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Police, Setya in plot to cripple KPK

Kharishar Kahfi
THE JAKARTA POST/JAKARTA

Gecko vs Crocodile III imminent

Tito claims police do not intend to confront KPK

What could be the third episode of Gecko vs Crocodile, an illustration of the conflict between the Corruption Eradication Commission (KPK) and the National Police, is beginning to unfold.

Only this time, the police have the support of politicians, with Golkar Party chairman Setya Novanto attempting to send KPK leaders to prison, thanks to swift investigation by the police.

Setya is the Speaker of the House of Representatives that is currently conducting a controversial inquiry into the KPK, but has so far failed to reduce its standing thanks to massive support from the public and antigraft activists.

National Police Chief Gen. Tito Karnavian confirmed on Thursday that the police had been probing KPK chairman Agus Rahardjo and his deputy Saut Situmorang over alleged abuse of power and document falsification surrounding a travel ban request the KPK sent to the immigration office against Setya as a witness in the high-profile e-ID graft case, estimated to have cost Rp2.3 trillion (US$170 billion) in state loses.

Tito also said KPK's director of investigation Brig. Gen. Aris Budiman and 24 investigators had also been reported to the police by one of Setya's lawyers, Sandy Kurniawan, on Oct. 9. As of Thursday evening, it was not known whether the police had been probing Aris or the investigators.

The police chief, however, claimed that Agus and Saut had not been named suspects. According to the 2002 KPK Law, any KPK leader who is named as a suspect shall be suspended from his or her position.

Tito also claimed that he had not been informed when the letter ordering the investigation into the two KPK leaders was signed by general crimes director Brig. Gen. Heri Prastowo on Nov. 7. At that time, Tito was in Surakarta, Central Java, where the wedding of President Joko "Jokowi" Widodo's daughter Kahiyang Ayu was held.

"I asked Heri for further details [regarding the investigation] soon after I landed in Jakarta this morning," he said.

Tito said he had ordered investigators to be prudent in handling the case because it was related to KPK's investigation into the e-ID case where Setya had once been named a suspect. The South Jakarta District Court, on Sept. 29, approved Setya's pretrial motion and declared his suspect status void.

"I have ordered investigators to question more experts who may have different interpretations on the matter," Tito said. "We don't want to cause any commotion regarding the case and harm our relationship with other institutions, especially the KPK."

The first episode of Gecko vs Crocodile began in 2009 when the National Police's then detective chief Comr. Gen. Susno Duadji referred to the KPK as a gecko for trying to take on the police, the crocodile. The KPK was said to be probing alleged corruption that implicated Susno.

Following that, then KPK leaders Chandra M. Hamzah and Bibit Samad Rianto were charged with abuse of power and subsequently suspended.

Six years later, the police moved to name then National Police deputy chief, who is now State Intelligence Agency chairman, Gen. Budi Gunawan a suspect in the wake of reports over his suspicious bank account activity in 2010. Subsequently, the police named then KPK commissioners Abraham Samad and Bambang Widjojanto suspects for alleged document falsification and encouraging a false court testimony respectively. The two were also eventually stripped off their positions.

Meanwhile, when asked about the matter, Sandy only said he would let the police handle the case.

Gadjah Mada University (UGM) Corruption Studies Center director Zainal Arifin Mochtar commented that the police should have been wiser in handling the case.

"They shouldn't treat this as an ordinary report and look at the wider context," he told *The Jakarta Post*. He added that President Jokowi should be involved in order to resolve the ongoing conflict that could threaten the KPK.

Also on Thursday, Agus said the KPK had requested the travel ban according to the authority given to the KPK under the 2002 Law.

The Law and Human Rights' directorate general of immigration stated that the KPK's proposal on the travel ban for Setya was legal and filed according to the law.

"The [proposal] letter listed Setya to be banned, along with the reason and length of the ban," directorate general spokesman Agung Sampoerno said as quoted by *kompas.com*.

