

JCI, IDR drop as investors sell hard

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Anton Hermansyah

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The Jakarta Composite Index (JCI) and rupiah got a shock on Thursday as investors followed the adage, "Sell in May and go away", amid greater confidence in United States government bonds.

The JCI, the main gauge of the Indonesia Stock Exchange (IDX), dropped by 2.55 percent to 5,858.73 during Thursday's trading session as investors went into a selling frenzy.

Meanwhile, the local currency was also under pressure, closing at Rp 13,939 per US dollar and falling for a fourth day to reach a 2016 low, Bloomberg reported.

Investa Saran Mandiri analyst Hans Kwee said many investors profited from taking action following the US Federal Open Market Committee's (FOMC) statement.

"Although the FOMC kept the Fed's Fund Rate unchanged, they [investors] expect inflation to soar in the future," he said.

In a statement issued on Wednesday, the FOMC said the recent inflation hike would continue and inch near the US central bank's goal over the medium term, paving the way for it to increase its rate in June.

On the same day, the US Treasury Department announced it would enlarge the size of debt auctions to around US\$73 billion in the second quarter of this year.

"Investors are using the announcements as momentum for profit taking and shift to US [debt] instruments," Hans said, adding that the move also put the rupiah under pressure.

However, he acknowledged that the JCI's 2.55 percent fall was greater than expected.

The selling mood from a number of investors had triggered other investors to release their portfolio investment as well.

"Actually, the market has been fragile since last week. The JCI surged but choked, meaning that investors still have doubts about buying stocks," Hans explained.

The Indonesian stocks benchmark suffered the biggest drop among its Asian peers. Singapore's Straits Times Index and Hong Kong's Hang Seng decreased by 1.10 percent and 1.34 percent, respectively.

Samuel Sekuritas senior analyst Muhammad Alfatih said he was not surprised by all the profit taking as the JCI had climbed

JCI, rupiah drop in response to Fed announcements

Stock sales indicate profit taking: Analysts

throughout 2017. He attributed the situation to Indonesia's sound macroeconomic fundamentals with inflation under control.

"The JCI surged considerably, so a lot of investors took this chance for profit taking," he told *The Jakarta Post*, adding that the pressure on the rupiah was also attributable to the global oil price's upward movement.

With the oil price rising by 1 percent so far from the end of last year, the country needed more dollars to import the commodity.

Henan Putihrai analyst Liza Camelia Suryanata said investors were selling stocks that could not meet market expectations.

Blue-chip stocks, such as stocks from PT Adaro Energy and lender PT Bank Rakyat Indonesia (BRI), were among the biggest losers, plunging 5.35 percent and 2.48 percent, respectively, throughout Thursday's trading session.

"The companies did not perform as well as their peers and failed to fulfill expectation. Adaro, for example, saw its net income drop by 23.37 percent year-on-year [yoy] in the first quarter, and therefore, investors sold their stocks," Liza said.

Hans of Investa predicted that stocks in the banking sector were now susceptible for another sell-off as banks' first quarter performance had only improved modestly compared to last year, while Bank Indonesia's (BI) decision to hold its seven-day reverse repo rate would likely curb future business growth.

Deposit Insurance Corporation (LPS) corporate secretary Samsu Adi Nugroho said savings in March expanded by only 0.88 percent month-on-month (mom) to Rp 5.38 quadrillion. That compared to a 1.86 percent mom growth in February to Rp 5.33 quadrillion.

The situation has also prompted companies to halt issuing debt instruments. Private lender PT Bank OCBC NISP announced that it would temporarily stop selling its shelf registration bonds, although it still had the chance to raise Rp 1 trillion from such a move.

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ECONOMY

Industry 4.0 can boost GDP by US\$120b in 2025: McKinsey

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The fourth industrial revolution, often dubbed Industry 4.0, will be able to contribute some US\$120 billion to Indonesia's GDP by 2025, global management consulting firm McKinsey & Company has estimated in a recent study.

McKinsey expressed its optimism for Indonesia's capability in implementing the advancements of the revolution, as it is a developing country filled with both natural and human resources.

The Organization for Economic Cooperation and Development (OECD) has estimated that Indonesia will be among the world's 10 largest economies in 2025, with \$2.17 trillion in GDP, compared to 2017 when it was estimated at \$1.4 trillion.

