

Election rhetoric heats up

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THE JAKARTA POST/JAKARTA/
SURAKARTA

With less than a week to the end of the campaign period, rival presidential camps have escalated their rhetoric, with both candidates shedding their previous nonconfrontational stances and going on the offensive in an attempt to shore up votes.

"I think electoral considerations have caused the candidates to change the way they campaign," Centre for Strategic and International Studies (CSIS) researcher Arya Fernandes told *The Jakarta Post* on Tuesday.

Gerindra Party chairman Prabowo Subianto, in particular, has stepped up his fiery oratory, lambasting the "bastards" who were "raping the motherland".

"Our country is sick, the motherland is being raped, our people's rights are being stepped on. A handful of people, elites in Jakarta, they are carelessly ruining the nation, they are [...] Can I speak a little harshly here, Pak?" he said in a mass campaign event in Yogyakarta on Monday.

"There's only 10 days left [to the end of the campaign] — they are bastards," he continued to cheers from the crowd.

Prabowo repeated the same rhetoric in a campaign speech in Palembang, South Sumatra, on Tuesday.

"Brothers and sisters, in my opinion, our country is sick. The motherland is sick," he said.

"I even feel that the motherland is being raped. Our wealth is being robbed."

During the 2014 presidential race, Prabowo gained a reputation for being hot-headed, lashing out at journalists for what he perceived as unfavorable coverage and even reportedly throwing a cellphone at a fellow politician.

At the beginning of the current presidential campaign period, his camp attempted to counter this image to win more support, particularly among young voters.

"Pak Prabowo is a fun person. The new Prabowo is someone who is very relaxed," running mate Sandiaga Uno said in September last year.

Prabowo steps up attacks on incumbent; Jokowi slams Prabowo for being irritable

Aggressive campaigning reflects ever-nearer election day: Analyst

However, Prabowo's temper has been in the spotlight in recent weeks, particularly after he scolded the audience at the last presidential debate on March 30 for laughing.

At Monday's event in Yogyakarta, the former general became emotional and slammed his hand on the podium several times before being calmed by National Mandate Party (PAN) politician and campaign advisor Amien Rais.

"Perhaps Prabowo feels that the softer campaign methods he used in the past are not bringing any electoral benefit, so he is being more aggressive," Arya said.

Meanwhile, President Joko

"Jokowi" Widodo, who previously cultivated the image of a typical soft-spoken, polite Javanese, has been quick to make thinly veiled barbs at Prabowo.

"A celebration of democracy should be joyful; no one should scare people, no one should be pessimistic, no one should get angry," Jokowi said at a campaign event in Karawang, West Java, on Tuesday.

He previously denied that the country was being "raped", saying instead that "the motherland is doing well".

Jokowi has also been more aggressive in responding to attacks against his character, citing viral claims that he would abolish religious education, legalize same-sex marriage and ban the Islamic call to prayer at a rally in his hometown of Surakarta, Central Java, on Tuesday.

"We have to be brave enough to fight hoaxes, slander and fake news, don't we?" he said.

"They have be straightened out, corrected, set right."

The incumbent's running mate, Ma'ruf Amin, has also criticized Prabowo's rhetoric, saying that a leader should be "patient and polite".

"[A leader] should give positive guidance," he told reporters in West Bandung, West Java, on Tuesday.

"They should not demonstrate harsh or antagonistic attitudes."

The Jokowi-Ma'ruf campaign team has taken an even more direct approach in going after Prabowo.

"All this time, [the Prabowo-Sandiaga campaign team] has tried to rebrand the pair with the term 'the New Prabowo', promoting an image that is gentle, friendly, interactive and communicative. But once again, they have completely failed," Jokowi campaign spokesperson and Indonesian Solidarity Party (PSI) secretary-general Raja Juli Antoni tweeted on Tuesday.

The Prabowo campaign, on the other hand, has sought to portray the candidate's explosive remarks

as an expression of his genuine concern for the country.

"We've tried to convince him to control his tone during his speeches, but he's smarter than us. It's his original character," said Prabowo campaign spokesperson and PAN politician Dian Fatwa.

"What we know is, he has a deep concern for many of the nation's problems."

According to political observer Pangi Chaniago of the Syarif Hidayatullah State Islamic University (UIN), there may be a greater strategy at work behind Prabowo's apparent change of attitude.

