

HIGHLIGHTS OF THE WEEK

POLITICS

Respite paves way for legal settlement and political deal

Behind closed doors, efforts are underway to bring President Joko “Jokowi” Widodo and presidential challenger Prabowo Subianto to meet and hammer out a deal. A satisfactory “out of court settlement” is crucial to encourage Prabowo to accept defeat.

Internet access stifled following May 22 riot

When the riots erupted in Jakarta last week, the government decided to limit public access to several messaging apps and social media platforms to curb the spread of false news. The stiff measure, however, was prone to abuse.

New House composition: Something old, something new

The official results of the 2019 legislative election indicate substantial changes to the House of Representatives’ composition for the next period. Many have enthusiastically welcomed the new composition of the House. The reality, however, may not live up to public expectation as political kinship still colors the House.

Business player to grace Jokowi’s new cabinet

Speculation about the chairman of the Indonesian Young Entrepreneurs Association (HIPMI), Bahlil Lahadalia, joining the new cabinet of President Joko “Jokowi” Widodo has circulated after the President himself tipped the young businessman as a potential ministerial candidate.

BUSINESS & ECONOMY

Bakrie back in business

PT Bakrie & Brothers (BNBR) appointed Anindya Novyan “Anin” Bakrie as the new chief executive officer (CEO) and his brother Anindra Ardiansyah “Ardi” Bakrie as the new deputy CEO, marking not only a generational transfer to the family’s third generation but also successful debt restructuring.

Garuda likely to be penalized over financial report fiasco

Anomalies around the 2018 financial report of Indonesian flag carrier Garuda Indonesia have been reviewed and the results seem to indicate that Garuda had made a mistake in recording its receivables from its business partner PT Mahata Aero Teknologi as revenue.

Issue update: Govt, Inpex agree on Masela project

The Indonesian government and Japanese oil company Inpex Corp have agreed on a plan of development (POD) for the gas-rich Masela Block in the Arafura Sea during their meeting in Tokyo on Monday. This agreement will likely end uncertainties over the development of the Masela project.

In observance of Idul Fitri, Tenggara Backgrounder will not be published on June 7 and will resume publication on June 14. Daily media summaries will not be published on June 5 – 7 as well and will resume publication on June 10.

POLITICS

Respite paves way for legal settlement and political deal

OVERVIEW

The Constitutional Court is looking into the dispute over the April 17 presidential election results and has until June 28 to make a decision, which will be final and binding. The court has to decide whether to reject or uphold the results as announced by the General Elections Commission that gave incumbent President Joko “Jokowi” Widodo the victory with 55.5 percent of the vote. Challenger Prabowo Subianto rejected the results by claiming massive fraud, although his team has not come up with convincing evidence to support this claim.

Behind closed doors, efforts are underway to bring the two candidates to meet and hammer out a deal. A satisfactory “out of court settlement” is crucial to encouraging Prabowo to accept defeat. He has strengthened his hand ahead of the negotiations by rejecting the results and encouraging his supporters to take to the streets, which led to bloody riots in Jakarta on May 21 and 22.

What exactly this deal will look like is anyone’s guess. Jokowi has openly suggested that Prabowo and his Gerindra Party join his next coalition government rather than playing the opposition role for the next five years. Since Prabowo and his brother Hasyim Djojohadikusumo have family businesses, lucrative government projects and contracts could be thrown in to sweeten the deal.

Two groups within Prabowo’s camp will likely reject any deal. One is the Islam Defenders Front (FPI) with many of its firebrand clerics either under arrest or on the run. The other is the family of the late former president Soeharto. Jokowi has been going after billions of dollars of assets allegedly amassed during his three-decade rule. A new international law allows Jokowi to go after ill-gotten assets in safe havens like Switzerland. Titiek Soeharto, Prabowo’s estranged wife and eldest daughter of Soeharto, has been most vocal in lashing out at Jokowi.

If no political deal is reached, Prabowo is likely to reject any court decision that does not give him victory, and unleash his supporters to go on a rampage in Jakarta on a scale bigger than last week.

WHAT’S MORE

The May 21-22 bloody riots that saw the deaths of 8 people are a foretaste of things to come if the Constitutional Court does not come up with a ruling that would satisfy Prabowo and his supporters. He has the capacity and means to mobilize people to the streets. This is why a separate political deal with Jokowi would make defeat more acceptable to Prabowo.

The police have not put the blame for the riots on Prabowo, saying that dark forces were working behind the scenes. They said terrorism and assassination plots, the use of sharpshooters and a scenario to create massive unrest were simultaneously at work. The police say four groups were working independently but with the same objective, to bring down the Jokowi regime. The police have only publicly named one of these groups: the

Islamic Reformist Movement (Garis), which has links to the Islamic State movement in Syria.

When the Constitutional Court begins hearing the case in the second week of June after the Idul Fitri holiday, Prabowo's supporters are likely to turn up outside the court building on Jl. Medan Merdeka Barat to put additional pressures on the judges.

