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By Jacqueline Hicks

JAKARTA - As Indonesia grapples with the consequences of a possible worldwide recession, the spectacular disintegration of one of its major conglomerates, Bakrie & Brothers, is drawing the most media attention.

Saddled with more than US\$2 billion in debt, many of the business group's companies have suffered drastic falls in their share prices, wiping billions of dollars off their market values, intensifying in the past few weeks. The political reverberations of the meltdown have now moved the Bakrie story from the business section to the front pages of local newspapers.

Bakrie & Brothers is owned by the family of Aburizal Bakrie, the minister of people's welfare and one of the country's most influential politicians. He was appointed to President Susilo Bambang Yudhoyono's cabinet in 2004.

Early this month, the head of the Indonesian Stock Exchange, Erry Firmansyah, announced that "the government" had overridden a decision by Bappepam, the stock exchange regulator, which had indicated it would allow a resumption of trading in Bakrie & Brothers stock, ending a suspension of some weeks. Erry refused to say which government institution had ordered the reversal, which analysts say forestalled a further fall in the company's share price.

Allegations of favoritism, carried in the local media and echoed by non-governmental organizations, were compounded when several state-owned firms announced their participation in the purchase Bakrie shares. The move was viewed by some as a state-endorsed bailout.

As this issue unfolds, analysts are beginning to unravel what it says about the nature of business-government relations and the extent to which money politics will likely feature in next year's elections.

The Bakrie family's business empire has been linked to political power for over 60 years. Developed from a small regional trading firm by Aburizal's father, Achmad Bakrie, the company initially benefited from a government program in the 1950s to develop indigenous businesses.

As one of the few companies with the business savvy to cash in on the market opportunities, its big break came when it gained access to the country's steel industry, which was nationalized from Dutch ownership after independence in 1945. Years later, when Aburizal took over from his father in 1988, the business grew from strength to strength on the back of government contracts and monopolies in the oil, electricity and media sectors.

"Bakrie's business was built on political connections, which gave it business access," says Edwin Tobing, director of business information group Capricorn Indonesia Consult.

Those political connections were put to good use during the Asian financial crisis of 1997-98, when a Bakrie-owned bank, Bank Nusa Nasional, became the sixth-largest recipient of emergency government funds, amounting to just over 3 trillion rupiah (US\$240 million at today's rate). Nonetheless, huge debts drove the Bakries to the brink of bankruptcy. Debt-for-equity swaps with creditors eroded their stake in the family conglomerate to 2.5%, down from nearly 60% before the crisis.

Fast forward to 2007 and the Bakries were ranked by Forbes magazine as the richest family in Indonesia. During his time in government, first as economics minister and then as people's welfare minister, the net worth of Aburizal Bakrie's family jumped to \$5.4 billion in 2007, from \$1.2 billion in 2006.

Net profit for the conglomerate's Bakrie Telecom touched 223 billion rupiah, while Bakrie Sumatera Plantations's profit cleared 207 billion rupiah. Addressing allegations of conflicts of interest, Bakrie said in an interview with Forbes published last week that he has not abused his political office "at any time".

Nonetheless analysts have raised questions. "The Bakrie business grew after the acquisition, on very favorable terms, of Kaltim and Arutmin coal mines in 2001 and 2003," Edwin said. Together, Arutmin and Kaltim account for nearly 40% of Indonesia's coal exports. At the time, Kaltim's sale stirred controversy when the purchase by a Bakrie company was given the go-ahead by the central government.

Foreign mining firms Rio Tinto and BP had agreed to divest 51% of their shares in the coalmine by the late 1990s, but a deal with the local government to buy the stake had ground to a halt after years of fruitless negotiations. "[Our company] was listed as a bidding participant," one mining executive with inside knowledge of the deal and who requested anonymity said. "But we weren't invited to tender our proposal. In the end, we were just informed that the Bakrie group won the tender."

The Bakrie business empire seemed as if it might founder again in 2006 when a natural underground well of mud erupted under a gas-drilling operation by one of its subsidiaries, Lapindo Brantas. The company blamed the eruption on a nearby earthquake that happened at about the same time as the mud eruption.

Although a recent meeting of international geologists in South Africa found that the mudflow was caused by the drilling, a few dissenting voices have given the company enough wriggle room to claim it was caused instead by the tremor, which could limit its liabilities. Two-and-a-half years after the mudflow began, it has permanently displaced 30,000 people, who have yet to receive full compensation. Lapindo has consistently missed government deadlines to pay even the first 20% tranche of compensation to the mudflow victims, citing difficulties in proving land ownership.

The issue has done little to dent Bakrie's political standing, nor threatened his family's business group's core interests or finances.

It was the Bakrie family's desire to regain more ownership control of the conglomerate it founded that apparently led to its current predicament. According to news reports, loans now being called in were made in April to allow for the internal acquisition of several Bakrie & Brothers' subsidiaries, including Energi Mega Persada and Bakrieland.