"Prabowo's firmness might increase the number of strong voters he has," he said.

Arya added that increasingly aggressive narrative of both sides was a reminder of the fast-approaching election day.

"The last seven days before the election is a very crucial time period to garner votes," he said.

"But candidates should also be careful not to say anything that might drive voters away."

Sulawesi tough battleground for Jokowi, Prabowo

Apr. 10, 2019
J.P.

Sulawesi

2014

Voters: 13.6 million

Polling stations: 36,328

Turnout: 70 percent

Winners:

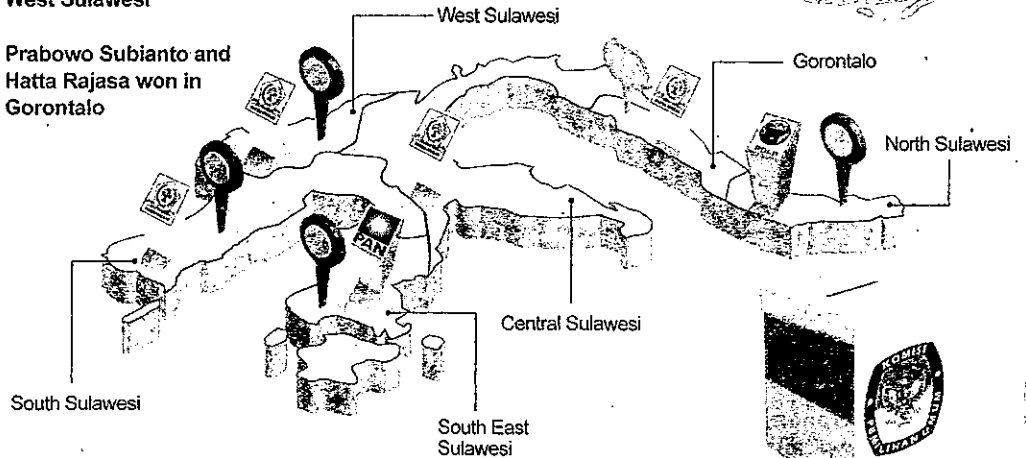
- ◆ Indonesian Democratic Party of Struggle (PDI-P) won in North Sulawesi
- ◆ Golkar Party won in Central Sulawesi, South Sulawesi, West Sulawesi and Gorontalo
- ◆ National Mandate Party (PAN) won in Southeast Sulawesi



Joko "Jokowi" Widodo and Jusuf Kalla won in North, Central, South, Southeast and West Sulawesi



Prabowo Subianto and Hatta Rajasa won in Gorontalo



2019

Voters: 13.4 million

Polling stations: 58,394

Nurul Fitri Ramadhani and Andi Hajramurni

THE JAKARTA POST/JAKARTA/MAKASSAR

Sulawesi may serve as a tough battleground for presidential candidates competing in the April 17 race, as neither ticket seems to have the upper hand on the island.

Incumbent Joko "Jokowi" Widodo won almost all six provinces across the island in the 2014 election, mainly thanks to then-running mate Jusuf Kalla, a native of South Sulawesi and an influential figure in the region. The Prabowo Subianto-Hatta Rajasa pair won only in Gorontalo in 2014, securing 63.1 percent of votes, while Jokowi-Kalla won 36.9 percent.

The latter pair led by a narrow margin in three Sulawesi provinces and won more than 70 percent of votes in West Sulawesi and South Sulawesi.

Kalla's supposed influence, however, is losing significance for Jokowi, who is running with Muslim cleric Ma'ruf Amin this time around. Kalla has served as vice president twice, his first term serving with former president Susilo Bambang Yudhoyono from 2004 to 2009, which means he cannot run for a third term.

Political experts have suggested that Sulawesi will be a tougher battleground, especially for Jokowi, compared to 2014. A recent survey conducted by Jakarta-based Centre for Strategic and International Studies (CSIS) revealed that the Jokowi-Ma'ruf ticket would lead with 47.9 percent of the vote, while the Prabowo-Sandiaga Uno pair had 37.9 percent if the election was held today. However, the number of undecided and swing voters remains high

Sulawesi to be tougher battleground for Jokowi, compared to 2014

Once key party in Sulawesi, Golkar no longer dominant political power on island

at 14.3 percent.