Prabowo demanded the court declare the presidential race void on the basis of his claim of "massive, structured and systematic" fraud committed by the Jokowi camp, and either (1) declare him the outright winner or (2) order a rerun of the presidential election.

But it is the negotiations taking place behind the prying public eye that will be more decisive in convincing Prabowo to accept defeat. He has rejected Jokowi's invitations to meet for as long as he could, but political reality dictates that sooner or later he has come to a compromise, or rather a political deal.

Jokowi is going into this negotiation from a position of strength, with 55 percent of the nation behind him. He leads a coalition of five political parties that together control more than 60 percent of the seats in the House of Representatives.

Two parties in Prabowo's coalition, the Democratic Party of former president Susilo Bambang Yudhoyono and the National Mandate Party (PAN), are already entertaining the idea of joining Jokowi's next government, abandoning Prabowo in return for one or two Cabinet seats. This would leave Gerindra and the Prosperous Justice Party (PKS) as the only opposition parties in the House.

Jokowi last week enlisted the services of his current Vice President Jusuf Kalla to help find a settlement with Prabowo. Kalla has built his reputation as an effective behind the scenes dealmaker that includes the Aceh peace agreement and ending communal conflict in Ambon (Maluku) and Poso (Central Sulawesi) when he was vice president to Yudhoyono in 2004-2009. In this year's election, Jokowi picked senior cleric Ma'ruf Amin as the vice presidential candidate, and their formal inauguration is not until October. For now, Kalla still has the power and authority to influence political events.

There are limits to how much Prabowo can extract from Jokowi. He cannot push his luck too far since his position would already have been weakened by the likely departures of the Democratic Party and PAN, both of which have said they would abide by the Constitutional Court decision.

The PKS has refrained from commenting on the recent turn of events, staying away from the protests. Party insiders say challenging political institutions too far, including the authority of the Constitutional Court, amounts to treason that would lead to the party being banned or dissolved.

Some of Prabowo's most vocal supporters are already being detained or investigated on charges of treason for statements they made in public and social media, including calling for a people power movement to bring down the Jokowi government, reject all the election decisions and even stop paying taxes.

Prabowo, however, also has to contend with the more hardline groups in his constituency, particularly conservative Muslims as represented primarily but not solely by the FPI, as well as the Soeharto clan.

FPI's license as a mass organization expires in June and there are public petitions that have been filed with the Home Ministry to deny it an extension.

The Soeharto clan, still flush with money, formed its own party, Berkarya, to contest the April legislative elections but did not win enough votes to be represented in the House. They have since channeled their aspirations, and presumably money, through Prabowo to fight for their interests.

An October 2017 Supreme Court ruling ordered the Supersemar Foundation, which is run by the Soeharto clan, to pay back Rp 4.4 trillion rupiah (US\$305.5 million) in money it stole during their father's rule. So far, the government has only been able to collect Rp 243 billion, but a more empowered Jokowi can force the Soeharto's to pay up.

In 2018, Indonesia signed up to the international Automatic Exchange Information that obliges nations to open up bank accounts of people suspected of corruption. In February, Indonesia signed a Mutual Legal Assistance agreement with Switzerland in tracking, freezing, confiscating and forfeiting assets resulting from criminal acts. Indonesia has similar agreements with other ASEAN member nations, Australia, Hong Kong, China, South Korea, India, Vietnam and the United Arab Emirates.

If Prabowo can distance himself from these two groups, he is well on his way to making a sweet political deal for himself and Gerindra, and accepting the court decision with grace.

WHAT WE'VE HEARD

A reconciliation plan between the rival camps of Jokowi and Prabowo after the riots on May 21-22 remains uncertain. Prabowo has not responded to Jokowi's call for a meeting. A source who is close to Prabowo, Sandiaga Uno and Maritime Affairs Coordinating Minister Luhut Panjaitan said it was difficult for both camps to reconcile as Prabowo has claimed that Jokowi had broken several agreements.

What disappointed Prabowo the most was his intention to hold a rally on May 22 that failed to materialize because the General Elections Commission (KPU) had released the election results earlier than the deadline. On his part, Prabowo agreed to resort to legal means and filed his objection of the election result with the Constitutional Court (MK).

"The election result was announced ahead of the original schedule. Prabowo felt he was fooled," said the source.

Luhut later made several attempts to connect the two camps by meeting Prabowo or Sandiaga, but to no avail. Vice President Jusuf Kalla subsequently intervened and invited Prabowo to a meeting. However, the meeting between Kalla and Prabowo did not provide a solution either. During the encounter, Kalla reportedly only listened to Prabowo venting about the country's condition under Jokowi.

"It would be difficult to force [a solution] right now. Let's just wait for the Constitutional Court's ruling," said the source.

According to the source, Prabowo wants the government to acknowledge that electoral fraud had occurred.

