangan 2018: Ada apa dengan Garuda Indonesia?" April 25, 2019. P.1
[20] CNBCIndonesia.com, "Nilai Transaksi Mahata Ternyata Diubah, Garuda Aslinya Rugi!" 25 April 2019. https://tinyurl.com/y47busan
[21] Investor Daily, "Garuda Indonesia cetak laba bersih US$19.7 juta," April 25, 2019. P.15

increasing tension between CT Corp chairman Chairul Tanjung and State-Owned Enterprises (SEO) Minister Rini Soemarno.

The source said that Chairul Tanjung was disappointed with Garuda Indonesia's allegedly fabricated financial report. Chairul had raised his doubts over Garuda's latest financial report to Rini, which the latter left unanswered.

Being given unsatisfactory answer, Chairul threatened to bring the problem to the upcoming Garuda special shareholding meeting. He asked Dony Oskaria and his brother Chairal Tanjung, who are CT Corp's representatives in Garuda's board of commissioners, to disapprove the financial report in the special shareholding meeting. Rini responded to the threat by threatening to reduce CT Corp's commissioner allocation in Garuda's board of commissioners.

Rini's response was not an empty threat. Tensions arose in the special shareholder meeting when Chairal and Dony began to question the figures in the financial report. The meeting's moderator only allowed questions or disagreements through a written statement. Both eventually declined to sign the financial report, which Garuda's management later clarified through a written statement.

The special shareholder meeting also reshuffled the board of commissioners and dismissed Dony Oskaria, one of Chairul's trusted colleague who runs Trans Snow World in Bekasi, West Java. Subsequently, there is now only one commissioner slot for CT Corp in Garuda.

The dissenting opinions and rising tension in the meeting prompted Garuda Indonesia president director Ari Bhaskara to quickly change the venue of the press conference to Garuda's main office in Cengkareng in Banten from Pullman Hotel, Central Jakarta.

In the end, Garuda Indonesia chose to submit its financial report to the Indonesian Stock Exchange (IDX) while Chairul allegedly reported his doubts over Garuda's accounting to the Financial Services Authority (OJK).

The same internal source added that due to his disagreement with Rini, Chairul is considering his exit strategy from Garuda. According to the source, Chairul was the figure behind Garuda's airfare surge last year. He asked for the management to maintain Garuda's high ticket prices in order to compensate for losses. However, Chairul was disappointed to discover that his request was being utilized as justification to also raise the airfare of Garuda's low-cost subsidiary Citilink.

Issue Update: Ilham Habibie new buyer for Bank Muamalat

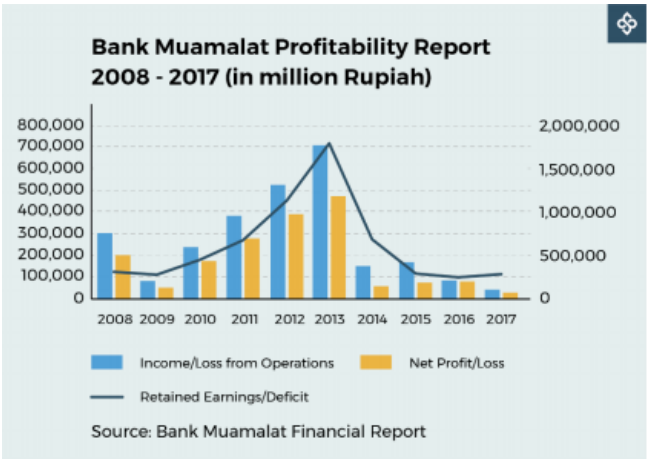
After a series of failed acquisition attempts by prospective investors, Bank Muamalat is now looking at Ilham Habibie to become the new controlling shareholder through Al Falah Investments Pte. Ltd, following a rights issue.

With its commissioner Ilham Habibie committed to saving the company, Muamalat finally released another acquisition prospectus on April 18, 2019 for Al Falah as a new buyer.[22]

Al Falah is reported to seek control of 50.3 percent of Muamalat by purchasing 77.1 percent of the new shares to be issued through a limited rights issue.

[22] *Detik.com*, "Ilham Habibie siap akuisisi saham Muamalat," April 18, 2019. https://tinyurl.com/y4mvvbex

Habibie is set to gradually acquire 51 percent of Al Falah shares, with the remaining 49 percent to be owned by existing shareholder CP5 Hold Co. 2 Limited (CP5), which is 100 percent controlled by Hong Kong investment management firm SSG Capital Management Limited. Al Falah will finance the acquisition of Muamalat using internal funds. Al Falah has prepared US$121 million (Rp 1.75 trillion) for the acquisition.



Muamalat is now awaiting clearance for the acquisition from the Financial Services Authority (OJK).

A series of bad financing and declining profit have led to a cash shortage that has put the bank's operations in limbo (See Tenggara Backgrounder Oct. 5, 2018). As the existing shareholders were reluctant to bankroll the bank, they invited new investors. A number of investors have been deemed suitable for Muamalat, including tycoon Dato Tahir, agriculture company Mina Padi and a consortium involving Ilham Habibie.

Bank Muamalat ownership

Name of shareholder	Current stake (%)	Stake after acquisition (%)
Islamic Development Bank	32.7	11.4
Boubyan Bank	22	7.7
Atwill Holdings Limited	17.3	6.2
National Bank of Kuwait	8.5	2.9
IDF Investment Foundation	3.5	1.2
BMF Holdings Limited	2.8	1
Al Falah	0	50.3
Other standby buyers (if any)	0	8.9
Other minority shareholders	12.6	10.5

Source: CNBC Indonesia

What we've heard: Muamalat's shareholders are said to have agreed on Ilham Habibie's plan to acquire the first Indonesian Sharia Bank in a meeting on April 16, 2019. Initially, the board of directors had wanted the acquisition plan to be announced after the acquisition funds were deposited into an escrow account. But they had to announce it earlier as, under prevailing regulations, they are required to announce the plan 30 days before the planned annual shareholders meeting, which is scheduled for May 17, 2019.

To smoothen the acquisition process, Ilham, SSG Capital representatives and Muamalat president director Achmad Permana had met with Indonesian Sharia Council chairman Ma'ruf Amin. Ilham also planned to meet with leaders of Muhamadiyah and Nahdlatul Ulama to ask for their "blessing."

Under the plan, the acquisition will be made before the right issue worth of Rp 2.2 trillion, of which Al Falah will absorb about Rp 1.75 trillion worth of new shares from existing shareholders. Al Falah will then act as a standby buyer.

Financial service cooperative PT Koperasi Simpan Pinjam Jasa (Kospin Jasa) is set to buy Rp 250 billion worth of Muamalat's new shares. In the early plan of Muamalat acquisition, Kospin Jasa was reportedly supporting Mina Padi in the acquisition. But the plan faltered.

Our source said that the current acquisition plan, with the acquisition to be conducted before the rights issue, was to prevent a repetition of the failed acquisition by Mina Padi. At the time, Mina Padi was reportedly going to acquire Muamalat shares after the rights issue. The planned rights issue was abruptly cancelled after Mina Padi failed to show the money.

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