

Deflation paves way for benign prices

Marchio Irfan Gorbiano
THE JAKARTA POST/JAKARTA

Harvest season, imports help reduce food prices: Minister

Long-term deflation unfavorable for economy, businesses: Economists

Indonesia recorded the year's first deflation of 0.08 percent in February, compared to the 0.32 percent inflation it recorded in January, Statistics Indonesia (BPS) announced on Friday.

The figure brings year-to-date and year-on-year (yoy) inflation rates to 0.24 and 2.57 percent, respectively.

Bloomberg reported that Indonesia's yoy inflation rate was the lowest since November 2009, and lower than the 2.75 percent median estimate from its survey of 24 economists.

February's 2.57 percent yoy inflation rate is well within Bank Indonesia's (BI) targeted annual inflation range of 2.5 to 4.5 percent.

BPS said the February deflation was driven primarily by a 1.11 percent price decrease in several food commodities, such as chicken meat, eggs, red chili, shallots and fish.

"We started the first two months [of 2019] with relatively manageable inflation, which was good," said Coordinating Economic Minister Darmin Nasution in Jakarta on Friday.

He said the recent harvest of chilis and shallots had contributed to deflation in the commodities last month, while the government's previous decision to control prices of poultry feed through imports helped lower prices of chicken meat and eggs.

The government imported 280,000 tons of corn between November 2018 and January 2019 amid complaints by farmers about skyrocketing poultry feed prices caused by a shortage of supply in the market.

Meanwhile, price increases occurred in transportation, communication and financial services with 0.05 percent inflation in February, driven by airfare price hikes, said Yunita Rusanti, BPS deputy head of statistics distribution and services.

On the other hand, she said, the prices of non-subsidized fuel such as Pertamina and Pertamina Turbo decreased in February, contributing to the deflation.

February also recorded 1.3 percent deflation in volatile food commodities, as well as a core inflation rate of 0.06 and 0.26 percent inflation in overall administered prices.

The benign inflation may provide a boost for President Joko "Jokowi" Widodo, who is running for a second term in office, as some experts say that stable prices

es are among the factors that will influence voters. The presidential election is scheduled for April 17.

The low inflation rate in the past few months has also influenced BI's decision to pause its monetary tightening after raising its benchmark interest rate by a total of 175 basis points. The central bank kept its policy rate unchanged at 6 percent in the past three policy meetings.

Eric Sugandi, a Tokyo-based economic observer, warned that deflation would be unfavorable for the economy if it continued for a long period of time. Should deflation occur for many months, it highlighted consumers' aversion to spending, just like the household spending pattern in Japan, where people tended to save their income, he said.

In Indonesia, he said, deflation tended to be caused by seasonality factors, such as increases in the supply of goods.

An example of the seasonality factor is the agricultural harvest across the country. During the harvest season, prices of food commodities tend to decrease as supplies are abundant. The deflation in February is a prime example of this.

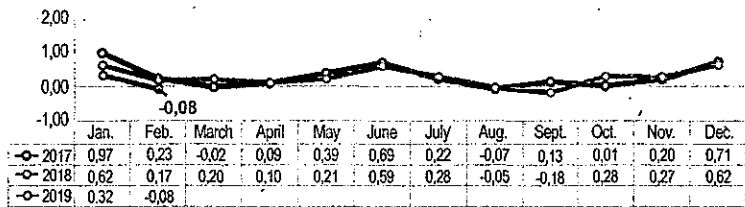
At other times of the year, such as during the Islamic festivals of Ramadhan and Idul Fitri, people in Indonesia, a Muslim-majority nation, tend to spend more. When supplies are unable to meet the rising demand, consumer prices often increase and contribute to some spikes in inflation.

Lana Soelistianingsih, an economist at Samuel Sekuritas, voiced a similar opinion that deflation occurring over a long period of time was unfavorable as declining prices would discourage businesses from expanding their production.

However, Lana said domestic demand was still strong, highlighted by inflation in core components of the price index, and that Indonesia had recorded monthly deflation two or three times each year since 2010.

In 2018, deflation of 0.05 and 0.18 percent was seen in August and September, respectively. In 2017, deflation of 0.02 and 0.07 percent was recorded in March and August.