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Govt seeks more private investors in infrastructure

Farida Susanty
THE JAKARTA POST, JAKARTA

- Variety of instruments available to attract private investors
- Perpetuity notes latest in portfolio
- Investors find instruments more interesting

The government has called for more private companies to invest in infrastructure projects nationwide through various available channels amid surging confidence in the construction sector.

The construction sector expanded 7.13 percent in the third quarter of this year, outpacing the manufacturing industry at 4.84 percent in the gross domestic product (GDP), according to Central Statistics Agency (BPS) data.

National Development Planning Board (Bappenas) head Bambang Brodjonegoro said that the government had already proposed a number of instruments to lure participation from private investors in infrastructure development, including perpetuity notes revealed recently.

"I basically urge private companies, which have participated [in infrastructure projects] as contractors and sub-contractors or material providers, to upgrade their status into investors," he said on Wednesday.

Among the options are availability payment (AP) and viability gap fund (VGF), which is used in Serang-Panimbang toll road in Banten, under the well-known scheme, the public-private partnership (PPP). Under the scheme, the government aids the private sector financially to make projects feasible.

Other options are securitization, through which various financial and non-financial assets are packaged into securities to be sold to investors, and limited mutual funds, locally known as RDPT. These instruments belong to non-state budget investment financing, also known as PINA.

State toll-road operator Jasa Marga, for example, recently issued asset-backed securities under collective investment contracts (KIK-EBA) with its Jakarta-Bogor-Ciawi (Jagorawi) toll road project serving as underlying assets. The funds collected from the sales of the securities are then used to build other toll roads.

The firm also plans to offer similar securities to bank on its Jakarta Outer Ring Road in order to raise cash for its massive projects.

Under the non-state budget scheme, the government recently floated the idea of issuing perpetuity notes, a financial instrument that allows investors to manage the return and risk rate.

The investors can be long-term fund managers, such as those managing pension funds and insurance, as well as private companies in general.

With a variety of instruments, the government aimed to cater to different interests of private investors, both with high-risk appetite and low-risk appetite, Bambang said.

"The most important thing is to increase the private sector's participation in infrastructure development and close the [financing] gap," he said.

Indonesia has a significant financing gap to support its strong infrastructure push which overall require Rp 4.7 quadrillion (US$347.7 billion) until 2019. The government can only cover around 40 percent of the figure, leaving the rest to be covered by the state-owned enterprises and private firms.

For the non-state budget scheme itself, Bappenas has targeted to double the project financing from $1.5 billion this year to $3 billion next year. One of the projects in the pipeline to be funded under the scheme is the construction of Kulonprogo International Airport in Yogyakarta.

In response to the matter, Indonesian Chamber of Commerce and Industry (Kadin) chairman Rosan P. Roeslani said that the business people had become more optimistic on the acceleration of infrastructure development by the government.

"Of course, at first, everyone was skeptical with the massive [infrastructure] development, but then they [the projects] are really executed as expected," he said.

Rosan also acknowledged that instruments offered by Bappenas to lure investors were also more interesting. However, he cautioned, investors still had hard time with the inconsistent regulations.

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Moon, Jokowi go 'blusukan'

Indra Budiari
THE JAKARTA POST/BOGOR

South Korean President Moon Jae-in and his host President Joko "Jokowi" Widodo spent some time at a shopping center in Bogor, West Java, after their inaugural bilateral meeting.

Jokowi and Moon bought batik shirts before sipping hot jasmine tea from a small beverage stall at Bogor Trade Mall.

The *blusukan* (impromptu) visit on Thursday reflected the closeness of the two countries, which have agreed to enhance their ties.

The two countries signed a strategic partnership agreement in December 2006.

Earlier during their meeting at Bogor Palace, both leaders pledged to work for closer ties, targeting US$30 billion in two-way trade by 2022, and they urged North Korea to stop its nuclear program.

The presidents agreed that trade and investment are important vehicles for development in South Korea and Indonesia.

After the meeting, the presidents witnessed the signing of three memoranda of understanding (MoU) in transportation, industrial and medical sectors. The MoU were signed by the relevant ministers from both countries.

Jokowi and Moon also agreed that the special strategic partnership would involve the political and security sectors.