"Sulawesi will pose a tough challenge for both candidates, given the high number of undecided and swing voters," CSIS political researcher Arya Fernandes said recently.

Jakarta-based Voxpol Center Research and Consulting executive director Pangi Syarwi was even more confident that there was a chance Jokowi would lose altogether.

"In the 2014 election, Jokowi-Kalla won votes in Sulawesi only because of Kalla's clout. But the pattern has changed. If we look at our map, there's the potential for Prabowo-Sandiaga to win this year on the island," he said without elaborating on the details.

Meanwhile, the survey pointed to ruling Indonesian Democratic Party of Struggle (PDI-P), of which Jokowi is a member, as the most popular party on the island, with 19.3 percent, a shift from previous trends that usually put the Golkar Party on top.

The poll shows that Golkar, which also endorses Jokowi's reelection bid, had 12.9 percent of the vote. The leading opposition, the Gerindra Party, which endorses Prabowo-Sandiaga, slightly followed with 12.1 percent. The undecided and swing voters reached 24.3 percent.

"On voting day, the swing voters can spread to other political parties besides the two [PDI-P and Gerindra]" Arva said.

Around 15 million of the total 192 million eligible voters are registered to vote across Sulawesi, according to the General Elections Commission (KPU). South Sulawesi has the highest number of registered voters with around 6 million.

Ali Armunanto, a political expert from the University of Hasanuddin in Makassar, South Sulawesi, told *The Jakarta Post* that neither political party nor presidential candidate would dominate Sulawesi in this year's elections.

"Parties like Golkar no longer have a strong influence, particularly in South Sulawesi, because their leaders are not running in the presidential race. The PDI-P and Gerindra may lead because both presidential candidates are members of those parties."

Ali further pointed out that the wavering support of powerful clans in the region was a disadvantage for Jokowi.

The Limpo clan, known as a powerful dynasty in South Sulawesi and a key member of the Golkar Party, has been losing its influence after some members of the family were implicated in graft cases. In the 2018 South Sulawesi gubernatorial regional election, Gowa Regent Ichan Yasin Limpo, brother of former governor Syahrul Yasin Limpo, lost to Nurdin Abdullah, a former academic who was endorsed by the PDI-P, National Mandate Party (PAN) and Prosperous Justice Party (PKS).

The Kalla clan has so far failed to show a strong commitment to Jokowi's reelection bid, Ali said. Despite Kalla's role as a member of the advisory board of the Jokowi-Ma'ruf campaign team, his nephew, Erwin Aksa, who is deputy chairman of the Indonesian Chamber of Commerce and Industry (Kadin) has de-

clared his support for Prabowo-Sandiaga.

Both Ali and Arya also suggested that the undecided and swing voters will matter in the 2019 election.

"[The undecided] voters doubt that the elected president will still provide facilities for the region the way Kalla did," Ali said.

Both presidential candidates have chosen Sulawesi as a major destination for their election campaign.

During the three-week massive campaign period, Prabowo visited Makassar and Manado, North Sulawesi, while his running mate Sandiaga separately visited Makassar and Palopo, South Sulawesi. Meanwhile, Jokowi visited Manado, Makassar, and Mamuju in West Sulawesi.

Jokowi has targeted to win more than 74 percent of votes in West Sulawesi and 75 percent in South Sulawesi. The incumbent is also confident that he can secure the majority vote in West Sulawesi.

"Now that I have visited [the province], I should be able to secure more than 74 percent," Jokowi said during a recent rally in Mamuju.

In Manado, Prabowo tried to attract voters with his ethnic background, emphasizing that he was part Minahasan, one of North Sulawesi's ethnic groups, from his mother's side, Dora Marie Sigar, a Christian woman from Manado.

"I decided to start the [massive] rally in this Minahasa land because this is my mother's homeland. I have Minahasan blood," Prabowo said during a rally in Manado.

Ghina Ghaliya in Jakarta contributed to the report

Jokowi's ideological shift

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T. Post

has not gone unnoticed

Bidding for his reelection in the April 17 presidential race, the incumbent Joko "Jokowi" Widodo has focused his attention more on winning the hearts and minds of conservative voters, reflected among other means by his choice of running mate and giving concessions to the military.

Jokowi, a socialist by ideology, squares off with Prabowo Subianto, a former army general, who counts mostly on conservative voters to get him into office. Given society's increasing trend toward conservatism, both candidates are now scrambling for votes from this segment.