Month-to-month inflation



Source: BPS

Military told to focus on defense

Safrin La Batu

THE JAKARTA POST/JAKARTA

Civil society organizations and activists have strongly rejected the government's plan to assign military officers to some civilian posts, saying it could be dangerous for civilians and the military itself.

Usman Hamid, Amnesty International Indonesia director and activist who played a role in toppling the New Order regime in 1998, called the decision a "setback" from the mandates of *reformasi* (Reform Era), including to completely drive out the military from civilian affairs, especially politics. He further argued that the Indonesian Military's (TNI) involvement in civilian affairs would distract it from its main mandate as a state defense apparatus.

"The military must remain at the barracks and do their job to practice, conduct exercises, practice and conduct exercises again until we have a strong and powerful military to help leverage Indonesian politics across the region," Usman told *The Jakarta Post* in a recent interview.

"Increasing the number of active military officers in civilian posts is not only dangerous for civil-military relation but also really bad for the military itself."

The government plans to increase the number of civilian posts that active military officers can fill to curtail the number of jobless middle-and high-ranking officers because of overstaffing.

The plan will be implemented through a planned revision of the existing military law, which names only 10 ministries and institutions in which an active officer can take part.

President Joko "Jokowi" Widodo recently said that he had ordered Coordinating Political, Legal and Security Affairs Minister Wiranto and TNI commander Air Chief Marshal Hadi Tjahjanto to process the planned revision of the law.

At least 150 high-ranking and 500 middle-ranking military officers are currently jobless because more there are more officers being recruited than there are positions. Jokowi said 60 new positions would be available for high-ranking military officers.

According to Muradi, a military expert at Padjajaran University in Bandung, West Java, the TNI could have up to 800 jobless officers as an unanticipated result of the dissolution of the military's role in civilian affairs in 1998.

"When the *dwifungsi* [dual role] was abolished, the government at the time should have had an exit strategy [to prevent an officers surplus]," Muradi said.

Dwifungsi was a doctrine established by Soeharto's authoritarian regime that gave the TNI permanent seats in the House of Representatives and allowed active military officers to take up civilian roles.

Human rights group Imparsial previously aired its criticism of the government's plan to add more posts for active military personnel. Imparsial director Al

Restructuring plan setback for reform: Amnesty International Indonesia

TNI should abolish noncombat functions, strengthen Kostrad: Imparsial

Araf said any attempt to expand the military's role in civilian affairs was a violation of the mandate of *reformasi*, the transition from the authoritarian regime in 1998.

"Reforming the military is a fundamental element of the 1998 *reformasi*. So, we want the military to go back to barracks. The military's attempts to step out of the barracks have been denounced since [the start of] *reformasi*," Al Araf told reporters recently.

"The military should focus on training in the area of state defense."

Restructuring the military is possible, but it should be based on the need to address geopolitical changes and perception of wars, he said, adding that this could mean abolishing some parts of the military deemed no longer effective rather than expanding the role of the military to civilian affairs.

Al Araf suggested that the military abolish what he calls "non-combat functions", such as territorial commands, and strengthen its Army Strategic Commands (Kostrad), which he said proved more effective in conducting combat operations such as in Aceh and Papua.

"In some cases, such as operations in Aceh and Papua, Kostrad functioned much better compared to the territorial commands," Al Araf said, adding that failure to identify its priority would hamper the military from properly functioning.

On Thursday, the Kamisan group of activities — who hold peaceful rallies in front of the State Palace on the same day each week to demand that the government resolve past human rights violations — decided to bring posters to their protest to reject "the return of *dwifungsi*" and the planned revision of the military law.

National Commission on Human Rights (Komnas HAM) commissioner Choirul Anam said in a discussion on Friday that there was no urgency to revise the military law at the moment, but it was crucial to think about revising the 1997 Military Tribunals Law because it was no longer relevant in democracy.

"We oversee many cases that are connected to the military. When we summon military officers [for questioning], they refused to come," he said.

Defense Minister Ryamizard Ryacudu has played down concerns raised by civil society organizations about the return of the military's dual function.