"Moon and I just had a warm and productive bilateral meeting. We agreed to upgrade our relations to a special strategic partnership with a focus in industry," Jokowi told reporters in a joint statement after the summit.

Indonesia is currently South Korea's 15th-largest trading partner, while South Korea is Indonesia's sixth-largest.

However, the value of Indonesian exports to South Korea dropped to about $7 billion in 2016 from $7.6 billion in 2015. Meanwhile, import values fell by 20 percent to $6.67 billion in 2016 from $8.42 billion in 2015.

Moon and Widodo emphasized that their strong cooperation would go beyond economic ties to include regional and global issues as they expressed their concern about the current situation on the Korean Peninsula.

> South Korea, Indonesia agree to elevate ties to special strategic partnership
>
> Two-way trade projected to reach $30b by 2020

Jokowi said that Indonesia would remain firm in its position of demanding that North Korea fully comply with its obligations under United Nations Security Council resolutions, asking the rogue country to discontinue its nuclear program. However, he said he also believes that the tension on the Korean Peninsula should be solved through dialogue.

"I appreciate Moon's position. He is still open to resolution through dialogue," he said.

Prior to his Jakarta visit, Moon hosted United States President Donald Trump in Seoul. During their meeting, Trump fueled tension on the peninsula by saying that North Korean leader Kim Jong-un was putting his nation in "grave danger" by not giving up his nuclear program.

However, Moon has taken a softer approach toward his neighbor by saying he wanted to bring North Korea to the discussion table and back into the international community.

Moon and Jokowi reaffirmed that cooperation in the defense industry was a symbol of mutual trust. They said they were determined to continue enhancing defense industry cooperation, with stronger emphasis on capacity building, research and development and joint production.

Moon also said South Korea would "continue to support" development of the KFX/IFX jet fighter that is under development by the two countries.

The KFX/IFX is a twin-engined 4.5 generation fighter jet, described as having capabilities above the venerable F-16 Fighting Falcon, but below the stealthy F-35 Lightning II, both of which are made by US defense company Lockheed Martin.

Indonesia bears 20 percent of the development cost and the remainder is covered by South Korea.

Indonesia is also the first foreign user of South Korean-made single-engined KT-1B Woong Bee turboprop trainers and single-engined T/A-50 Golden Eagle advanced jet trainers.

For its part, Indonesia has sold CN-235 medium transport aircraft to both South Korea's air force and coast guard.

Other defense industry cooperation includes the acquisition of three submarines made by Daewoo Shipbuilding and Marine Engineering, the third of which is to be assembled at the state-owned PT PAL shipyard in Surabaya.

Previously, South Korea provided transfer-of-technology in the construction of four landing platform docks (LPD). Two LPDs were made in South Korea and the other two in Surabaya.

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S. Korea looks to RI for new SE Asia focus

Anton Hermansyah
THE JAKARTA POST/JAKARTA

Korea views RI as strategic partner in ASEAN

Moon expects more Korean investment in auto sector

South Korea is seeking to enhance its economic relations with Indonesia, particularly in trade and investment, as it tries to exert greater influence in Southeast Asia.

In his remarks to a business forum attended by around 300 business leaders from both countries on Thursday, South Korean president Moon Jae-in highlighted the importance of Indonesia in its new diplomatic direction toward the region of more than half a billion people. Acknowledging that in the past, Korean diplomacy heavily centered on China, Japan and Russia, he felt that orientation had to change.

"It should shift to new horizons and Indonesia has good prospects," Moon said, citing the good relationship that Korea had already built with Indonesia.

Under its "New Southern Policy," Asia's fourth-largest economy hopes to forge closer ties with the 10 Southeast Asian countries grouped under ASEAN, which it considers the second-most important entity in the international arena after China.

Moon particularly praised Indonesia's achievement in maintaining strong economic growth above 5 percent a year, even amid the global economic crisis. He expected Korea could increase trade and investment with Indonesia, which he described as a "strategic partner" with the biggest role in ASEAN.

In a separate event at the Bogor Palace in West Java in the afternoon, Moon and President Joko "Jokowi" Widodo vowed to boost bilateral trade to US$30 billion by 2022.