Jokowi's apparent ideological shift may be more for expediency to ensure victory, but voters from his traditional support base to the left of the political spectrum fear it could have major policy implications for his next administration.

Many have declared through social media memes that they will not vote, making clear they did not endorse the shift, but that they would not give their vote to

the challenger who is even further to the right, embracing hard-line Islamic groups.

In the final weeks before polling day, most surveys show Jokowi is ahead by a double-digit margin. One or two surveys say his lead is in the alarming level of a single digit.

Amid growing concern that high absenteeism could turn the election results around, Jokowi's camp has been campaigning hard in the last few days to get the vote out on voting day.

"Cast your vote and then go on holiday," Jokowi has been repeatedly telling voters. Others use harsher words to intimidate people to vote, even knowing that voting is voluntary.

Voting day is a national holiday and with Good Friday on April 19, also a national holiday, many people are planning to take an extended holiday, and some are even contemplating leaving town for the entire week. They include disillusioned voters who would have voted for Jokowi.

As things stand at the moment, Jokowi appears to be unbeatable,

COMMENTARY



Endy Bayuni

THE JAKARTA POST/
JAKARTA

even more so with his apparent shift to the right. Incumbency confers advantages that Jokowi did not have when he, as Jakarta governor, contested the presidential race for the first time in 2014, also against Prabowo.

This time, Jokowi has a track record to show for while Prabowo does not. His die-hard supporters would argue it is excellent, but for most voters it is good enough; not too disastrous for them to want to replace him. Then-president Susilo Bambang Yudhoyono had a lackluster record in 2004-2009, but won by a landslide in his reelection bid in 2009.

On the economy, Jokowi has delivered a yearly growth rate above 5 percent, good enough to sustain the economy, reducing the poverty rate to a historic low, keeping inflation low at 3 to 4 percent and bringing down the unemployment level to 5.6 percent. His universal national healthcare services and 12-year free schooling policies, as well as subsidies for the poor, have endeared him to the poor and the low-middle class. His massive infrastructure programs are beginning to deliver the services that should further facilitate growth in the coming years.

With the candidates racing to be seen as more nationalist, Jokowi is ahead with his "resource nationalism". During his term, the government acquired a majority stake at PT Freeport Indonesia, which controls the largest gold reserves in the world in Papua, from American mining giant Freeport McMoran. He ensured Indonesia's appropriation of the Rokan oil field, Indonesia's largest, from Chevron Indonesia, and the huge Mahakam gas field

from Total Indonesia.

Jokowi's vision for his second term does not depart much from his current policies. Predictably, he has campaigned for continuity, and for endorsement of his existing policies and vision.

Lacking the track record, Prabowo has struggled to come up with a better alternative. He and his team have ended poking at some of the weaknesses and flaws in Jokowi's policies, rather than trying to present a real alternative.

Jokowi's shift to the right of the political spectrum is clearly part of his strategy to win the race, inevitable perhaps, amid increasing conservatism.

His choice of Ma'ruf Amin as running mate upset his traditional supporters who recall that this is the same man who condemned former Jakarta governor Basuki Tjahaja Purnama, and a close friend of Jokowi, to prison for blasphemy through his testimony in court. Jokowi has retained the services of Yusril Isha Mahendra, who chairs the conservative Islamist Crescent Star Party

(PBB), as constitutional law advisor. It was upon Yusril's advice that Jokowi announced the plan to release Abu Bakar Ba'syir, the mastermind of several terrorist attacks in the name of Islam, in January. Jokowi backtracked after protests at home and abroad.

Jokowi's decision to increase the retirement age for military officers to 58 years, and then to allow them take up posts in the civil service, raised the specter of the return to the dual function role of the Indonesian Military in both defense and politics, not unlike the Soeharto years.

How far to the right of the political spectrum is Jokowi shifting? Will he be able to resist pressures from Muslim conservatives and the military who want to have more say in his next government?

Almost assured of election victory, Jokowi's political fate is now very much in the hands of those on the left of the political spectrum. If there are enough of them too angry to vote because of his shift to the right, they could well deliver victory to Prabowo.