"This is a baseless claim," he said. "And it will depend on the relevant ministries whether or not they will accept [the military officers]."

Mar. 4, 2019
J. Post

Dems still show no interest in campaigning for Prabowo

Nurul Fitri Ramadhani

THE JAKARTA POST/JAKARTA

It is less than a month before election day, yet the Democratic Party is still preoccupied with its own targets for the legislative election while not doing much for its presidential ticket Prabowo Subianto-Sandiaga Uno.

At the end of last year, party chairman Susilo Bambang Yudhoyono conceded that his party was prioritizing the legislative election to secure as many legislative seats as possible, but then pledged to start campaigning for Prabowo in March this year.

However, no action has proven that the party would give its all for Prabowo, even worse, Yudhoyono withdrew himself from the April legislative and presidential elections after his wife, Ani, was diagnosed with leukemia.

Yudhoyono has decided to accompany his wife, who is receiving intensive medical treatment in Singapore, and handed over command of the party for the election campaigns to his eldest son, Agus Harimurti.

In his capacity as the leader of the party's Joint Command (Kogasma) for the 2019 elections, Agus led on Saturday his first consolidation meeting with the party's central board executives and representatives from all provincial chapters.

"I am ready to lead the party to

Yudhoyono only mandated Agus to lead legislative campaign

PDI-P politician said some Dems might not support Prabowo-Sandiaga

win the legislative election," Agus said.

While in the 2014 election the party secured 10.19 percent of the vote in the legislative election, Agus said he targeted to achieve more this year. During the meeting, however, he said nothing about the Prabowo-Sandiaga campaign.

Democrat secretary-general Hinca Pandjaitan said the party had already sent several senior members to work with Prabowo's campaign team, and he considered that it was more than enough.

"We've already assigned several party members to the team. We shouldn't intervene in the work [of the presidential campaign team] anymore. [Yudhoyono's mandate] is only about the legislative election," Hinca said.

Agus gave a speech on Friday after receiving a mandate from his father to take over the party's command to lead the election campaigns.

The former Army officer talked more about the future of the political party that his father and the whole family had built and run.

He said the current concurrent legislative and presidential elections had divided political parties and voters behind the two presidential tickets — Prabowo-Sandiaga and incumbent President Joko "Jokowi" Widodo-Ma'ruf Amin.

The system, said Agus, has disadvantaged medium-sized parties like the Democrats, which do not have any of its members as presidential and vice presidential candidates. The medium-sized parties had to fight fiercely in the legislative election because they would not receive any coattail effect from the candidates running in the presidential election.

He did convey the party's aspirations to "the next president" but did not specifically name the presidential ticket that the party was supporting.

Democrat deputy secretary-general Renanda Bachtar told *The Jakarta Post* that Agus' speech was not for the presidential campaign. "It was more about strengthening the party's internal consolidation," Renanda said.

The Democrats have been criticized for showing less interest in supporting Prabowo-Sandiaga despite officially endorsing them.

After Agus failed to secure a vice presidential ticket from both Prabowo and Jokowi, the Democrats seemed to lose appetite in supporting the candidates and instead campaigned for themselves

while carrying the image of Yudhoyono, who led the country for 10 years.

Many political observers saw that the Democrats only supported Prabowo, who is also Gerindra Party chairman, because the party had no other option. The current regulation stipulates that if a party does not join any coalition to endorse a presidential candidate, it will not be allowed to join the presidential race in 2024. In fact, Yudhoyono is said to be preparing Agus to contest in the 2024 presidential race.

Separately, Indonesian Democratic Party of Struggle (PDI-P) secretary-general Hasto Kristiyanto of the Jokowi camp also questioned the absence of Prabowo-Sandiaga endorsement in Agus' speech.

"Maybe there are some aspirations from the Democrats that are not accommodated by the [Prabowo-Sandiaga] pair," said Hasto.

Gerindra deputy chairman Fadli Zon dismissed the criticisms against the Dems, saying it was not a big deal that Prabowo and Sandiaga were not mentioned in Agus' speech. He believed that the Dems' support was solid for Prabowo.