McKinsey senior partner and

leader of operations practice in Asia Pacific Joseph Tesvic said the firm's prediction was attributed to many aspects of the economy, such as increased supply and demand thanks to the revolution.

"Some of them [GDP] would be consumption-driven, too, because people would be able to consume more and it would boost productivity at the corporations," Tesvic said in a limited press briefing in Jakarta on Thursday.

The firm gave an example of the flourishing growth of e-commerce, where it could attract both consumption and sales of goods from entities that do not even work in the industry.

"A lot of this was driven by the fact that technology and Industry 4.0 enables the micro and small and medium enterprises or manufacturers in different parts of Indonesia to access a whole new lot of markets," said Vishal Agarwal,

partner and coleader of operations practice in Southeast Asia, during the same occasion.

Within the \$120 billion, the manufacturing sector would contribute the most at \$34 billion, followed by the retail sector at \$25 billion, the transportation sector at \$16 billion and the mining sector at \$15 billion, according to data from McKinsey.

Although McKinsey is optimistic about Indonesia's outlook, the firm also acknowledged that several problems remain.

While its research did not specify how much Indonesia would lose if it did not grasp the opportunities provided by Industry 4.0, McKinsey has warned that the consequences would become heavier in the future as Indonesia would lag behind countries with better digital implementation.

Agarwal said for Indonesia, one of the most challenging issues

would be the perception of its residents. Many perceive Industry 4.0 as technology-heavy, and that it is still a distant future that does not influence a developing nation.

According to McKinsey, regardless of all the technological development, the revolution would still revolve around humans, as Industry 4.0 relies heavily on the latter's capability in adapting and utilizing technology.

Indonesia is a "technology-salient" country, with the majority of residents active on the internet and logging on to social media, Agarwal said.

"However, there is one real challenge, which is to make sure that there is enough talent for the next phase," he said, pointing out that the country's basic education curriculum did not include core skills sought in the revolution, such as data science and data engineering.

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Foreign workers must speak Indonesian

JAKARTA: The Manpower Ministry is now preparing a regulation to bring back the requirement for foreign workers to speak Indonesian, an official has said.

"We will issue a ministerial regulation [on deliberation of the requirement]. It is being discussed and drafted," said Manpower Ministry legal bureau head Budiman in Jakarta on Wednesday as reported by *kompas.com*.

The requirement was previously removed from Manpower Ministerial Regulation No. 16/2015. Budiman said the requirement was previously removed because certain foreign workers, like technicians installing machinery in Indonesian factories, only traveled to the country for several days at a time.

"Such workers do not need to be able to speak Indonesian because they are in fact employed by owners of the machinery," the official said, adding that if such workers were required to speak Indonesian, it could discourage investment.

Budiman said that under the regulation, which is being drafted, the requirement to speak the Indonesian language would only be applied to foreign workers staying in the country for longer periods of time.

"Under the prepared regulation, only those who stay for six months or longer are required to be able to speak the Indonesian language," Budiman added.

Previously, Indonesian Workers Association (Aspek) president Mirah Sumirat criticized the government for removing such a requirement, saying it indiscriminately brought in a flood of foreign workers. — *Kompas*

Japan extends deadline for Jakarta-Surabaya railway study

Farida Susanty

THE JAKARTA POST/JAKARTA

Japan has decided to extend the deadline for the pre-feasibility study on the Jakarta-Surabaya railway project in order to find the most favorable option for Indonesia.

The Agency for the Assessment and Application of Technology (BPPT), along with the Japan International Cooperation Agency (JICA), was earlier slated to conclude the study on the project to revitalize the railway by the end of April.

Japanese Embassy deputy chief of mission Kozo Honsei confirmed that the Transportation Ministry and its Japanese counterpart had

agreed to prolong the study.

"We understand it takes time to discuss the realization [of the project] in a faster and cheaper [way], which option will be the most feasible in executing the project," he said by text message on Thursday.

Honsei underlined that although JICA had offered several possible designs for the railway project, the government had also stressed that it had to be carried out more cheaply and faster.

Previously, the government indicated the most feasible cost for the project to be around Rp 60 trillion (US\$4.3 billion), citing concerns over the country's surging debt.

"We did our homework and [gave] feedback on the subject. Of course, we have to consider the [Rp 60 trillion] mark," Honsei added.