PALM OIL

Mahathir, Jokowi send objections to Europeans

Rachmadea Aisyah

THE JAKARTA POST/JAKARTA

Indonesian President Joko "Jokowi" Widodo and Malaysian Prime Minister Mahathir Mohamad jointly sent a letter of objection to the European Union criticizing its decision to no longer consider palm oil as a green fuel and threatening to cut ties with the bloc.

"Both our governments view this as a deliberate, calculated and adverse economic and political strategy to remove palm oil from the EU marketplace," Jokowi and Mahathir said in the April 5 letter.

"Should this delegated regulation enter into force our governments shall review our relationship with the European Union as a whole, as well as its member states. This may include the reviewing of our partnership negotiations, procurement contracts and key imports from the EU," the letter said.

The European Commission determined last month that palm oil has resulted in excessive deforestation and that it should no longer be considered a renewable transportation fuel, albeit with some exemptions, according to Reuters.

That stance would become law unless a majority in the European Parliament or in the group of EU countries objects. So far, there are no indications that either would do so.

Indonesia and Malaysia, the world's two largest palm oil producers, have both threatened a World Trade Organization challenge against the EU plan.

"As we stated on many occasions, the livelihoods of more than 13 million people [farmers and their families] depend on palm oil in Malaysia and Indonesia. This is a core interest of both our countries and we therefore strongly object [to] the delegated regulation," the letter said.

With the planned regulation, the EU would increase its use of renewable energy sources and take into account deforestation when it determines what products can be labeled renewable.

Meanwhile, delegations from both countries arrived in Brussels for an official visit on Monday and Tuesday.

The joint mission of the Council of Palm Oil Producing Countries (CPOPC), which also includes Colombia, have a series of meetings with EU officials, lawmakers and national governments to convey their disappointment and to fight the act put forward by the European Commission, according to Reuters.

In its statement, CPOPC has accused the EU of political and economic protectionism and using environmental issues for its own interests in the Delegated Regulation Supplementing Directive 2018/2001, also known as the Delegated Act.

The Delegated Act is a derivative of the EU's Renewable Energy Directive II (RED II) concerning biofuel, including palm oil.

The joint statement was issued on Monday following a CPOPC meeting in Brussels co-led by Coordinating Economic Minister Darmin Nasution and the secretary-general of Malaysia's Primary Industry Ministry, Tan Yew Chong.

"CPOPC member countries view the Delegated Act as a form of political compromise within the EU aimed at isolating and excluding palm oil from its [...] renewable energy sector for the benefit of EU rapeseed oil and other less competitive imported vegetable oils," said the statement.

"This calls into question the whole Delegated Act and the probability that political and economic protectionism rather than science-based decisions were the true drivers of this Delegated Act [...] as a calculated and adverse economic and political strategy to remove palm oil from the EU marketplace."

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Digital giants help upgrade small businesses

Norman Harsono
THE JAKARTA POST

In the last two years, several digital heavyweights like Go-Jek, Grab and Google Indonesia have launched digital entrepreneurship workshops for micro, small and medium enterprises (MSMEs) in an effort to drive digitalization.

MSMEs contributed more than 65 percent to GDP last year, yet only 9 percent used e-commerce technology like online marketplaces and online delivery services to expand market reach.

Go-Jek, the homegrown ride-hailing company, launched Go-Jek Wirusaha in 2018. The workshop trained 2,200 MSMEs last year and aims to train 35,000 MSMEs this year.

Representatives from MSMEs learned basic business skills in finance, management and marketing during the two-day workshop, as well as an introduction to Go-Jek's services like the Go-Pay e-wallet facility and the Go-Food delivery service.

Similarly, other companies launched training workshops that combined basic business skills and an introduction to their products and services.

FabPie bakery cofounder Agung Saputra, who participated in the Go-Jek training workshop late last year, said that even though FabPie was experiencing steady growth, joining the workshop helped enrich his business knowledge.

Agung, who has a background in management, said that he had been using Go-Jek's online delivery service since 2015, years before the company invited him to join its training program.

He said that FabPie's sales was stagnant at around Rp 10 million (US\$709) per month, but had grown an average 10 percent per month since he started using Go-Food. "Delivery was always our biggest problem. I used to spend half a day just delivering the pies myself, [and] I could only deliver to one neighborhood each day," said Agung.

Go-Food charges a fee of 20 percent to 30 percent for each FabPie transaction.