"They're currently focusing on their internal affairs. It doesn't matter because they've already declared support for us [Prabowo-Sandiaga]. I think the party's stance is clear," Fadli said.

Sumatra Jokowi's greatest hill to climb

Karina M. Tehusijarana
THE JAKARTA POST/JAKARTA

With little over a month to go until election day, the rival presidential campaigns are ramping up their efforts to garner support in their opponent's strongholds.

While President Joko "Jokowi" Widodo has managed to gain significant ground in provinces like West Java and Banten, which challenger Prabowo Subianto won by wide margins in 2014, the island of Sumatra remains a challenge for the incumbent.

In 2014, four out of the 10 provinces that Prabowo won were located in Sumatra, namely West Sumatra, Aceh, South Sumatra and Riau. Prabowo had the slight edge overall, garnering 50.25 percent of the 26 million votes cast on the island.

While South Sumatra and Riau were close races, with margins of less than 5 percent, Prabowo won West Sumatra in a landslide, amassing 76.92 percent of the vote, and won Aceh with 54.39 percent of the vote.

Jokowi-Ma'ruf Amin campaign team chairman Erick Thohir said that while he was confident Jokowi could pull ahead in South Sumatra and Riau, West Sumatra and Aceh remained sticking points.

"We are weak in West Sumatra and Aceh," Erick told reporters at a recent press briefing, adding that he was not sure why the two provinces remained strongly in Prabowo's grip.

A January survey from Jakarta-based pollster Charta Politika found that while he led nationally, Jokowi lagged in Sumatra, with a 43 percent electability rate compared to Prabowo's 49 percent.

Members of native Sumatran ethnic groups also seemed to be less inclined to vote for Jokowi: 64.3 percent of ethnic Minangkabau and 53.7 percent of ethnic Malay respondents preferred Prabowo.

James Hellyward, a professor at Padang-based Andalas University and former West Sumatra administration official, said that cultural perspectives were a big factor in Jokowi's relative unpop-



JP/Seto Wardhana

Heading up: President Joko "Jokowi" Widodo (left) greets residents while he shops at Lippo Plaza Kendari on the sidelines of his work visit to Kendari, Southeast Sulawesi, on Friday.

Jokowi's camp 'weak' in three Sumatran provinces

Many W. Sumatrans, Acehnese favor leaders with 'tough image':
Researcher

ularity in the region.

"Minang people look at *takah, tageh* and *tokoh* [appearance, firmness and stature], which tends to favor Prabowo as a military man," he told *The Jakarta Post*.

"Jokowi's *wong deso* [villager] appearance makes it hard to appeal to people here. Even I do not look very convincing," he joked, referring to his failed run as a Padang vice mayoral candidate in 2013.

Achmad Fadhiel, an Aceh native and former president director of Aceh-based state fertilizer producer PT Pupuk Iskandar Muda, said the perceived lack of central

government attention to the province also exacerbated the problem.

"As a post-conflict area, Aceh needs government-led investment and while Jokowi promised a lot he hasn't really followed through," Fadhiel told the *Post* on Sunday. "It seems that he cares more about eastern Indonesia and Papua."

He said that the lack of attention particularly stung because Aceh was formerly one of Indonesia's richest provinces and had played an important role in the struggle for independence.

Erick denied, however, that Jokowi gave Papua special treatment.

"I think the President treats every province equally, but maybe people in Aceh and West Sumatra feel differently, and that's part of democracy," he said.

Analysts and observers also pointed to cultural and histori-

cal factors as reasons why Jokowi had found it difficult to gain traction in the two provinces.

Centre for Strategic and International Studies (CSIS) researcher Arya Fernandes, a native of West Sumatra, said that West Sumatra and Aceh were the former bases of the Islamist Masyumi Party, which was banned by former president Sukarno in 1960, leaving a distaste for the Sukarno-associated Indonesia Democratic Party of Struggle, a main supporter of Jokowi.

"West Sumatrans and Acehnese also have a preference for leaders that project a tough image, which is more associated with Prabowo," he said.

Charta Politika executive director Yunarto Wijaya echoed Arya's comments, saying that native Sumatrans favored leaders with military backgrounds like Prabowo.