“It should be acknowledged that fraud happened here and there. [The acknowledgement] would not give Prabowo a victory, but it would prevent him from losing face. You can imagine how embarrassed he must be,” said the source.

Unlike in 2014, when a mutual solution was found in a political settlement orchestrated by Luhut, Prabowo is this time surrounded by people who do not want him to lose without a fight.

In his recent phone conversation with Luhut, the source said, Prabowo reneged on what he had agreed with Luhut.

“It seems that Prabowo is asking for something. I don’t know for sure whether Prabowo initiated [the phone call]. It could be that he was called first [by Luhut], and then he returned the call,” said the source.

The phone conversation between the two was simply political chit-chat, he said.

“Just wait until after Idul Fitri. Maybe a way out will have been found by then,” said the source.

Internet access stifled following May 22 riot

OVERVIEW

When the riots erupted in Jakarta last week, the government decided to limit public access to several messaging apps and social media platforms, including WhatsApp, Facebook and Instagram. The decision was “to prevent false news from spreading to the wider public”, according to Coordinating Political, Legal and Security Affairs Minister Wiranto.¹ It was feared that the rampant spread of misinformation would add fuel to the fire and incite the public further.

The stiff measure, however, was prone to abuse due to several reasons. First, the government did not provide a clear explanation for its decision to restrict public internet access. Without real efforts to legalize the policy, it could potentially lead to total surveillance in the future.

Furthermore, many deem the government’s move as a violation of the 1945 Constitution, specifically Article 28F that stipulates for the rights of the people to seek, acquire, own, store, cultivate and convey information using all available means.

In defending the government’s decision, Communications and Information Minister Rudiantara claimed that the internet blockage was in line with Electronic Information and Transactions Law (ITE) Article 40, which regulates content management.² There is an

¹ Thejakartapost.com, “Slow days for netizens” 24 May 2019 <https://tinyurl.com/y35e6vth>

² Beritasatu.com, “Ini Penjelasan Menkominfo soal Pembatasan Medsos dan Pesan Instan” 22 May 2019 <https://tinyurl.com/y3p6eefs>

indication, however, that the ITE Law contradicts the 1945 Constitution, which has the highest legal standing in the country.

While the government's call did abate the spread of images, videos and information containing hoaxes on messaging apps and social media, it did not work as efficiently as expected as some resorted to virtual private networks (VPNs), which allows users to access blocked websites or apps using another secure connection.

In fact, the government's internet restriction policy was deemed counterproductive, as more internet users became familiar with VPNs following the restriction. It is feared that people will continue using VPNs, even after the government lifted the blockage, to bypass internet restrictions that the government has imposed on websites that contain pornography, gambling, terrorism or other negative content.

Considering the negative effects of the government's decision, namely the risk of violating the 1945 Constitution and the increased potential of VPN misuse, temporarily limiting public access to certain apps and websites appears sloppy. One important aspect the government needs to examine is the precise legal mechanism pertaining to the public use of the internet in cases of state emergencies. What kind of internet use can be allowed for the public in the case of an emergency? What constitutes a state emergency? What content can be categorized as harmful? And finally, who decides?

WHAT'S MORE

While it is unprecedented in Indonesia, several countries have imposed internet restrictions during state emergencies. Recently, Sri Lanka blocked public access to notable messaging apps and social media platforms, including Facebook, WhatsApp, YouTube and Instagram, following the Easter Sunday bombings that killed over 300 people.³ As what occurred in Indonesia, however, many Sri Lankans easily bypassed the measure by using VPNs in the aftermath of the internet restriction.

Not only due to its vulnerability to circumvention, internet outages have also often drawn sharp criticism as the information vacuum that it causes often leads to more misinformation among the public. The Alliance of Independent Journalists, for instance, demanded the government revoke the blockage shortly after it was imposed as despite its objective to prevent hoaxes from circulating, the unexpected disruption of the communication system also hindered the public from acquiring valid information.⁴

How governments should regulate internet access has been a subject of public debate, particularly as social media bans have been increasingly employed as a new strategy to manage conflict. Currently, two models are available, namely a democratic model and a more hardline approach. Regarding the latter, China and Singapore provide an excellent example, where the governments unilaterally decide what type of content is harmful and blocks it

³ Technologyreview.com, "Sri Lanka has blocked access to social media to stop the spread of misinformation" 23 April 2019 <https://tinyurl.com/yxmc88bc>

⁴ CNNIndonesia.com, "AJI Desak Pemerintah Cabut Pembatasan Akses Media Sosial" 23 May 2019 <https://tinyurl.com/yyy3vt35>

completely. Furthermore, using VPNs in China is known to be extremely difficult and some suggested the Indonesian government learn from China while it limited public internet access last week.

While the government holds the supreme authority to decide what information is true and proper to publicize in a hardline approach, such use of authority might not be so compatible in a democratic country like Indonesia.