Indonesia and Japan are also in talks over the financing scheme for the railway project.

Due to its sizeable cost, Coordinating Maritime Affairs Minister Luhut Pandjaitan earlier floated the idea of financing it without using public funds but rather through a separate entity that could independently source its own funding.

The Japan Bank for International Cooperation (JBIC) has expressed its interest in providing a loan as well as helping attract pri-

vate investors.

Honsei further said that considering the current progress, Japan aimed to finalize the study in May.

In addition to the joint study, the BPPT has already conducted its own study on the project. It found that the cheapest option for the project would be to use the existing track, which would require Rp 86 trillion.

Meanwhile, the government's previous preference to have an additional narrow-gauge track laid beside the existing track would cost approximately Rp 106 trillion.

Building an extra standard-gauge railway track would come in at Rp 122 trillion while constructing a standard-gauge new

track or double tracks, would each cost around Rp 182 trillion.

The Jakarta-Surabaya railway project, backed by Indonesia's long-time investor Japan, is expected to accommodate trains running at around 145 kilometers per hour to cut the travel time between the cities to five-and-a-half hours from nine hours at present.

The BPPT has predicted that 12.43 percent of air passengers, which last year totaled 8.04 million, would shift to trains once the travel time is reduced as intended.

BPPT director for transportation technology system and facilities center Rizqon Fajar acknowledged that breaking down the details of the project cost might

take some time.

"There has not been any official agreement over the cost," he said.

Rizqon added that the government was also still looking at the financing scheme for such a costly project.

Recently, Sofjan Wanandi, the chief economic advisor to Vice President Jusuf Kalla, said the government would soon hold a meeting to finalize its decision on the project.

"JICA has given the green light for the project. Then, JK [Jusuf Kalla] will hold a meeting to make the decision," he said.

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CONTRIBUTES TO THIS STORY

New KUHP needs systemic overhaul to be effective

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THE JAKARTA POST/JAKARTA

The drafters of the Criminal Code (KUHP) bill say it will transform Indonesia's criminal justice system from its colonial roots to one that favors restorative justice, reducing the burden on Indonesia's chronically overburdened prison system.

However, court officials and observers say greater changes are needed for the code to achieve this aim.

The KUHP bill, which the House of Representatives has promised to pass into law by August, has been the subject of criti-

cism from human rights groups for its controversial morality clauses, but legal experts say the bill also has its virtues.

The bill is the culmination of decades of attempts to revise the current KUHP, which was adopted almost wholesale from colonial Dutch law.

"The new KUHP bill is focused on the person behind the criminal act and not only on the act itself, because we are looking at how the criminal justice system can change the person for the better," said Enny Nurbaningsih, head of the Law and Human Rights Ministry's KUHP formulation team.

In contrast to the current code, which has no stated goals, the bill is aimed at preventing crime, rehabilitating criminals, resolving conflicts that arise from criminal acts and inducing remorse in criminals, while also freeing them from guilt.

The bill also introduces several new alternative punishments to prison sentences, including community service for minor offenses like petty theft and simple assault, as well as probationary periods of supervision for an offender instead of serving time in prison.

"The old KUHP does not have any objectives, but the new one

does, and clearly seems to be taking a utilitarian perspective instead of a retributive one. This is progress," Parahyangan University law expert Agustinus Pohan said.

"We support [the objectives] very much; what's left is how to achieve them," he said. "With these objectives, criminal punishment should be more merciful and avoid the vengeance side of criminal law by prioritizing minimum punishments."

He added, however, that even though the bill stated that lighter punishments should be prioritized, sentencing remained largely at the discretion of judges who have long been seen as using a

conventional approach in determining sentences.

Arsil, a researcher at the Institute for Research and Advocacy for Independent Courts (LeIP), said judges tended to sentence according to prosecutors' demands but were also hampered by infrastructure limitations.

"In a drug case for example, a judge will consider whether there is a rehabilitation center in the area before passing a sentence," he said. "If there are no facilities, then the judge will not recommend rehab as it wouldn't be implemented anyway."

He said adequate preparations and updates to implementation

guidelines had to be made in order to achieve the objectives set out in the KUHP bill.

Supreme Court justice and spokesman Suhadi agreed, saying judges would be ready to implement the new alternative punishments as long as the various institutions were ready.