State should increase funding for parties, says KPK

The Jakarta Post

JAKARTA

The head of the anticorruption body has suggested that the number of corruption cases involving politicians would decline if the government increased state funding for political parties.

"When the state leaves [political parties] to seek financing on their own, this [corruption] happens," Corruption Eradication Commission (KPK) chairman Agus Rahardjo said recently, during an annual coordination meeting with the Financial Transaction Reports and

Analysis Centre (PPATK).

The discussion also saw the attendance of representatives from several state institutions and business associations.

He added that the situation did more harm than good, and suggested that the government increase funding to Rp 10,000 (71 US cents) from Rp 1,000, and that governments even financed political parties in other countries.

"The country's electoral regulations should be reviewed in a bid to reduce electoral costs and prevent corruption among politicians," added Agus.

Many corruption cases in Indonesia have implicated political parties, whose electoral campaigns are rife with political transactions. Antigraft watchdog Indonesia Corruption Watch (ICW) also reported that political parties charged illegal fees to those aspiring to a legislative or executive post.

Last year, the KPK arrested top Golkar politicians Eni Maulani Saragih and former social affairs minister Idrus Marham for their alleged involvement in a Rp 500 million (US\$35,742) graft case on the development of a coal-fired power

plant (PLTU) in Riau province. Eni claimed that the bribe was intended to fund Golkar's campaign for the 2019 general election.

Agus said the KPK had discussed the idea of reviewing electoral regulations with a number of institutions, including the Indonesian Institute of Sciences (LIPI), and that it also planned to discuss the idea with relevant policymakers.

Anticorruption NGO Transparency International (TI) Indonesia said it supported the KPK's suggestions, saying the measures could reduce political parties' depen-

dence on brokers. Additional developments were needed, however, to eradicate political corruption.

TI Indonesia secretary-general Dadang Tri Sasongko said the government should develop measures to prevent politicians from rigging state and regional budgets, procurement processes and licensure.

"If these ways are not developed, state funding will only be seen as a kind of 'pocket money' for political parties," said Dadang.

Last year, the government significantly increased annual funding for political parties to

Rp 1,000 per valid vote, from Rp 108 per valid vote that had been in effect since 2009. The move was expected to improve the capacity and accountability of politicians elected to public office.

Antigraft activists said at the time that the increase should be supplemented with efforts to improve the accountability of political parties. Some state institutions also argued over the funding hike, with the Home Ministry suggesting Rp 5,400 per valid vote, while the Finance Ministry stood firm at Rp 1,000 per valid vote. (das)

Man 2019
J. Pop.

Train services to boost 'year of integration'

Devina Heriyanto
THE JAKARTA POST/JAKARTA

Jakarta, which has topped various lists of cities with the world's worst traffic, enters a new era this year. This month, it will welcome the country's first MRT and the capital's first light rapid transit (LRT) services.

Today, the use of public transportation in the capital stands at 24 percent, a far cry from the targeted 60 percent. The government hopes the new transit modes will see more people leave their cars or motorbikes at home and opt for public transportation to get around the city.

This year, in the words of Jakarta Transportation Agency head Sigit Widjatmiko, would be "the year of integration". Passengers can expect to easily hop between different modes of transportation on a trip.

For instance, LRT passengers who wish to continue their trip with the city's rapid bus transit system, Transjakarta, can use a footbridge that will connect the LRT Jakarta International Velodrome Station in Rawamangun, East Jakarta, with the Pemuda bus stop. Meanwhile, Dukuh Atas in Central Jakarta is expected to be a transit point for passengers of the MRT, LRT, Commuter Line, airport train and Transjakarta.

While it is easy to distinguish between buses and trains, all these news trains can get confusing. What is the difference between MRT, LRT Jakarta, LRT Jabodebek and the already-running Commuter Line?

The MRT is expected to run by the end of March. The 15.7-kilometer first phase of the MRT is currently at 99 percent completion, connecting Lebak Bulus in South Jakarta and the Hotel Indonesia traffic circle in Central Jakarta. The second phase will

weighing 31 to 35 tons each. The trains are 118 meters long and capable of carrying 1,200 to 1,800 passengers. The MRT is expected to carry 173,400 passengers per day.