Although it seems like the most ideal choice, the inadequate digital literacy among internet users coupled with the rampant spread of hoaxes in Indonesia might make a pure democratic approach to social media use in the case of state emergencies unrealistic. Throughout the May 22 riot, many hoaxes, including the presence of Chinese military officers among law enforcers and mosques being attacked by the police, intensified street unrest. The suppression, however, must be regulated through democratic means; hence, a mixed approach is needed.

“Democratic suppression” might be attained by enforcing an inclusive process in determining what content can be categorized as harmful and banned. In this case, social media and messaging app operators can be included in developing standards of blocking internet access in order to not only ensure a more representative mechanism in regulating fake news but also foster a sense of responsibility among social media companies. After all, Facebook’s failure to manage its harmful content was blamed for sectarian conflict and genocide in Myanmar.

New House composition: Something old, something new

OVERVIEW

The official results of the 2019 legislative election indicate substantial changes to the House of Representatives’ composition for the next period. It is projected that new faces will dominate the House.

The University of Indonesia’s Center for Political Studies (Puskapol UI) projects that newcomers will take approximately 65 percent of the legislative seats.⁵ This is surprising as 526 or 94 percent of incumbent legislators sought reelection, but only 202 of them look certain to retain their seats.⁶

Another change is the rise in the number of female legislators. As calculated by Puskapol UI, female legislators will account for 20.5 percent of the House, up from 17 percent at present.⁷

Many have enthusiastically welcomed the new composition of the House. The high turnover rate suggests not only good democratic practice, but also the public’s active participation in evaluating the performance of legislators. Furthermore, the higher representation of female legislators is expected to increase awareness of gender in the law making process.

⁵ Kompas.id, “Caleg Baru Dominasi DPR” 29 May 2019 <https://tinyurl.com/y5yu4e2h>

⁶ Ibid.

⁷ Thejakartapost.com, “More female lawmakers to secure seats in House” 29 May 2019 <https://tinyurl.com/y64n65l8>

The reality, however, may not live up to public expectation as political kinship still colors the House; many of the new faces gracing the House are family members of well-established politicians or state officials. At least 25 new legislators are connected to elite politicians or state officials.⁸ Likewise, 40 percent of female legislative candidates who were elected are linked to the political elites.⁹

It is feared that the alleged nepotism in national politics will prevent the House from making real breakthroughs. The existence of political families may entrench the influence of the elites even more, strengthening the prospect of political dynasties, if not oligarchies, in the country.

WHAT'S MORE

The phenomenon of political families has something to do with the problem of regeneration that political parties have long failed to address. The failure creates leeway for the elites to expand their influence through their familial lines. Meanwhile, entrenched political families prevent newcomers from participating in politics. Political families and regeneration failures create a vicious cycle.

Political parties' efforts to reduce political families' influence have been obviously halfhearted, considering the significant benefits the parties enjoy from the practice. In fact both sides mutually benefit from political kinship.

For one, family background provides huge capital to legislative candidates, either financial edge or political network. Such capital, however, will also benefit political parties since the candidates from political families stand a great chance of winning votes. Oftentimes parties prefer candidates with advantageous family backgrounds and treat them as vote getters.

That's why despite the possible changes to the House landscape, people can hardly expect the legislative body to better articulate and aggregate their interests. Instead, the new House composition will strengthen the political families' grip on legislative power and national politics at large.

Business player to grace Jokowi's new cabinet

OVERVIEW

Speculation about the chairman of the Indonesian Young Entrepreneurs Association (HIPMI), Bahlil Lahadalia, joining the new cabinet of President Joko "Jokowi" Widodo has circulated after the President himself tipped the young businessman as a potential

⁸ Tempo.co, "Para Caleg yang Meneguhkan Politik Dinasti di Parlemen" 17 May 2019

<https://tinyurl.com/y2wfn2jc>

⁹ BBC.com, "Pemilu 2019: Lebih 40% caleg perempuan yang lolos ke Senayan terkait 'dinasti politik'" 29 May 2019 <https://tinyurl.com/y3r9uk5b>

ministerial candidate.¹⁰ His managerial skill and aptitude in executing orders, in particular, were highlighted by Jokowi.¹¹

Bahlil supported Jokowi's reelection bid and established a team called Jokowi's National Young Businesspeople Volunteers (Repnas). In the Jokowi-Ma'ruf Amin national campaign team, Bahlil served as a director responsible for wooing young voters.

When news reports about Jokowi's plan to reshuffle his cabinet arose, Bahlil was the first businessman touted as a new minister.

Not only due to his distinct professional background, Bahlil's young age might have impressed President Jokowi, who has openly expressed the intention to appoint a young figure in his new cabinet.

WHAT'S MORE

Two factors make Bahlil an exceptionally good candidate for Jokowi's new cabinet. First, Bahlil's young age fits Jokowi's public persona as a millennial-friendly figure. Indeed, Jokowi's political maneuvers have been imbued by the presence of the youth. His popularity among young voters is considerable as well, according to several surveys.¹² Moreover, appointing a young figure to a high-ranking post may boost popular support for the President as young figures are perceived as having less political baggage.