"For example, according to the juvenile justice system law, children are not supposed to be given prison sentences but rather vocational training," he said. "But in practice, it often does not actually get carried out, because there's no job available and there's no budget set aside for transportation and so forth."

Muslim scholars commit to 'middle way' Bogor Message

Dian Septiari

THE JAKARTA POST/BOGOR, WEST JAVA

Muslim scholars from around the world are committing themselves to promote Wasatiyyah Islam, which was said to have been practiced throughout history since the era of Prophet Muhammad until modern times.

The commitment, which was declared on Thursday as the conclusion of a Wasatiyyat Islam conference in Bogor, West Java, was noted in a statement called the Bogor Message, which was agreed to by the about 100 Muslim scholars who attended.

Wasatiyyah Islam said to have been practiced throughout history

Ulema to help build just, peaceful society

Kalla says suicide bombers will not go to heaven

The message reaffirmed "the role and moral responsibility of Muslim scholars to ensure and nurture future generation" to build an Ummatan Wasatan civilization, "a society that is just, prosperous, peaceful, inclusive, harmonious, based on the Islamic tenets and morality".

As a central Islamic teaching, Wasatiyyah Islam encompasses seven main values, including behaving proportionately, respecting differences and preferring consultation over confrontation.

The conference, which was organized by the office of the presidential special envoy for inter-religious dialogue and partnership and the Foreign Ministry, was attended by Muslim clerics from Saudi Arabia, Iran, Syria and Pakistan, as well as Western countries like France, Canada, Italy and the United States.

Din Syamsuddin, President

Joko "Jokowi" Widodo's special envoy for religious harmony, said the ulema had agreed through the Bogor Message to revitalize the paradigm of middle-path Islam.

"It is our historic responsibility," he said. "There have been practices of it but it has been ignored lately and we have seen a different expression [of Islam] causing chaos. Hopefully this can snowball into the mainstream."

Vice President Jusuf Kalla said out of 53 Islamic or Muslim-majority countries, almost half faced conflicts in the form of wars and political tensions. "Indonesia, as a country with the biggest Muslim population, is responsible to improve and create peace through Wasatiyyat Islam," he said in his closing remarks at the Wasatiyyat Islam Conference in the Vice Presidential Palace in Jakarta.

In his speech, Kalla said there were two reasons for the conflicts in those countries. "First, of course, invasion and intervention from the major powers, as we can see in Afghanistan with Russia and America, as well as in Iraq and Syria with America and other countries who started and intensified the conflicts," he said.

However, he said based on his experience "fragile minds" were also the internal causes of bloody

conflicts, making it necessary to straighten out some teachings. The terrorist attacks in Europe, he said, were done by children who did not have good religious understanding.

Kalla had helped bring about treaties to end conflicts in the eastern part of the country, including in Poso, Central Sulawesi and Ambon, Maluku. He was also involved in Indonesia's truce with the Free Aceh Movement (GAM).

"The younger generation that committed suicide bombing in the name of jihad did not do it for money or [political] position. They want to go to heaven easily," he said. "In Ambon, I told those young people that they will never go to heaven, but [will go to] hell because Islam forbids killing women and children; even killing a tree is forbidden."

Jamal Badawi, an Egyptian-born preacher from Canada, said Muslim scholars should offer something acceptable to younger generations. "When we say to young people not to be influenced by those who are inciting violence, we need to offer them something [...] they should do."

Fazal Ghani Kakar from Afghanistan's Nahdlatul Ulama said participants had to practice the principles once they were back in their home countries.

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Logistics association sees double-digit growth in 2019

Marchio Irfan Gorbiano
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The Indonesian Logistics Association (ALI) has expressed its optimism that the industry would reach double-digit growth this year on the back of the government's new regulation on bonded logistics centers (PLBs), as well as rising demand from online marketplaces.

ALI chairman Zaldy Ilham Masita projected the industry would grow between 10 to 12 percent next year thanks to increasing demand resulting from the operations of more PLBs.

