EDITORIAL

Precautions against forest fires

Beleaguered and overwhelmed by the COVID-19 pandemic that has caused public-health and economic crises, the government and plantation businesses seem relaxed about or unaware of being on the cusp of the annual bout of forest and peatland fires during the current dry season.

Even though the five-year cycle of El Niño does not fall on this year after the 2019 El Niño, which, according to the Environment and Forestry Ministry, destroyed 1.65 million hectares of forests, and the weather emergency in 2015 which razed 2.61 million ha, careless and reckless agricultural expansion could still set off a new wave of forest fires and thick haze.

The disaster would be unthinkable if the current health and economic crises and a new wave of forest fires converged into a triple crisis during this dry season to spell another catastrophe of smoke inhalation and overloaded hospitals for patients with respiratory problems, huge carbon emissions and damage to natural resources.

President Joko "Jokowi" Widodo's signing last year of a five-page order for a permanent moratorium on the issuance of new permits for businesses in primary forests and peatlands covering 66 million ha will be toothless without strong enforcement.

On paper, the permanent moratorium will remain effective until improved forest and peatland governance is achieved, meaning that no new permits will be issued in particular for the expansion of pulpwood and palm oil plantations. But reality in the field in Sumatra and Kalimantan could be "business as usual" without strong oversight by central and local government authorities.

It is therefore imperative that the central and local administrations strengthen cooperation with large companies managing millions of ha of pulpwood and oil palm estates in Sumatra and Kalimantan to enforce preventive measures against forest fires during the May-October dry season.

The local governments, in cooperation with green NGOs, should aggressively supervise big plantation companies, notably those in fire-prone peatland areas of Riau and South Sumatra and East and West Kalimantan, to ensure their integrated fire management systems are constantly prepared and alert to prevent forest fires.

However, plantation companies cannot simply erect walls around their concessions by procuring equipment and training their own firefighting personnel and rapid-response teams. Historically, forest fires during the dry season are usually caused by a combination of several factors: "Slash and burn" for subsistence farming, land clearing for plantations, underground peat fires and accidental fires related to daily habits of the people, such as throwing away cigarette butts and failing to watch cooking stoves.

Therefore, the fire prevention and management system must from the outset include the education and empowerment of the people living around the concession areas. Keeping a close eye on fire and deforestation alerts during the current dry season would be a good indicator of the effectiveness of policies and good forest management.

Since plantation commodities have been among the least affected sectors of the economy by the pandemic and by the strict health protocols and social restrictions imposed by the government to prevent the virus spread, companies and farmers tend to resort to the "business as usual" mentality in expanding their plantations.

Cities can turn COVID-19 into chance to build better

By Johnny Miller
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From shocking death tolls to widespread job losses, there is no understating the severity of the COVID-19 pandemic's impact on the world's cities.

But even as cities struggle with basic needs like providing a safe environment for all, there is as an opportunity for long-lasting changes to make our cities both more prosperous and equitable and less vulnerable to future shocks such as highly contagious diseases.

Cities and local governments should be recognized for steps they are already taking to build public health, social, and economic resilience during this crisis. They are disinfecting public transport and are keeping public spaces clean.

They are mobilizing both professional and volunteer networks to source, make, and distribute personal protective equipment for frontline workers. They are making sure food reaches older persons who are self-isolating for their own safety and struggling families with children who are no longer going to school, being challenged equally by new ways of working such as home schooling and home office.

This unprecedented moment requires emergency action and social solidarity. We can seize on this brief window to "retro-fit" and make permanent improvements by both delivering the fundamentals of sustainable cities from the pre-pandemic era and adopting the measures that are likely to be necessary in the post-pandemic era.

Our future cities need to be resilient, sustainable, inclusive and equitable. They need to be forward-thinking, able to innovate and better positioned to withstand shocks and catastrophes like the pandemic.

To do this they will need to respect core human values of dignity and care, and invest in citizens' health along with decent shelter, clean water, and free education. They will recognize that diversity is a strength, and that achieving equality of outcomes for all means safeguarding the rights of expression and culture.

Future cities must rethink and reorganize their built environment using the lenses of equity and access. COVID-19 has exposed the reality of profoundly divided populations. Regenerating neglected urban areas can bring healthy, sustainable benefits to local communities, which in turn increases city resilience as a whole.

At the same time, the cities of the future will be more reliant on digital technology and the wide utilization of the internet even as children learning from home eventually go back to school and knowledge workers connecting remotely will eventually return to the offices again.

Let's use this opportunity as a fulcrum to leverage the future that we know we can build together.

PART 1 OF 2

Probing govt loan-restructuring and liquidity assistance programs

By Arwin Rasyid
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The impact of the COVID-19 pandemic on business has been massive, simultaneous and indiscriminate, affecting not only micro, small and medium enterprises (MSMEs) but also large corporations and even state enterprises. A wave of layoffs has occurred, and almost all sectors have experienced a decline in turnover, with many businesses facing temporary or permanent closure.