The MRT runs at up to 80 kilometers per hour underground and 100 kph on elevated sections of the line. With the MRT, the journey from Lebak Bulus to Hotel Indonesia will take 30 minutes. With the initial routes and units, the interval between trains is expected to be five minutes.

The MRT Jakarta uses a semi-automated system, where the human operator aboard only controls the doors and departure or any emergencies. The city administration has yet to announce the fare for the MRT. The proposed fare is Rp 8,500 (59 US cents) per 10 kilometers.

The first phase cost Rp 16 trillion, including the funds to build seven elevated and six underground stations.

The second phase is more expensive, estimated to cost Rp 22.5 trillion for 8.3 kilometers, because the route has more underground stations.

The MRT is considered the most sophisticated, because it requires the first-ever construction

of underground stations in the country using four tunnel boring machines. The first one even got a name, Antareja I, and was officiated by President Joko "Jokowi" Widodo.

As for LRT, two companies are building the service in Jakarta. One is PT LRT Jakarta, a subsidiary of city-owned PT Jakarta Propertindo (Jakpro), and the other is state-owned PT Adhi Karya (ADHI). The 5.8-km LRT route from Kelapa Gading in North Jakarta to Rawamangun in East Jakarta cost Rp 6.8 trillion. Each train can carry 270 passengers. The LRT is expected to service 66,150 to 76,140 passengers per day and start operating by the end of March. The Jakarta Transportation Council (DTKJ) has proposed a fare of Rp 10,800.

The second phase of LRT Ja-

karta is planned to connect Velodrome Station in Rawamangun and Tanah Abang in Central Jakarta and is estimated to cost between \$500 and \$600 million.

For the first phase, the LRT Jakarta rolling stock, comprising eight trains, is made in South Korea by train manufacturer Hyundai Rotem for a total of \$33 million, according to the International Railway Journal. LRT Jakarta president director Allan Tandiono told the media that each car cost \$1.8 million.

LRT systems vary in form, but LRT Jakarta defines it as a train with a maximum axle weight of 12 tons. Conventional trains usually weigh 15 to 18 tons. Each LRT Jakarta train consists of two cars with a total length of 28 meters.

Another LRT system that will operate in Jakarta is LRT Jabode-

bek, which stands for Jakarta-Bogor-Depok-Bekasi, also known as the Greater Jakarta LRT. Greater Jakarta LRT was initiated by the central government and constructed by ADHI and state-owned railway company PT Kereta Api Indonesia (KAI).

The first phase of the Greater Jakarta LRT spans over 40 km, connecting Cawang in East Jakarta with Cibubur in East Jakarta, Cawang with Dukuh Atas in Central Jakarta and Cawang with East Bekasi in Bekasi, West Java, costing the company Rp 31 trillion. ADHI had planned for the LRT Jabodebek to be up and running this year, but last month it announced it would run in 2021.

ADHI works with a transit-oriented development concept it calls "LRT City", which includes

housing and commercial facilities near LRT and Commuter Line stations.

Greater Jakarta LRT ordered the rolling stock from state-owned train maker PT Industri Kereta Api (INKA) in December 2017. The value of the order was Rp 4.05 trillion for 186 cars. For INKA, it was the second order, after the company had produced LRT train cars for the country's first-ever LRT in Palembang, South Sumatra.

Last but not least, the Commuter Line runs on the oldest railway system in the country, built by the Dutch administration. In 2011, PT Kereta Commuter Indonesia (KCI) changed the name of the electric train system from KRL to Commuter Line. From 2012 to 2013, the state-owned railway company revamped the Greater Jakarta train system, including by evicting traders from several stations. The company, under the leadership of Ignasius Jonan, then the president director of KAI, tightened rules and significantly increased the frequency of trips connecting Bogor, Depok, Bekasi, Tangerang and South Tangerang with Jakarta.

Although it is the oldest system and uses used trains from Japan, it is by far the most popular mode of public transportation in Greater Jakarta, carrying 336.71 million passengers in 2018, up from 315.81 in 2017. By 2018, the KCI operated 900 trains serving 79 stations in Greater Jakarta, with routes spanning 418.5 km. Each train consists of eight, 10 or 12 cars.