Grab, Go-Jek's primary competitor, launched its own digital marketing workshop this year. Focusing on the Grab Express logistics service, the workshop had trained 400 entrepreneurs in four provinces by March. Grab also charges a per transaction fee to its service.

Despite success stories like that of FabPie, the Communication and Information Ministry said that MSMEs generally did not exploit e-commerce technology.

The ministry's research shows that only 9 percent of MSMEs used e-commerce technology, while the rest relied on offline

Go-Jek aims to train 35,000 MSMEs this year

Grab had trained 400 entrepreneurs in four provinces by March

outlets (36 percent), internet browsers (31 percent) or social media (24 percent).

"The hardest part is convincing MSMEs about the benefits of using such technology," said Slamet Santoso, the ministry's acting director for information empowerment.

According to McKinsey & Company, MSME entrepreneurs most commonly faced a digital barrier due to a lack of knowledge in digital technology, a lack of employees that could use the technology and a fear that competitors might copy their products and services.

McKinsey concluded in a 2018 report that helping MSMEs overcome the digital barrier was one of five pillars to growing Indonesia's e-commerce industry. The other four pillars were developing logistics infrastructure, developing online payment systems, fostering digital talent and stimulating investment.

In 2017, the government launched the "Go UMKM Online" (MSMEs Go Online) digital entrepreneurship campaign to boost e-commerce, in cooperation with a host of e-marketplaces including Blibli.com, Bukalapak, Lazada and Tokopedia.

Communications and Information Minister Rudiantara said the government's goal was to get 8 million MSMEs using the e-marketplaces by the end of 2019.

However, the campaign focuses more on raising awareness about e-marketplaces than training entrepreneurs in how to use them, and therefore fails to address the digital barrier McKinsey identified in its report.

Nevertheless, the government is still pushing for digitalization to spur growth in the e-commerce industry from \$12.2 billion in 2018 to \$53 billion by 2025, according to a recent Google-Temasek projection.

Google Indonesia also launched its Gapura Digital training program in 2017 in 14 cities, while fellow internet behemoth Facebook launched its Laju Digital program the following year in 15 cities as far east as Jayapura, Papua.

Google and Facebook do not charge commission, and instead profit from increased advertising revenue as more people use their free products, particularly Google Search, Facebook and YouTube.

Advertising revenue contributed 85.2 percent to Google's total revenue last year and 98.5 percent to Facebook's revenue, as stated in their respective annual reports.

E-MONEY

More people shift to cashless lifestyle

Riza Roidila Mufti
THE JAKARTA POST/JAKARTA

Carrying out daily transactions has never been easier for Dundhee Yuwono, a 29-year-old in Surabaya, as he only needs to open a digital wallet on his smartphone to make payments.

"I have gone days where I spend no cash since I'm able to pay for everything via my phone [using mobile payment]. From paying for transportation, buying food and purchasing other stuff, all using a cashless payment system," Dundhee told *The Jakarta Post* recently.

Dundhee, who said he went cashless most of the time, is utilizing a wide variety of cashless payment options such as Go-Pay and OVO, to a debit card and e-money card.

Meanwhile, Fina Ladiba, a digital planner working in Jakarta said she was confident about not holding cash as most of the goods and services she needed could be paid for through a cashless payment system. She also uses numerous payment options and instruments.

"With payment options like Go-Pay and OVO, I have become more cashless. At first, I used cashless payment options for transportation needs and because they offered many promotions but now I've gotten used to paying for everything without cash as it is simpler and easier," said Fina, adding that she paid for food, groceries and her bills through cashless payment systems.

According to a study on consumer payment by Visa Worldwide, Indonesians have become more aware of cashless payment benefits. Visa Worldwide Indonesia president director Riko Ab-

durrahman said the wide variety of cashless payment options had made Indonesians more confident in going cashless.

"Leading a cashless lifestyle is becoming easier and more attractive due to the numerous payment options available such as card payments, contactless payments and QR payments. Consumers are demanding a faster, more convenient and more secure payment experience," said Riko recently.

The surging confidence of Indonesians is also indicated by the rising number of people (82 percent) who said they did not bring cash when going out. The figure was double the 42 percent of respondents who claimed the same in 2017's study. The study also shows that 93 percent respondents were aware of and comfortable in making payments on their mobile phones.