Objectively, the economic crisis caused by the pandemic has had an impact on all economic actors, whether individuals or businesses. Individuals who have been particularly badly affected include informal day laborers, online transportation drivers, street vendors and outsourced workers. Businesses that have been affected include ultramicro businesses; micro, small and medium enterprises (MSMEs) and large corporations and financial institutions (bank and non-bank). Millions of MSMEs have been affected.

Likewise, hundreds or even thousands of non-MSMEs employing millions of workers have also been badly hit. A construction company building a skyscraper, for example, could employ up to 2,000 workers. A hotel with 400 rooms could employ 800 to 1,000 staff. Just one textile or footwear factory can employ 3,000 or 4,000 workers.

The economic crisis precipitated by the pandemic is a global phenomenon. In the United States, many listed corporations have applied to participate in the Paycheck Protection Program. According to CNN, 97 percent of businesses in the US employ less than 500 people. These companies can apply for liquidity assistance of up to US$10 million for 2 years with low interest.

In Singapore, the government provides soft loans to companies to subsidize 70 percent of their employees' salaries, while the companies only have to pay 30 percent of their salaries during the crisis. The loans are to be repaid by the companies after the crisis is over. All of this liquidity assistance is designed to prevent layoffs.

I will focus on two government programs that are intended to safeguard the national economy by maintaining the stability of the financial sector. The first policy encourages banks to restructure ultramicro and MSME loans by subsidizing the loan interest that would otherwise be received by the bank, while the second involves the channeling of government liquidity assistance by participating banks to executing banks (Book I, II and III banks) that institute loan restructuring programs.

The two policies are aimed at maintaining the liquidity of banks and other financial institutions. The question that obviously arises is how effective will they be in reducing financial-sector liquidity risks in Indonesia?

The liquidity of a bank or other financial institution is an important issue that needs to be attended to on an almost daily basis through asset-liability management. This is because a bank's liquidity is akin to its blood flow. Liquidity circulation in a bank involves the relationship between two components, namely, assets and liabilities.

On the asset side, these mostly consist of loans, which are extended to a number of principal segments (MSME, consumer banking, commercial banking, corporate banking and financial institutions – including, for example, short-term loans to rural banks (BPR) and finance companies). On the liabilities side, the main component is customer deposits, consisting of demand deposits, savings deposits and time deposits.

While lending is classified by segment, payments of loan interest and principal from all segments are managed by a single liquidity management unit in a bank. The smoother the flow of loan interest and principal payments across all segments, the better the bank's liquidity (assuming, of course, that the liabilities side is well maintained).

A restructuring program for its nonperforming loans (NPLs) is the first step that a bank needs to take to resolve the problem.

Conversely, if payments stall or stop performing, then overall bank liquidity will be adversely affected. If the amounts involved are significant enough, the bank will face a liquidity problem. If this happens, then it is a sign that the bank's soundness is deteriorating. In such a situation, a restructuring program for its nonperforming loans (NPLs) is the first step that a bank needs to take to resolve the problem.

The government's current MSME loan restructuring scheme, which provides relaxation, is subject to certain restrictions, including a loan ceiling of Rp 10 billion ($707,564), a provision for likely improvement in loan quality post-restructuring, specific criteria regarding eligible borrowers and loan quality prior to the COVID-19 crisis. In short, the borrowers that are eligible to participate in the restructuring program must be MSMEs or individuals who were current in fulfilling their obligations prior to the outbreak.

Financial Services Authority (OJK) data shows that as of March 18, 95 banks were implementing MSME loan restructuring programs, accounting for Rp 225.1 trillion of the domestic banking sector's total outstanding MSME exposure of Rp 1.04 quadrillion as of the end of February. This means that only 21.7 percent of MSME loans are being, or have been, restructured.

What about the other 78.3 percent? What about the non-MSME segment and loans worth more than Rp 10 billion, where the banking sector's exposure stands at some Rp 4.5 quadrillion?

In my view, one of the reasons for the low level of MSME loan restructuring eligible for relaxation is the requirement that such loans be categorized as current or performing prior to COVID-19. In reality, a borrower that may have gone through a loan restructuring prior to COVID-19 will likely have trouble or difficulty again in making interest or principal payments.

From a bank liquidity management perspective, if 50 percent of total outstanding loans (both MSMEs and non-MSMEs) in the banking sector must be restructured, this would amount to some Rp 2.77 quadrillion. This means that liquidity from interest income over a period of 6 months from May 2020 will be disrupted or lost to the tune of Rp 166.2 trillion (assuming interest of 1 percent per month).

Consequently, it is easy to envisage the lack of impact that the government's loan-interest subsidy for restructured MSME loans has on bank liquidity given that the interest subsidy policy has only been worth Rp 34.2 trillion to date. This means that it will only account for 20.6 percent of the banking sector's liquidity needs over the next 6 months.