The Finance Ministry issued in late March Finance Ministerial Regulation No. 28/2018, which effectively expands the types of goods that can be stored in PLBs, including staple goods and goods from online marketplaces, among others. "The [operation] PLBs have significant impact, for example commodities such as cotton and spare parts for the oil and gas industry are now entering PLBs. This will fuel further growth in the Indonesian logis-

Association projects 10 to 12 percent growth thanks to govt regulation, e-commerce industry

Government urged to improve infrastructure in anticipation of goods from ASEAN countries

tics [industry] as, apart from taking in volume from the domestic industry, we will welcome additional volume from ASEAN [countries]," he said in Jakarta on Thursday.

Zaldy went on to urge the government to improve the conditions of Indonesian airports and seaports in order to welcome potential additional goods from ASEAN countries to the PLBs.

"The government should pay attention to quickly increase the capacity of our [logistics] infrastructure amid an inflow of goods from ASEAN [nations] into our country," he said.

He also said robust growth in Indonesia's flourishing e-commerce industry would also give

a leg up to the country's logistics industry. He further noted that the types of goods sold through e-commerce platforms have now diversified to include staple foods such as rice and cooking oil.

"Grocery items will not enter [the logistics system] if logistics costs are high, as it has relatively lower value compared to clothing, for example," he said.

The association previously stated that it expects 1 billion packages from e-commerce platforms to be delivered this year, up considerably from 700 million packages last year.

Zaldy's projection for the industry's growth this year was more upbeat compared to a report released by consulting firm Frost and Sullivan, which projected the country's logistics industry will see a 7.1 percent Compound Annual Growth Rate (CAGR) by 2022.

Frost and Sullivan's global vice president of transportation and logistics practice, Gopal R., noted that there were several factors which would boost the logistics industry, such as growth in

consumer spending, which leads to increased disposable income, as well as growth in the e-commerce market.

He said the industry had more room to grow, particularly by bringing more efficiency by cutting red tape as well as incorporating the use of technology.

"In terms of cutting down bottleneck, [we need] to ensure that the process or trade facilitation process is simplified with the use of technology, and at the same time, eliminate unnecessary processes, which can actually help build efficiency in the logistics system," he said.

He also said Indonesia was well positioned in the regional ASEAN market mainly thanks to its relatively large consumer market and its large production base.

"Compared to other markets in [Southeast Asia], Indonesia has a better prospect primarily because of its a population base as a consumer base and the extent of globalization and the production market, Indonesia is not just a consumption market but also a production market," he said.

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Garuda posts US\$64.3m loss in Q1

Farida Susanty

THE JAKARTA POST/JAKARTA

Despite its efforts to improve efficiency, national flag carrier Garuda Indonesia must deal with harsh realities as it posted a loss in the first quarter.

The airline recorded a US\$64.3 million loss over the January-March period, although the figure was down 36.5 percent from the \$101.2 million loss posted last year.

In 2017, it booked a \$231.4 million loss, reversing a \$94 million profit in 2016.

Garuda attributed the smaller loss in the first quarter to factors such as efficiency measures, surging passenger numbers and cargo volume and higher aircraft utilization.

In contrary to the loss, Garuda increased its operating revenue by 7.9 percent to \$983 million year-on-year (yoy).

Garuda president director Pahala N. Mansury expressed his optimism over the firm's ability to improve its unfavorable financial performance. "We are still on track to post a profit in 2018," Pahala said on Thursday, referring to the reduced loss.

Pahala also reasoned that the first quarter was normally the hardest period for the business because it was a low season and did not have any peak months.

Garuda has set a high goal for this year, hoping to garner \$8.7 million in net profit and \$4.9 billion in revenue, partially on the back of its emerging cargo business.

Its financial performance in the first quarter was also due to the decline of passenger numbers on international routes in the aftermath of the eruption of Mount Agung in Bali last November. The disaster led a number of countries, including China and Australia, to issue travel warnings.

The company also underlined that international flights to Bali, particularly from Japan, South Korea and China, did not recover until the end of February.

The number of international passengers flying with the airline dropped 7 percent yoy to 1.2 mil-

lion in the first quarter. However, the figure of overall passengers, comprising domestic and international, surged 5 percent yoy to 8.8 million over the period.

The airline expects to increase the number of passengers by 5 percent yoy to 38 million by the end of the year, from around 36 million in the past year.

Nevertheless, Pahala noted that with the limited growth of passengers, Garuda would also bank on greater revenue from its cargo business and ancillary services.

As of March, its delivered cargo was up slightly by 3.2 percent annually to 111,900 tons, with its cargo revenue surging 9.1 percent. In addition, its ancillary revenue also rose 38.2 percent.