Running at a maximum 90 kph, the headway is between 5 and 10 minutes. However, disruptions are common for various reasons, from power and signal failures to accidents at rail crossings, floods or derailed trains. The fare is Rp 3,000 for the first 25 km, plus Rp 1,000 per additional 10 km.

MRT, LRT Jakarta to officially run in March

All rail-based services in Jakarta aim to boost transportation integration to serve passengers

link the Hotel Indonesia traffic circle with Kampung Bandan, completing the north-south line, to be followed by the last phase for the east-west line.

Sixteen trains are ready for operation, each consisting of six cars. MRT cars are heavier than those of the Commuter Line,

RI to see more M&A of banks this year

Mar. 4, 201
J. Post

Winnie Tang

THE JAKARTA POST/JAKARTA

Mergers and acquisitions in Indonesia's banking industry are projected to flourish this year as foreign investors, mainly from Japan and South Korea, have begun to acquire local banks while big state-owned and private lenders have also shown interest in acquiring the smaller ones.

There are 115 commercial banks currently operating in Indonesia, slightly down from 118 in 2015. Despite the decline in number, regulators have said the number was still "too many" as the country still had the most banks in the ASEAN region.

The high number of banks poses a difficulty in supervision for regulators, particularly the Financial Services Authority (OJK), which has been pushing lenders to consolidate in order to strengthen the national banking system.

Aside from making it difficult for supervision, a high number of

115 commercial banks currently operate in Indonesia

High number of banks poses difficulty in supervision for regulators

banks exposes the whole industry to external risks when global financial markets become more unpredictable, according to the financial regulator.

In order to speed up banking consolidation, the OJK has allowed foreign investors to have more than a 40 percent share in local banks, as long as the deal involves buying two lenders and merging them.

Japanese financial services giant Mitsubishi UFJ Financial Group, Inc. has tapped into this opportunity through its subsidiary MUFG (previously called The Bank of Tokyo-Mitsubishi UFJ, Ltd.). It aims to increase its share in Indonesian private lend-

er Bank Danamon to more than 73.8 percent, to build a strong foothold in Indonesia.

Yasushi Itagaki, Bank Danamon director of global alliance strategy, said the reason for MUFG's aggressiveness in acquiring local banks was that Indonesia was an attractive country to invest in as the country had a fast-growing middle class and low banking penetration.

MUFG also has shares in small-sized lender Bank Nusantara Parahyangan (BNP), which will be merged with Bank Danamon. BNP initially started as a local bank based in Bandung, the capital city of West Java, and has been expanding nationwide since then.

"MUFG's approach in Indonesia is very long term. That's why MUFG decided to invest in these two banks [Bank Danamon and BNP]. After the merger, we will have a better platform to serve our customers," he told *The Jakarta Post* in Jakarta recently.

The merger between Bank Da-

namon and BNP is still pending approval from the OJK and the shareholders of both banks. "We will hold a shareholders meeting on March 26 related to the merger plan," said Rita Mirasari, Bank Danamon corporate secretary.

Another Japanese investor, Sumitomo Mitsui Financial Group Inc., has stepped up its game by acquiring shares in Bank Tabungan Pensiunan Negara (BTPN) on Feb. 1. Its other local subsidiary, Bank Sumitomo Mitsui Indonesia (SMBCI), will be merged with BTPN.

Investors from South Korea have also shown interest in investing in Indonesian banks. One example is the acquisition of a 77 percent share in small-sized lender Bank Dinar by South Korea's financial services firm Apro Financial last year. Apro Financial also owns a 99 percent share in another small lender Bank Oke Indonesia. The two local subsidiaries of Apro Financial will be merged as well, effective as of May 2.

Recently, the Industrial Bank of Korea (IBK) acquired a 71.68 percent share in Bank Mitra-niaga. IBK has also become the controlling shareholder of Bank Agris. The South Korean bank will merge two publicly listed local lenders, namely Bank Mitra-niaga and Bank Agris. After the merger, the combined bank will have a core capital of between Rp 1 trillion (US\$70.8 million) and Rp 5 trillion.