One of the subsidiaries that Bakrie & Brothers was trying to regain more control over was Bumi Resources - formerly the jewel in the crown of the Bakrie empire and which now has to be sold off to raise funds. Bumi is also the unit on which media and non-governmental organization claims of government favoritism are focused.

For much of this year, Bakrie group shares have lost value in line with the general fall in the Indonesian and global stock markets. The Indonesian stock market's benchmark index is down 60.8% since it peaked in January this year. In early October, Bakrie & Brothers' losses turned into a rout as investor concerns mounted over the company's high debt level.

In 2007, Bakrie & Brothers had a debt-to-equity ratio of 148%, up from 71% in 2006. This year the company borrowed almost \$2 billion more between April and October, putting up shares in some of its companies as collateral.

When the share prices of the group's companies started to fall, the collateral that backed its debts also declined in value and creditors started to call in their loans. Unable to raise the cash needed to prop up its share prices, the Bakries were forced to sell down some of their assets, including Bumi Resources, owner of the Kaltim and Arutmin coal mines.

Allegations of government favoritism arose over the suspension of trading in Bumi shares imposed by the stock exchange watchdog,

Bappepam. It is normal practice to suspend trade in highly volatile shares to prevent them from going into complete freefall. But after a full month, Bappepam decided to lift the suspension - despite the apparent pleas of the Bakries to keep it in place and avoid a further decline in their share values.

The crunch came on November 5, when Bappepam officially announced the lifting of the suspension, only for the decision to be reversed minutes before trading began. The head of Bappepam told the press a "member of the government" had blocked the lifting of the suspension, but refused to elaborate.

A government spokesperson denied it was Yudhoyono who had given the order. Vice President Jusuf Kalla publicly claimed there was no favoritism at play, but rumors were already circulating that widely respected Finance Minister Sri Mulyani Idrawati, a former International Monetary Fund official, was threatening to resign over the matter.

"We would expect to see the share suspension lifted earlier than it was," a senior international investment banker working in Jakarta says.

More eyebrows were raised when the name of the company that was lined up to buy Bumi was made public. The company, Northstar, is headed by Patrick Walujo, a known Bakrie family friend who was also active in Yudhoyono's 2004 presidential election campaign team.

A few days after denying that the government had given any special treatment to the Bakries, Kalla made an about-turn, publicly saying, "Bakrie gets a little help for one or two days, what's wrong with that? There is no discrimination. Just asking for oversight is such a small favor compared to others."

The vice president may have a point. In times of crisis, governments do help out big firms whose failure could impact on the broad economy - as recently witnessed in the United States with its treatment of

investment banks. The Bakrie group accounts for 35% of the total Indonesian stock market in terms of market capitalization, with Bumi accounting for 26%. That means that any sharp decline in Bakrie & Brothers' share price impacts the entire bourse, as well as the value of the rupiah.

The money trail

Critics say the entire episode has lacked transparency, particularly surrounding the government's assistance to the company. With no clear criteria for which businesses the government will help and no transparency over what state assistance may consist of, politicians and businessmen have left themselves vulnerable to rumors and allegations.

It is no easy task to trace campaign donations in Indonesia, where even senior members of the government have difficulty working out their donors' identity, perhaps one reason conflicting statements have emerged on donations that may or may not have been made by the Bakries.

"As far as I know [Bakrie's donation] wasn't the biggest. You can check at the National Election Commission, there are audits there," Kalla said on November 18.

That's exactly what anti-corruption watchdog, Indonesian Corruption Watch (ICW), did. "There is no record at all of a Bakrie donation for the 2004 elections," says Adnan Topan Husodo, political funding coordinator for ICW. "Generally, it is impossible to know who the political donors are in this country. There are so many loopholes in the law."

One of the biggest problems with the law on campaign finance, which was revised late last year, is the lax rules for party members. Donations made through candidates can be passed on to the candidates' parties without an audit - and they are not subject to any upper limits. Although the candidates have to make reports on their donations, they do not have to specify from where they were received.

Election watchdogs expect the same practices, including the widespread use of fictitious donors and illicit bank accounts, as well as the poor quality of donation audits, will characterize next year's elections. With only six months left before the April 2009 legislative polls, Adnan says he is frustrated by the lack of focus on campaign funding issues.

"Both the National Election Commission and the international institutions put a lot of time and money into areas like raising the participation of voters," said Adnan. "But one of the key reasons for low participation is that voters think all politicians are corrupt. More energy needs to go into making sure this is a clean election."

In the meantime, Aburizal Bakrie appears to be losing his taste for the political limelight. He told Forbes in the interview published last week that he would retire from politics after the 2009 elections, though many believe he'll continue to play a behind-the-scenes role. "He'll still play in politics no matter what," one party source said. "His company may have difficulties, but as an individual, he is still rich."

For many, the questions over Bakrie underscore how little Indonesia has changed since former strongman Suharto's rule, when opaque business-political collaborations were the norm. Yet to others it highlights the ongoing struggle at the heart of government between reformers and those in defense of the status quo. The old moves may be the same, but in today's more open Indonesia they are challenged more than ever.

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