Jokowi's choice of 75-year-old Ma'ruf Amin as his running mate has reportedly jeopardized his stature among young voters. Now that his second term has been secured, appointing young figures for key positions may help Jokowi restore his popularity among millennials. Second, Bahlil's business background may help Jokowi appease the business players among his supporters. It is alleged that out of Jokowi's Rp 606 billion (US\$42 million) campaign fund, Rp 504 billion was accumulated from business players. Jokowi's appointment of a businessman for a ministerial post can be seen as "payback".

A former businessman himself, Jokowi indeed needs strong support from business players as key partners to realize his signature programs in his second and last term of office.

¹⁰ Koran.tempo.co, "Jokowi Sebut Bahlil Berpotensi Jadi Menteri" 27 May 2019 <https://tinyurl.com/y3j2pv2n>

¹¹ Ibid.

¹² Kompas.com, "Empat Tahun Jokowi dan Gaya Menarik Milenial" 22 October 2018 <https://tinyurl.com/yxw4ovex>

BUSINESS & ECONOMIC POLICY

Bakrie back in business

OVERVIEW

During an annual shareholders' meeting on May 16, PT Bakrie & Brothers (BNBR) appointed Anindya Novyan "Anin" Bakrie as the new chief executive officer (CEO) and his brother Anindra Ardiansyah "Ardi" Bakrie as the new deputy CEO. The appointment of Anin and Ardi Bakrie in executive positions in the Bakrie family's holding company marks not only a generational transfer to the family's third generation but also successful debt restructuring.

BNBR has been crippled by debt problems. Between 2013 and 2017, BNBR suffered from acute capital deficiency and was reported to have spent around Rp 1 trillion (US\$69.5 million) annually to pay the interest on its debt. To save the company from its massive debt burden, Bakrie proposed a debt-to-equity conversion scheme in 2016.¹³ Creditors accepted the proposal. In 2017, for example, subsidiary Bakrie Telecom converted debt worth Rp 1.23 trillion to Chinese telecommunications giant Huawei into 16.83 percent equity.¹⁴ Also, in 2018 Bakrie converted its debt to Chendong Investment Corporation from China into 22.71 percent shares in PT Bumi Resources.¹⁵ Because of the debt-to-equity conversions, BNBR was able to overturn its Rp 5.38 trillion capital deficiency in 2017 into total equity worth Rp 2.67 trillion. Nevertheless, this scheme cost public investors dearly, with shares held by the public decreasing from 58.95 percent to 4.49 percent after the debt restructuring.

Following the successful BNBR debt restructuring, Anin Bakrie outlined a business plan for the future of the group. According to his interview with CNBC Indonesia, Anin wants to return to the roots of his family business in manufacturing, which was laid down by his grandfather Achmad Bakrie.¹⁶ To expand Bakrie's business presence in manufacturing, the group will invest in the electric vehicle (EV) industry, specifically electric buses. **(see our What We've Heard for more details).**

Furthermore, there is a rumor circulating that Anin Bakrie is aiming to become the chairman of the Indonesian Chamber of Commerce and Industry (Kadin) at next year's national meeting.¹⁷ Whether the rumor is true or not, it implies that Anin is a man with political ambitions. It is likely that Anin would follow the path of his father Aburizal "Ical" Bakrie, who was Kadin chairman for two consecutive terms between 1994 and 2004, coordinating economic minister in 2004 and 2005 and coordinating minister for

¹³ TheJakartaPost.com, "Bakrie & Brothers to convert trillions of debt into equity." 27 June 2018

<https://tinyurl.com/y337tjby>

¹⁴ TheJakartaPost.com, "Huawei takes over 16% shares in Bakrie Telecom through bond conversion." 14 March 2017 <https://tinyurl.com/yy4r4pwc>

¹⁵ CNBCIndonesia.com, "Perhatian! Keluarga Bakrie tak lagi jadi pengendali BUMI." 19 September 2018

<https://tinyurl.com/y59ua6nm>

¹⁶ CNBCIndonesia.com, "Anindya Bakrie bicara soal BNBR & bikin Marvel A la Indonesia." 27 May 2019