"People are now more confident without cash. This makes sense as there are many basic daily transactions that can be made through cashless payment options, from paying a toll, parking fees, paying for a meal when eating at restaurants and many more," said Riko.

The study also shows that 77 percent of Indonesians expected their use of cashless payment options to increase in the next 12 months. Forty-one percent were also confident that Indonesia would become a cashless society within the next three years, up from the 2017 study when 15 percent of respondents thought that way.

The cashless campaign was launched for the first time by the government in August 2014 as an effort to make Indonesia a less-cash-society (LCS) country and

E-money transaction

Year	Nominal Transaction Value
2014	Rp 3.32 trillion
2015	Rp 5.28 trillion
2016	Rp 7.06 trillion
2017	Rp 12.38 trillion
2018	Rp 47.2 trillion

Data: Bank Indonesia

within five years. Data from Bank Indonesia (BI) indicates how the cashless payment culture is rising as the volume and nominal transaction of e-money has seen a significant increase.

In 2018, BI recorded Rp 47.19 trillion (US\$3.32 billion) in e-money transactions, up significantly from Rp 12.37 trillion in 2017 and Rp 7.06 trillion in 2016. E-money transaction value stood at Rp 5.28 trillion in 2015 and Rp 3.31 trillion in 2014. In general, there are two types of e-money, namely chip-based, such as an e-money card, and server-based with a mobile e-wallet.

As of today, there are 24 e-money issuers from nonbank institutions and 12 issuers from banks, BI data shows. The number of e-money users from nonbank issuers has reached 113.5 million, while bank e-money users number at 60.3 million.

One of the market leaders of cashless payment systems among non-bank institutions is PT Dompet Anak Bangsa (Go-Pay), the digital payment exists in ride-hailing app Go-Jek. Go-Pay corporate communications head Winny Triswandhani said Go-Pay had experienced rapid growth in users, transactions and number of merchant partners since it was

introduced in April 2016.

"Go-Pay has seen very rapid growth and even during 2017 - 2018, we saw a 90 percent increase of active users. A notable factor that drove our significant growth was when Go-Pay could also be used to pay for things outside of Go-Jek's services. Go-Pay can be used to make payment at merchants, such as to buy coffee at a cafe, in e-commerce, even at small merchants," Winny told the *Post*.

As of March, Winny said Go-Pay had partnered with 360,000 merchants, of which 126,000 were small and medium enterprises, such as street food vendors. Payment through Go-Pay is also entering 40 markets across Indonesia.

BI's payment system policy department head, Filianingsih Hendarta, said despite the significant growth of e-money users, the penetration of cashless payment systems had ample room to grow.

"Compared to other countries, such as South Korea, Australia, the United Kingdom, we have room to increase our cashless payment penetration. In Indonesia, the uses of payment using a card, e-money and digital was still under 25 percent in 2018, while other countries have reached above 60 percent," said Filianingsih, while revealing that countries such as South Korea had reached 86 percent cashless penetration in 2018, while Australia had reached 63 percent.

The government aims to boost QR payments. Filianingsih said QR code technology was more efficient and flexible, with transactions carried out through a mobile phone, suitable for Indonesia, where there are 80 million smartphone users.

ANALYSIS

Diversifying source of funding for banks

Rully Arya Wisnubroto
JAKARTA

mandiri

The liquidity of the banking industry began to ease in the beginning of this year, even though it has remained relatively tight. The loan to deposit ratio (LDR), the main indicator of the banking system's liquidity, fell slightly to 93.2 percent in January this year from 94 percent recorded on Dec. 18 last year. However, it was still above Bank Indonesia's (BI) safe level of 92 percent, showing that liquidity was still tight.

The deposit growth remained weak while loan growth continued to increase. In January, the growth of the banking industry's deposit, or third-party fund, was only 6.39 percent, lower than 6.45 percent on Dec. 18, the weakest level since Sep. 16, 2018. On the other hand, loan growth accelerated to 12 percent on Jan. 19 this year.

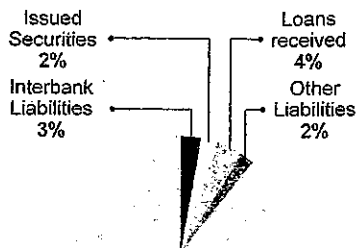
If liquidity remains tight and deposit growth remains slow, room for banks to boost loans will be limited. To increase loan growth, banks need sufficient funding. Higher LDR means banks have less funds to disburse loans. By far, third-party funds remain the largest source of funds for banks in Indonesia. As much as Rp 5.56 quadrillion (US\$ 393.125 billion) or 88.2 percent of banks' total liability is from third-party funds or retail deposits (commonly known as retail funding).