Garuda viewed that its ability to post a profit this year would largely depend on fuel costs. It expressed hope that fuel prices in the coming months would not rapidly increase as seen in the past two months.

The global crude oil price now hovers above \$70 per barrel. Fuel costs, which contribute up to 30 percent of Garuda's operating expenses, increased 8.1 percent yoy to \$316 million in the first quarter. Its overall operating expenses rose slightly by 2.5 percent yoy to \$1.04 billion.

"The cost [of fuel] surged but the increase was smaller than our revenue growth, so our loss was smaller," he said.

Going forward, Garuda is seeking to enhance its efficiency by way of higher asset utilization in order to help it post a profit.

Garuda finance director Helmi Imam Satriyono expected the airline to reap a profit in the upcoming quarter from April to June.

"We want to earn a \$8 million profit, so maybe we can start [posting a profit] approximately in the second quarter," he said.

Gift-giving habit poses challenge

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Kharishar Kahfi

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As a former executive of a multinational company and current lawmaker, United Development Party (PPP) secretary-general Arsul Sani is familiar with the gift-giving culture among his professional contacts.

While insisting that he never accepts such gifts, ranging from cash to hotel vouchers, he recalled the most memorable gift he had to refuse, an exotic bird.

"When collecting [exotic] birds became trendy, I once said I was amazed by a pretty bird. Days later, one supplier to my company sent me an [exotic] bird in a cage as a token of appreciation for me," Arsul told *The Jakarta Post* on Thursday.

The deeply ingrained gift-giving culture as a token of appreciation poses a challenge especially for public officials who assume strategic roles, given that what might appear run-of-the-mill could end up causing them legal problems. The Corruption Eradication Commission (KPK) issued a regulation in 2015 that serves as a "guideline" on gratuities, requiring officials to report any gifts valued at more than Rp 1 million (US\$71.55) to relevant authorities.

The antigraft body on Wednesday revealed some of the gifts reported to have been received by public officials. The gifts included a bottle of wine, a kris — a traditional dagger often associated with the mystical realm — and a ginseng supplement. Other gifts included plane tickets to cities in Europe and China, 1 hectare of customary land and *umrah* (minor haj) facilities. The KPK also revealed religious holidays as the most popular time for sending gifts to public officials.

"These things, including the wine and ginseng supplement, had to be reported as their values exceed the threshold set in the KPK regulation," the commission's gratuity director Giri Suprardiono said.

President Joko "Jokowi" Widodo set an example when he handed over a number of gifts he had accepted from high-profile figures, including a limited-edition vinyl set of Metallica's *Master of Puppets* album from Danish Prime Minister Lars Lokke Ras-

Wine, rare collections, exotic animals among gifts reported to KPK

Religious holidays popular time for sending gifts to public officials

mussen during the latter's visit to Indonesia last year, as well as two horses from East Nusa Tenggara totalling Rp 58 billion. Having been a huge fan of Metallica for a long time, Jokowi later redeemed the records from the KPK.

The number of gifts reported to the KPK remained level from 2016 to 2017: around 1,800 to 1,900 reports each year. However, the value of reported gifts as well as the values claimed by the state increased to Rp 110 billion in 2017 from Rp 4 billion in 2016.

"We have provided different channels through which officials can report gifts, including through a mobile application," KPK spokesman Febri Diansyah said.

Apart from the application, officials can report to the gratuity-control units in their respective institutions, which will forward the reports to the KPK. There are some 190 such units in government institutions and state-owned businesses.

Should officials fail to report the gratuity within 30 days, graft busters may prosecute them for accepting bribes, as was the case with Mojokerto Regent Mustofa Kamal Pasa.

On Monday, the KPK named Mustofa a suspect for allegedly accepting Rp 2.7 billion from two businessmen, who were also named suspects, in exchange for a permit issuance pertaining to the construction of a telecommunications tower in 2015.

Three months previously, the KPK charged nonactive Jambi governor Zumi Zola Zulkiffi with allegedly accepting gratuities totaling Rp 6 billion in connection with projects in the province.

The KPK and the government are preparing another means to break the habit of giving gifts to public officials in the form of a government regulation on gratuity control. The regulation will set clearer categories of gifts that public officials may and may not accept.