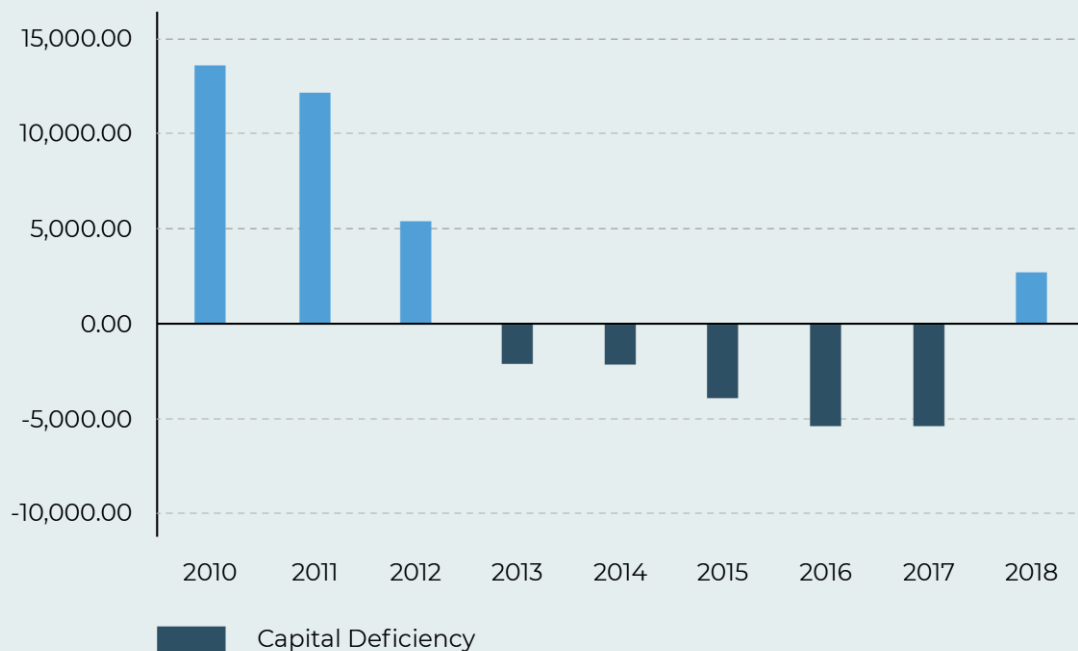
<https://tinyurl.com/y2x9p9xm>

¹⁷ Tribunnews.com, "Anindya Bakrie bakal rebut jabatan ketua Kadin? Ini reaksi Zulkarnain Arief." 20 May 2019

<https://tinyurl.com/y4y53hay>

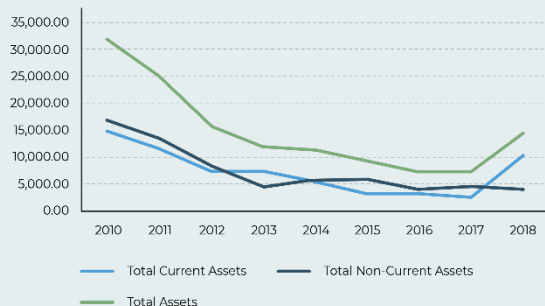
people's welfare in 2005 and 2006 under then-president Susilo Bambang Yudhoyono, and Golkar Party chairman from 2009 to 2014.

Bakrie & Brothers' Total Equity / Capital Deficiency, 2010 - 2018

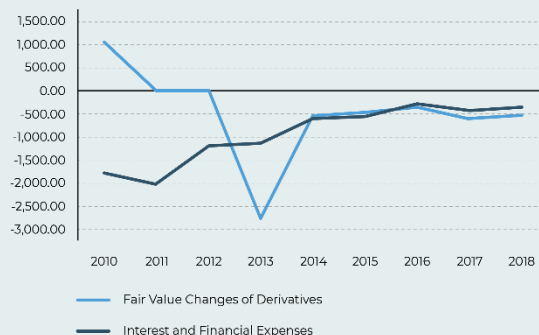


Source: Bakrie and Brother's Annual Report

Bakrie & Brothers' Current, Non-Current, and Total Assets, 2010-2018



Bakrie & Brothers' Losses in Derivative Assets and Interest Expense, 2010-2018



Source: Bakrie and Brother's Annual Report

WHAT'S MORE

The Bakrie family is recognized as one of the most successful *pribumi* (native Indonesian) business groups in Indonesia. The story of the Bakrie family began with the establishment of Naamloze Vennootschap (NV) Bakrie and Brothers, a general trading company, by Achmad Bakrie in 1942. During Sukarno's Old Order regime, NV Bakrie and Brothers expanded its

business to agro-processing and manufacturing. Following the rise of the New Order in the 1970s, NV Bakrie and Brothers changed its legal status into BNBR.

In the late 1980s, BNBR entered the stock market and became a public company. Under the second generation leadership of Aburizal Bakrie and brother Nirwan Bakrie, the Bakrie Group utilized the stock market to grow the group further. In 2010, the group reached its financial apex with total assets worth Rp 31.76 trillion, making Aburizal the 10th richest man in Indonesia.

After that, the Bakrie Group went into deep financial decline. Because of the group's excessive use of debt financing, Bakrie needed to pay exorbitant amounts of interest annually. In 2011, for example, BNBR paid Rp 2 trillion in interest. This condition forced the group to sell most of its assets to service both the principal and interest. The group's annual interest expenses fell to Rp 543 billion a year in 2015, but its total assets shrank to less than a third at Rp 9.22 trillion.