Big local banks are also joining the game. Jahja Setiaatmadja, president director of Bank Central Asia (BCA), said recently that the country's biggest private lender would acquire a private bank in the BUKU I category soon. Banks categorized under the BUKU I category are those with core capital of less than Rp 1 trillion.

"We haven't publicized the bank's name yet because we are still negotiating the price. It is still in the due diligence process," he said.

OJK executive head of bank-

ing supervision Heru Kristiyana recently hinted that BCA would acquire small-sized lender Bank Royal Indonesia in the near future.

State-owned lender Bank Tabungan Negara (BTN), which largely focuses on mortgage lending, has earmarked Rp 1 trillion in its budget for inorganic growth, including an acquisition plan.

"We plan to acquire a life insurance company, a venture capital firm and an asset management company this year," he told *the Post*.

Banking expert Paul Sutaryono said mergers between small banks would enable them to survive. By staying small, he said, they would not be able to penetrate the market due to limited capital.

He added that the entrance of foreign investors into Indonesian banks would make the competition between local banks more intense, which meant that they would strive to set better strategies in order to offer the best services to customers.

INVESTMENT

British company to invest in West Java waste-to-fuel plants

Rachmadea Aisyah

THE JAKARTA POST/JAKARTA

British recycling company Plastic Energy Ltd. is set to invest US\$200 million to build waste-to-fuel plants in several cities across the province, according to West Java Governor Ridwan Kamil.

West Java is home to over 50 million people or 20 percent of Indonesia's population.

In an exclusive interview in Jakarta on Thursday, Ridwan told *The Jakarta Post* that the facilities, which will convert low-grade plastic waste into diesel fuel, were part of West Java's broader efforts to address its waste problem.

"The investor [...] will fully fund the plants, so it will be the administration's job to provide around 1 hectare of land for each plant," Ridwan said in the interview, which was held on the sidelines of a discussion forum.

"We plan to set up the first one in Bogor as it is the most prepared city to do this."

In the forum, Bogor Mayor Bima Arya said the city, located approximately 60 kilometers from Jakarta, was preparing to house one of Indonesia's first waste-to-fuel plants.

"Our city produces 600 tons of waste each day and 13 percent of it is plastic waste," Bima said. "The number has reduced by 40

tons a day since we launched the single-use plastic ban, but we want to not only reduce but also repurpose the waste."

The city administration, he said, has been in talks with Plastic Energy for some time about the partnership, and both sides shared the expectation of starting construction on a plant this year.

In addition to waste-to-fuel plants, West Java has implemented other programs to manage its waste, such as building a refuse-derived fuel facility in Bogor and employing housewives to sort waste in return for gold savings in a scheme called waste-to-gold, Ridwan added.

"In the meantime, Bogor has also issued a ban on single-use plastics [...] I will issue a circular letter to other cities in West Java to follow Bogor's example by issuing the same ban," he said.

On the same occasion, Kirk Evans, Plastic Energy's government relations in Indonesia, said the company was planning to build five waste-to-fuel plants costing \$40 million each across West Java.

Each plant is expected to process 70 tons of low-grade plastic waste per day, such as plastic bags and wrappers, and convert it to fuel. For every ton of plastic waste, he said, the plant could make 860 liters of fuel, compris-

ing 80 percent diesel and 20 percent naphtha.

Prior to the announcement, Plastic Energy had spent 18 months researching cities across Indonesia as candidates for its first plant. The West Java administration recently approved the project.

"Currently, we are putting together a kind of study to identify the correct cities [to establish the plants in]," he said. "We are also looking out for some private, local partners, so we will hopefully be able to start the plant's construction within this year."

He said the study would take another three months to complete before the company could start building a plant, which would be completed approximately within 18 months.

Evans said it was important for the company to partner with the local government as the latter was the only party capable of providing the waste needed by the company to operate.

Indonesia, he added, would be the first country in Southeast Asia the company has partnered with. Before that, it had built similar plants in Spain.

"We are very much open to the opportunity to expand these plants to other provinces [...] probably in some of the second-tier cities that have open dumps and lots of plastic waste," he said.