Besides third-party funds, banks can also raise funds through wholesale funding. Wholesale funding includes interbank liabilities, loans received and issued securities. Wholesale funding markets allow banks to quickly raise large amounts of money for both short and long maturities. Short-term funding typically have maturities of less than one year, re-

ferred to as a money market, while long-term funding is for a term lasting more than one year and mostly comes in form of corporate bonds and direct loans.

In Indonesia, direct loans — mostly in foreign currency — is the second most-important source of banks' funding. However, it is still very low compared to third-party funds, with a total outstanding amount of only Rp 288.4 trillion as of January or only 4 percent of all banks liabilities; followed by the interbank market with an outstanding value of Rp 192.3 trillion (3 percent of banks' liabilities); Rp 124.4 trillion (2 percent of banks' liabilities) from other liabilities, including banker acceptances and repurchases, or the repo market; and Rp 110.5 trillion (2 percent of banks' funding) from securities issuances. The total sum of the banking industry's wholesale funding as of January was Rp 741.5 trillion (11.8 percent of banks' liabilities).

Middle-sized, second-tier banks in the BUKU 3 capital category, or banks that have a core capital of between Rp 5 trillion and Rp 30 trillion, have been more active in using wholesale funding as their source of funding when compared to larger banks in the BUKU 4 category, or those with a core capital of more than Rp 30 trillion. BUKU 3 banks have raised as much as Rp 350 trillion through the wholesale market as of January, or 16.5 percent of their total source of funding, while using retail deposits or third-party funds totaling 83.4 percent (Rp 1.77 quadrillion) of total funding. Meanwhile, 90.3 percent (Rp 2.91 quadrillion) in funding for BUKU 4 banks is from third-par-



Source: Financial Services Authority (OJK), as of January 2019

ty funding and only 9.7 percent (Rp 314 trillion) is from wholesale funding.

Even smaller banks in the BUKU 2 category, with a core capital of between Rp 1 trillion and Rp 5 trillion, have been slightly less dependent on third-party funding compared to BUKU 4 banks, with 89.7 percent of their source of funding coming from customer deposits and 10.2 percent of their source of funding coming from wholesale funding.

If we look at the details, BUKU 3 banks have been more active in obtaining funding from the interbank market with Rp 97 trillion (4.6 percent of their total liabilities), Rp 146 trillion in loans received (6.9 percent of total liabilities) and issued securities of Rp 44.4 trillion (2.1 percent of their total liabilities). Meanwhile, BUKU 4 banks have only obtained Rp 57 trillion (1.8 percent of liabilities) from the interbank market, Rp 126 trillion (3.9 percent of liabilities) from loans received and Rp 53 trillion (1.6 percent of liabilities).

The current structure of banks' source of funding in Indonesia shows that there is room for banks to diversify their funding sources and increase wholesale funding as an alternative, espe-

cially BUKU 4 banks because the proportion of wholesale funding to their liabilities was relatively lower. Large banks have a better position to obtain wholesale funding as they are mostly better rated companies that can issue securities or receive loans with lower interest rates or coupons.

With the current liquidity squeeze caused by a relatively weak deposit growth, banks should have a more diversified source of funding so that they can have more room to increase loan growth. In our opinion, increasing the proportion of wholesale funding and total liabilities to 15 to 20 percent is still acceptable, but it would be better to have longer-term funding to reduce a mismatch between assets and liabilities. It would translate to an increase of Rp 550 trillion to Rp 600 trillion of banks' liabilities that can be utilized to disburse loans.

Funding strategies are a complex task for banks, who need to ensure that they have enough funds to fulfill their cash outflows, especially to satisfy the expected asset growth. Banks also have to manage the interest rate risks, currency risks and maturity profiles of banks' assets with the liabilities used to fund them. Moreover, banks should closely monitor market conditions and choose the most cost-effective instruments while also satisfying various regulatory requirements, such as Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR). Lastly, the funding strategies need to be reviewed constantly and have to be adjusted in response to changes in the overall macroeconomic environment.

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