Bakrie's huge reliance on derivative instruments also hurt the group severely. Between 2010 and 2015, BNBR lost Rp 2.71 trillion worth of financial assets. Evaporating financial assets combined with huge debt obligations hurt the group's equity position. From 2010 to 2015, Bakrie's equity position declined from Rp 13.64 trillion to minus Rp 3.9 trillion.

To avoid further financial disaster, the Bakrie Group proposed a debt-to-equity conversion scheme to its creditors. The creditors approved of it, and within three years Bakrie was able to get its finances in order. Nevertheless, this scheme cost public investors dearly. According to a report, the percentage of Bakrie shares held by the public decreased from 58.95 percent to 4.49 percent after debt restructuring.¹⁸

WHAT WE'VE HEARD

Under Anindya Bakrie's leadership, BNBR plans to enter the electric vehicle (EV) industry. For the first step, the company has signed a memorandum of understanding (MoU) with China's Xi'an-based EV manufacturer BYD to distribute and later assemble electric buses under PT Bakrie Autoparts located in Bekasi.

Our source said BNBR has advertised BYD's electric buses to Jakarta's city-owned bus company Transjakarta. Transjakarta has shown interest and is testing the bus on the road for six months. If the performance is satisfactory, Transjakarta might purchase the buses.

Bakrie also plans to establish electric bus assembly facilities in Indonesia. To achieve this objective, Bakrie is ready to make big investments in BYD's EV technology that is the best in China and perhaps globally. By investing in EV, Bakrie aims to become the next Astra.

Our source also said Jakarta Governor Anies Baswedan is eager to make electric buses the main mode of transportation in Jakarta. So far, Anies prefers BYD's electric buses supplied by Bakrie compared to the buses supplied by PT Mobil Anak Bangsa (MAB), which has connections with the Presidential Chief of Staff and ex-army general Moeldoko. According to our source, electric buses supplied by MAB performed poorly in tests. If MAB makes no

¹⁸ Katadata.co.id, "Utang susut 44%, saham Bakrie & Brothers dikuasai kreditor asing." 21 November 2018 <https://tinyurl.com/y4o5tfbh>

improvement, BYD and Bakrie might win the contract to become Transjakarta's electric bus supplier.

Garuda Indonesia likely to be penalized over financial report fiasco

OVERVIEW

The Finance Ministry, the Supreme Audit Agency (BPK) and the Financial Services Authority (OJK) have reviewed the anomalies around the 2018 financial report of Indonesian flag carrier Garuda Indonesia and the results seem to indicate that Garuda had made a mistake in recording its receivables of US\$239.94 from its business partner PT Mahata Aero Teknologi as revenue.

The Finance Ministry and the BPK have conducted separate investigative audits on Garuda's 2018 financial report and the OJK has assigned the management of the Indonesia Stock Exchange (IDX) to have a closer look at Garuda's books. The BPK has said the results of its investigative audit on Garuda would be announced after the Idul Fitri holidays.

The dispute started recently when two of Garuda's commissioners rejected the 2018 financial report of the airline related to Garuda's receivables from Mahata Aero Teknologi. Garuda included the receivables as income on its balance sheet, but this was opposed by the two commissioners, representing CT Corp., which owns 28 percent of Garuda shares through a subsidiary company, Trans Airways.

If Garuda has to make a restatement of its 2018 financial report by removing the problematic receivables from its revenues, Garuda would be shown to have suffered losses of US\$244.95 million last year instead of booking a meagre profit of \$5 million. If Garuda's financial report is declared faulty, it would be a blow to another global accountancy firm, BDO International, one of the big five. Garuda's 2018 financial statement was audited by the Indonesian affiliate of BDO International. Last year, Deloitte Indonesia was sanctioned by the Finance Ministry and blacklisted by the OJK over the SNP Finance fraud case.¹⁹

Anomalies around the 2018 financial report of Indonesian flag carrier Garuda Indonesia have been reviewed and the results seem to indicate that Garuda had made a mistake in recording its receivables from its business partner PT Mahata Aero Teknologi as revenue.

WHAT'S MORE

Following the revelation of the anomalies in Garuda's financial reports, questions have been raised surrounding the cooperation between Garuda and Mahata Aero Teknologi and around Mahata itself: What kind of company is it and who is behind it?

¹⁹ Tempo.co, "Kasus SNP Finance, Kemenkeujatuhkansanksike Deloitte Indonesia," 28 September 2019. <https://tinyurl.com/y47z9mc9> and Kontan.co.id, "Terseret kasus SNP Finance, Deloitte Indonesia berupaya cari jalan keluar," 31 March 2019. <https://tinyurl.com/y39nn869>

Mahata Aero Teknologi is a start-up technology company, founded in November 2017 with an initial capital of Rp 10.5 billion. The question is how a new company with capital of Rp 10.5 billion would be able to pay Garuda \$239.94 million up front.