Two-way trade and Korean investment in Indonesia have slowed down in the past years after reaching their peak in 2011, according to data from the Korea Institute for Industrial Economics and Trade.

Korean exports to Indonesia fell to $6.61 billion last year from $13.58 billion in 2011, whereas imports also plunged to $8.29 billion from $17.22 billion over the period.

Meanwhile, investment plunged to $643 million by 63 companies in the past year from $1.3 billion by 162 companies in 2011.

The overall investments include those made by tire maker Hankook, the fourth-largest steel maker Posco and electronics giant Samsung.

Moon specifically mentioned Korea's intention to invest in the automotive sector in Indonesia. "Korea now is the world's fifth-biggest automotive producer and I know Indonesia has a great vision to be the largest automotive producer and exporter in ASEAN," he said.

Hyundai Indonesia president director Mukiat Sutikno expected Moon's intentions would help the negotiations within Hyundai Group as its Indonesian subsidiary hoped to produce new models in its local car factory.

Hyundai's factory in Bekasi, West Java, is able produce 26,000 cars each year, only a fifth of the installed capacity. The local unit is in talks with its Korean principal to build additional models in Indonesia.

"We are proposing to the principal to produce another two new models in Indonesia," he told *The Jakarta Post*.

Indonesian Chamber of Commerce and Industry (Kadin) chairman Rosan Perkasa Roeslani said that Moon's first official visit to Indonesia was crucial amid the decline in trade and investment. "South Korea's investments come from a lot of companies, but they each spend relatively little. We hope that President Moon can help boost trade and investment again," he said.

During the business forum attended by 150 Korean companies, the Korea Rail Network Authority (KRNA) and regional-owned company PT Jakarta Propertindo (JakPro) signed a memorandum of understanding (MoU) under which the former agreed to invest $500 million in the second phase of the Jakarta light rail transit (LRT) project from Velodrome to Dukuh Atas after the first phase covering the Kelapa Gading-Velodrome track finished in August next year.

"The $500 million facility will be applied under a public-private partnership [PPP] scheme," JakPro president director Satya Heragandhi said.

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ENERGY

Drastic measures prepared for depleting Mahakam block

Viriya P. Singgih
THE JAKARTA POST/JAKARTA

A subsidiary of state-owned energy giant Pertamina is slashing costs to make the most of the mature, depleting Mahakam block in East Kalimantan, whose oil and gas reserves are expected to run out within the next 20 years, while hoping that higher oil prices will soon return.

Pertamina's subsidiary PT Pertamina Hulu Indonesia (PHI) is due to take over the operations at the Mahakam block from French company Total E&P Indonesie and Japanese Inpex on Jan. 1, 2018.

In order to maintain continuity and production levels after the takeover, PHI plans to drill 15 development wells this year at a cost of US$180 million.

PHI president director Bambang Manumayoso said the company had undertaken various efficiency measures to reduce its operating costs, including reducing the size of wells, connection pipelines and duration of well drilling.

As a result, PHI has been able to reduce its well-drilling costs by around 20 to 25 percent, to between $140 million and $150 million.

"Therefore, we propose to drill an additional two wells this year, on top of the previous 15, in an effort to boost production in 2018," Bambang told a press conference on Thursday.

His team are also reviewing 20 to 25 other items in PHI's operations that could be the subject of further efficiencies.

Such a move might pave the way for PHI to slash another $100 million to $200 million per year from its operating costs, he said.

"At present, the cost recovery for the Mahakam block's oil and gas production stands at $16.5 per barrel of oil equivalent. We aim to reduce this in 2018 through various efficiency efforts," Bambang said.

By doing so, PHI expects it will be able to drill a total of 70 development wells next year, up from 55 wells stated in its previous work program and budget.

The company has allocated $1.7 billion to develop the Mahakam block next year.

However, Bambang said it was possible for PHI to drill more wells if oil prices continued to improve, as the assumed price of oil used in its work program and budget for next year was only $48 per barrel.