Covidnomics: New normal?

By Kristianus Pramudito Isyunanda
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The COVID-19 pandemic has caused a sharp economic downturn globally, as indicated by deeper government deficits, slower growth and higher unemployment. Even though the coronavirus will likely be carried over to the second half of 2020, many governments have begun to ease social restrictions with an elaborate set of health protocols. The real sector-economy might begin to crawl from the darkness to revive but will this be the so-called "new normal"?

There is always a dilemma in public policy choices. Similarly, the economy is always facing trade-offs. There is no economic growth without inflation just as there is no gain without risk. The government and authorities ought to respond proportionally. The important point is to strike the balance between risk and opportunity.

While it is urgent to "flatten the curve" of the virus spread, another equally important issue for most governments in the world is on how to resurrect growth. President Joko "Jokowi" Widodo has issued Government Regulation No.23/2020 to step up the economic recovery. On the macro stability front, Bank Indonesia (BI) continues to readily counteract the dynamics.

Economic recovery in Indonesia is being pursued by multiple authorities. BI is tasked with prudently sustaining bank liquidity through quantitative easing. The Finance Ministry's job is to stimulate the real sector. The Financial Services Authority (OJK) is focusing on monitoring credit restructuring.

Coordination is the prerequisite for fast economic recovery. BI as the monetary authority does not have direct access to the real sector, whereas the Finance Ministry has recently been constrained by deficits. To bridge those idiosyncratic features, a "joint venture" between monetary and fiscal policy is effectuated as a pandemic-specific approach. In normal conditions, it would be unlikely that this approach would be taken because of the unintended consequences to be paid by the economy.

During the pandemic, BI can buy government bonds (SBNs) from the primary market according to Law No.2/2020. To support the government's stimulus on regular expenditure ("above the line"), BI follows the market mechanism as a dealer of last resort. Similarly, BI will contribute to supporting government finances for the banking-restructuring program ("below the line").

We must pursue a normally functioning economy that enables the domestic macro economy to achieve sustainable growth.

But first, banks are directed to engage in SBN repurchase transactions (repo) with BI to finance their restructuring programs. After SBNs in a bank's portfolio hit 6 percent of demand deposit, the government can kick in. The burden is then shared between the government and BI with highly calculated risk mitigation. Again, this multi-tiered approach ought to be deemed a pandemic-specific approach.

For most macroeconomics disciples, the step toward a new normal identification should be examined carefully. Economic equilibrium is usually achieved over a long period before it is eventually stable. The result is whether the economy can live along with the new equilibrium or otherwise return to its original state. In reality, multiple equilibria often exist, thereby raising the complexity.

Before the 2008 financial crash, Wall Street capitalists had blatantly labeled their over-leveraging of junk-debt instruments as a new normal. The result was not quite normal. Financial bubbles burst. Then, it required a high-cost recovery with an equally high probability of sustained damage. If society wants to label today's conditions as the new normal, it has to be done in the most selective possible way.

COVID-19 is also deeply affecting socio-anthropology through limited social mobility and new health protocols. Surprisingly, none is constraining social interactions thanks to state-of-the-art technology. Today's digital-interaction trend boosts efficiencies. This should be sustainably applied even after the pandemic. This is likely to happen for digital payments since there already exists the Indonesia Payment Systems (SPI) Blueprint 2025. Beyond the SPI blueprint, BI continues to accelerate cashless payments, which enable ease of transactions even during the pandemic.

Economically speaking, we might leave the current dynamics in an "abnormal" category. In contrast, we must pursue a normally functioning economy that enables the domestic macro economy to achieve sustainable growth. This awareness could prevent us from losing focus. Moreover, the recognition of the new normal might inherently constrain the economy even further.

A better expression should be the pursuit of "back to normal". Priority should be on restoring the pre-pandemic economy. When the point of recovery is reached, then we might start to think of improvement. One step at the time.

Some of the approaches adopted during the pandemic might be worth maintaining, such as the digital culture and "care-for-others" society, which potentially generate efficiencies at another level.

Some extraordinary measures undertaken during the pandemic might only be suitable in confronting COVID-19 and not for a pandemic-free economy. Otherwise, it might be similar to somebody who uses a sledgehammer to crack a nut. Macroeconomic lessons learned should include stronger coordination and more effective economic leadership. All else must be scrutinized proportionally.

Most importantly, the new normal trend must not obscure the ultimate goal of eradicating COVID-19 and all its socio-economic negative impacts.

While COVID-19 will be priceless history to which the next generation can refer, we might rethink the path to the new normal. The economic paradigm needs to stay in the area that recognizes the recent dynamics as beyond normal. Redefining their dynamics, in the pursuit of sustained stability, should be the objective.

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