Mahata was founded by four shareholders: Muhammad “Temi” Fitriansyah, Hendro Prasetyo, Edward Sidharta Jayasubrata and PT Wicell Technologies. Since then, the composition of shareholders changed several times, with the latest shareholders including PT Global Synergy, part of the Valco Group. The owner of Valco, Muhammad Hadi Bil’id, sits on Mahata’s board of commissioners.²⁰ Hadi is said to be a close friend of Garuda CEO I Gusti Ngurah “Ari” Askhara Danadiputra.

Mahata’s specialty is providing digital content and wifi services for commercial aircraft. What makes Garuda interested in partnering with Mahata is the fact that Mahata partners with Imarsat Aviation, Lufthansa Technik and Lufthansa System to provide such services. Imarsat Aviation provides the internet connection via satellites, Lufthansa Technik installs the wifi and other necessary hardware in the aircraft and Lufthansa System provides the software.

The business model is that Mahata would get revenues from advertisements targeting airline passengers. For Mahata to recoup the \$239.94 million it has to pay to Garuda up front plus a margin, Mahata wants to have a multi-year cooperation agreement of, perhaps, 15 years.

Initially, Mahata Aero signed a cooperation agreement with Garuda’s subsidiary Citilink to provide the digital content and wifi services for 50 Airbus 320s belonging to Citilink. The value of the contract was \$39 million. From there, Garuda also became interested and then signed a 15-year contract with Mahata to provide digital services for 103 aircraft serving domestic routes. The value of the contract is \$239.94 million and must be paid up front.

WHAT WE’VE HEARD

According to an executive at the IDX, a meeting between the OJK, the Indonesian Accountant Association (IAI) and the Finance Ministry Standard Accounting Council (DSAK) concluded that Garuda had produced a misleading financial report for 2018.

The source said that the DSAK even considered Garuda to have practiced aggressive accounting for its 2018 report. Most likely, the source said, Garuda would have to produce a new financial report for 2018 and the IDX would likely fine Garuda Rp 500 million.

The source said the IAI was supposed to make the announcement that Garuda violated Financial Accounting Standard (PSAK) 23. However, the IAI had apparently been reluctant to go public. “Because the IAI has been taking too long, we [the OJK] will send the message out,” the source said.

The source said Garuda CEO Ari Askhara Danadiputra had done a similar thing when he led a state-owned port operator, Pelindo III. The company had been known to conduct several financial report restatements during Ari’s leadership. “However, the mistake and the faults were not as big and as visible as in Garuda,” the source explained.

²⁰ Tempo magazine, “Merintis koneksi di burung besi,” May 6, 2019

Issue update: Govt, Inpex agree on Masela project

OVERVIEW

The Indonesian government and Japanese oil company Inpex Corp have agreed on a plan of development (POD) for the gas-rich Masela Block in the Arafura Sea during their meeting in Tokyo on Monday. This agreement will likely end uncertainties over the development of the Masela project.

Energy and Mineral Resources Minister Ignasius Jonan, who led Indonesia's delegation at the meeting with Inpex Corp. CEO Takayuki Ueda in Tokyo, announced in a statement on Monday that both parties had agreed on the "substantial matters of the Masela Block's development".

The two parties finally agreed on a final structure of the POD, including an investment of between US\$18 billion and \$20 billion, which indicates that the government had backed down from its initial demand to bring down the investment to \$16 billion.

According to the press statement, both parties agreed to have a win-win solution with a production sharing scheme, where the government will get at least 50 percent of shares. The cost of the agreed project development with an onshore LNG plant is \$6 to \$7 per barrel of oil equivalent (boe), 20 percent lower than the previous offshore LNG plant at \$8 to \$9 per boe, according to a statement by the Upstream Oil and Gas Regulatory Task Force (SKK Migas).

The agreement was marked by the signing of meeting minutes between SKK Migas chairman Dwi Soetjipto and Takayuki of Inpex Corp. The final signing of the agreement between the government and Inpex Corp will be conducted during the G20 Summit on June 28-29 in Osaka, Japan.

WHAT WE'VE HEARD

According to our source, Jonan took over the handling of the Masela project from his deputy Achandra Tahar, who had taken the Masela POD hostage after he demanded that Inpex and Shell, which together control Masela, bring down the total investment to below \$16 billion. "Jonan handled it directly. Achandra is no longer involved in the decision process for Masela project," the source said, adding that Jonan understood that capital expenditure for the Masela project could not be reduced by much.

Therefore, total investment in Masela would stay the same as that proposed in the POD by Inpex and Shell, which is around US\$19 billion – far from the investment cost for offshore projects, which is below \$16 billion.

Another source previously said that because information about Arcandra appointing foreign experts to assess the Inpex-Shell plan development was leaked, discussions about the Masela Block's development was taken over by SKK Migas head Dwi Soetjipto – who was instructed by President Joko "Jokowi" Widodo directly. Jonan was asked to oversee the discussion.

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