The price of global benchmark Brent crude reached this year's peak of $64.27 per barrel on Monday, continuing its upward trend since falling to as low as $44.82 per barrel on June 21.

PHI needs to drill as many wells as possible to maintain oil and gas production in the Mahakam block's deltaic environment, comprising multi-layer reservoirs. Otherwise, production will significantly drop each successive year.

"The Mahakam block currently faces a declining rate of 51 percent per year. We expect to reduce this to around 20 to 25 percent per year," Bambang said.

In 2018, PHI aims to produce 48,000 barrels of oil per day (bopd) and 1,100 million standard cubic feet per day (mmscfd) of gas at the Mahakam block. Meanwhile, this year's production is estimated to reach 46,420 bopd and 1,309 mmscfd of gas.

Energy and Mineral Resources Minister Ignasius Jonan has pinned high hopes on Pertamina maintaining oil and gas production at the Mahakam block, which accounts for 24 percent of national production.

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Armed group holds 1,300 villagers hostage in Papua

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THE JAKARTA POST/JAYAPURA/JAKARTA

Villagers are being held hostage by an armed criminal group

Police and military will set up joint task force to release villages

More than 1,300 people have been taken hostage in two villages in Tembagapura, Mimika regency, Papua, by an armed group.

The civilians — local Papuans and people from other provinces — have been prohibited from leaving Kampung Kimberly and Kampung Banti, the two villages controlled by the armed group, which security authorities call an armed criminal group (KKB).

"They cannot leave their villages because of the KKB," Papua Police spokesman Sr. Comr. AM Kamal said on Thursday.

The group dug up some of the roads and placed rocks on others to prevent people from entering or leaving the villages, he added.

Villagers in the area — who are mostly traders and small-scale gold miners — have stopped their activities because of intimidation.

"Economic activities have been disrupted. Some people closed their kiosks, stopped selling goods and curtailed their mining activities," Kamal said.

Kampung Kimberly is a small village of about 300 residents, mostly from outside Papua such as Java, Bugis and Makassar (both in South Sulawesi) and Buton in Southeast Sulawesi.

While the nearby Kampung Banti houses about 1,000 people from Papua.

Mimika deputy regent Benyamin Bassang said the armed group had intimidated both Papuans and non-locals.

He described the intimidation and the group's hostility toward civilians, especially non-Papuans, as unexpected because the group was initially friendly toward them.

They have allegedly burned kiosks, raped girls and fired shots into the air to scare civilians.

The situation in Tembagapura heated up two weeks ago when an ambulance belonging to United States mining giant PT Freeport Indonesia was shot at.

The offices of the Tembagapura Police also came under fire on Oct. 29, forcing the Papua Police to declare an alert in the area.

National Police chief Gen. Tito Karnavian said more police officers had been deployed to Papua to rescue the hostages and to stabilize the area. There are about 1,000 police and military personnel deployed in the region.

Security officers are hunting down the perpetrators, he said.

Tito described the group as an "old player" that often extorted money from illegal miners near the PT Freeport facility.

"The hostages are actually miners who are being used as human shields," Tito said.

He added that the group was small, made up of between 20 and 25 members.

"They only have about five to 10 guns, but they use hit-and-run tactics," Tito said.

The Indonesian Military (TNI) commander, Gen. Gatot Nurmantyo, said the military was cooperating with the police to conduct surveillance of the assailants.

"We need to act carefully because they are holding civilians hostage.

"Our first priority is to keep the local residents safe through a soft approach in cooperation with the police," he said.

Gatot added that the Papua Police and the Cendrawasih Military Command in Papua would establish a joint team soon to address the threat posed by the armed assailants.

Human Rights Watch (HRW) researcher Andreas Harsono said it was unclear who this group was and that calling them criminals or assailants only complicated matters in Papua.

He said that in order to understand what was going on, Papua should be viewed within a bigger picture, taking into account all problems including reports of human rights violation as well as the marginalization of local Papuans.

Andreas said in order to have a comprehensive view of the problems in Papua, the government should first allow researchers, including foreign journalists, access to the province.

"We need an independent monitor to verify the situation," he said.

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BANKING

MUFG seeks $1.8b stake in Bank Danamon

Taro Fuse and Anshuman Daga
REUTERS/TOKYO/SINGAPORE

Mitsubishi UFJ Financial Group (MUFG) is in talks to buy a 40 percent stake in Bank Danamon Indonesia for around 200 billion yen (US$1.75 billion), a person with direct knowledge of the talks told Reuters on Thursday.

MUFG, through its core unit Bank of Tokyo-Mitsubishi UFJ, intends to buy Danamon shares from Singapore state investor Temasek Holdings, a major shareholder, said two sources, who declined to be named as the talks were not public.

Faced with sluggish growth at home, MUFG has expanded its presence in Southeast Asia in recent years, and already holds stakes in Vietnam's Vientinbank, Thailand's Bank of Ayudhya and Security Bank Corp. of the Philippines.

MUFG plans to invest in Indonesia's fifth-largest bank in the financial year starting April 2018, and is aiming to reach a basic agreement this year, the first source said.

"The company is strategically considering various investment opportunities in Indonesia," an MUFG representative said, adding that domestic media reports on plans for a Danamon stake were not based on any announcement made by the company.

Temasek declined to comment, while an official at the Indonesian Financial Services Authority said there had not been "any submission from MUFG to own or enter Bank Danamon."

Danamon, however, said its controlling shareholder had received an "expression of interest" related to its shareholding in the company, but no deal had been confirmed.

"We understand that this interest depends on further negotiations [...] It is not definite that the transaction will be implemented," said Rita Mirasari, Danamon's corporate secretary.

Shares of the Indonesian bank rose as much as 19 percent to a three-month high, after news of the possible stake sale that, according to estimates from Mandiri Sekuritas, values the stock at Rp 6,200 apiece or 28 percent above Wednesday's close.

"We believe the market's euphoria will not last long and expect the share price to be adjusted," analysts at Mandiri wrote in a report.

Danamon lends primarily to the retail and corporate sectors and is a major private player in microfinance. Singapore's DBS Group Holdings had sought to buy a controlling stake in Danamon in 2013, but dropped the bid after Indonesia changed laws to restrict single ownership in banks to 40 percent.

However, Indonesia can relax these curbs on special grounds, including if the investing bank is financially strong.

Temasek, one of the world's biggest investors, currently owns about 68 percent in Danamon.

MUFG has future plans to seek a majority stake in Danamon if it gets regulatory approval, the first source said.

The Indonesian banking sector has attracted several deals over the past few years, as Asian lenders look to get a foothold in the world's fourth-most populous nation.

South Korean Shinhan Bank acquired a majority stake in Bank Metro Ekspress in 2015, while China Construction Bank entered the Indonesian market by acquiring Bank Windu in 2016.

MUFG's last major acquisition in the region was a 20 percent stake in Security Bank in 2016, in line with its efforts to grow its global banking business amid low interest rate policies and strict capital regulation at home.

In the year ended March 2016, MUFG's global banking business accounted for 31 percent of its net operating profit, up from 17 percent in the year ended March 2012.

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Risks loom large as PLN piles on debt after debt

COMMENTARY

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THE JAKARTA POST/
JAKARTA

In a press conference last week after the Financial System Stability Committee (KSSK) meeting, a forum to identify impending threats to the economy, Finance Minister Sri Mulyani Indrawati was asked whether the financial affairs of state power company PLN was a major concern.

She replied that her job was to ensure that the development priorities assigned by President Joko "Jokowi" Widodo to PLN would not be undermined by "undetected risks," and that the ministry would continue to monitor the company's cash flow and obligations.

The ministry, she added, would work closely with other ministries to identify the risks that could impact PLN in servicing its debt because it could impair the "national reputation."

Sri Mulyani's remarks have amplified her recent concern over PLN's capacity to pay its debt after her warning letter about the problem was leaked last month.

The ministry has warned PLN, Indonesia's biggest state enterprise by assets, to keep its debt service coverage ratio (DSCR) in check after the government requested foreign creditors to allow the company to violate the agreed ratio limit in the past three years.

PLN's DSCR — based on its earnings before interest, taxes, depreciation and amortization (EBITDA) — has been running below 0.87 since 2011, according to calculations based on its 2017 first half financial report. Last year, the ratio stood at 0.86. The higher the ratio, the easier it is for a company to obtain a loan, with a ratio of below 1.0 indicating that there is not enough cash flow to service debt.

To put it into perspective, the DSCR of Thailand's state-owned power company the Electricity Generating Authority of Thailand (EGAT) and Malaysia's state-linked Tenaga Nasional Berhad (TNB) stand at 1.7 and 4.4 last year, respectively.

PLN's debt management may seem to be sound as its debt to equity ratio improved to 30 percent last year. But it was the result of an asset revaluation it carried out in 2015, and without it the ratio stood at more than 100 percent.

PLN's debt poses systemic risks to the banking and capital market sector as well as to Indonesia's sovereign risk as the government has guaranteed the debt and the risks associated with PLN have been reserved as contingent liabilities in the state budget. As of the first half of this year, PLN had outstanding debt of about Rp 265.4 trillion (US$19.6 billion). Some 33 percent of the debt was funneled by local banks with state lenders Bank Mandiri, Bank Negara Indonesia and Bank Rakyat Indonesia having exposures to PLN worth Rp 73.8 trillion.

About 7 percent of the debt was in the form of local bonds and government loans, while the remaining 60 percent were from global bonds, multilateral agencies, China and Japan.

Last week, the company added another Rp 16.3 trillion of syndicated loans from banks and non-banks for refinancing as its available cash reserves were insufficient to service the maturing debt. The low DSCR has plunged the company into a cycle of debt refinancing.

PLN's shopping spree in the past three years to meet the government's assignment to expand transmission and distribution infrastructure as well as power plant capacity has been blamed for exhausting its cash reserves amid continuous decline in cash flow from operations.

Before Jokowi took office in October 2014, the company was already splashing generous capital expenditure (capex) to construct its own power plants, rather than inviting independent power producers (IPPs) to do the job.

However, the capex spent by the company in the last 10 years have not generated satisfactory returns, indicating gross inefficiencies. PLN's return on assets stood at 0.8 percent last year, far lower than the 4.9 percent enjoyed by EGAT and 5.5 percent by TNB.

Veteran banker Sofyan Basir, who took over PLN's helm in late 2014, is not entirely to blame for the company's plight, given the fact that he inherited endemic inefficiency coupled with rigid regulations that have left him with less room to improve.

In response to the low DSCR, Sofyan has blamed the government's refusal to raise electricity tariffs, the delay in the company receiving subsidies and mounting assignments to spearhead the construction of 35,000 megawatt power plants and transmissions.

However, he has argued that the company is financially sound after the asset revaluation that would enable it "to borrow up to $200 billion if it wants to."

Sofyan has also delayed the construction of some projects to free up some cash as instructed by Jokowi who ordered PLN to reduce its financial burden by passing some of its power plant projects on to private investors.

About 76 percent of power plants in Indonesia are constructed and operated by PLN, with the remaining 24 percent by IPPs. In Thailand, 51 percent are by IPPs while 49 percent are by EGAT and in Malaysia 67 percent are by IPPs and the remaining 33 percent by TNB.

Plants operated by IPPs tend to be more efficient, but PLN insists it has to build the plants because private investors are not interested because they are located far away and lack supporting infrastructure.

Electricity sold by PLN to consumers is on average cheaper than Thailand, Singapore and the Philippines, but it is more expensive than Malaysia.

PLN is arguably too big and too important to fail. And given the government's blank check of guarantees and supports, creditors can rest assure that the risk of default will be kept at bay.

But this is exactly where the moral hazard sets in; creditors will ignore prudent credit analyses and PLN's management will be prone to careless financial management as they are all aware that the government will come to the rescue if anything bad happens to PLN.

The risks associated with PLN's ability to service its debt have grown and the government, past and present, has to share the blame for allowing the company to drown in debt and pervasive inefficiencies.