



**HEYÓKHA
BROTHERS**



Catching the Jet Stream

“What you wanna do is follow the EAC, that's the East Australian Current. Big current, can't miss it”

-Finding Nemo-

3Q 2016



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What we have learned this quarter

Catching the Jet Stream

"Given the damage the world economy is capable of inflicting, it's certainly better to be hurt than injured. Sportsmen know the difference between being hurt and being injured. We can still play if we are hurt, but injuries preclude playing in the game."

- Dr Pippa Malmgren, author of the book Signals-

Getting hurt is ok, just don't get injured

We at Heyokha previously talked about MMA and the pioneer of the sport...Bruce Lee. So naturally when we want to learn more about the difference between hurt and injury in the world of sport, we spoke to our friend Martijn de Jong, the founder of the famed Tatsujin Mixed Martial Arts (MMA) gym in Holland.



Click [here](#) for our 2Q15 report

MMA athlete Marloes Coenen, from Tatsujin Dojo, Netherlands. She is a former Strikeforce Women's Bantamweight Champion. She is widely known as one of the most seasoned technical and mental fighters in women MMA. Staying injury free has always been one of her main goals

Source: Tatsujin Dojo

Martijn noted that one of the most important requirements to survive in the sport is to stay injury free as much and as long as possible. He stressed that while pain and being hurt is mostly temporary and part of the game, a lingering injury usually mean it's game over.

Therefore, top athletes and coaches are making sure that the risk of injuring themselves is reduced to the minimum.

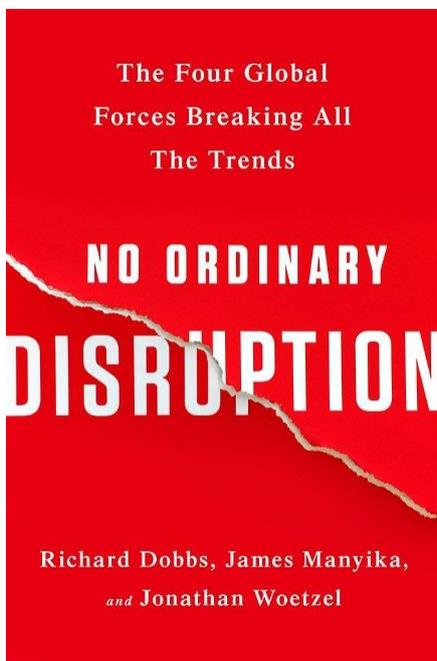
One way to minimise the risk of injury, is to rigorously prepare the athlete's body by following a strict and well-rounded strength and conditioning routine. Equally important is to have a positive and focused mind-set. As such it is crucial to stay injury free during the training period leading up to a big fight.

While small injuries can always happen, the key is to recognise them right away and treat them accordingly, so they don't disrupt the function permanently. A fighter who pays sufficient attention to this will be able to perform at a higher level for a longer time.

So, in short, the key approach to safeguard the continuity of an athlete's career consists of two parts: the preparation of the body to prevent injuries and timely recognition and proper treatment of small injuries to facilitate a recovery.

The economy is being jabbed left, right and centre

When looking at the global economy as if it were the body of an athlete, there is one thing for sure: it is receiving disrupting jabs and hooks from all directions. Sure it hurts. The question is how the economy and its institutions (the coach, if you will) are going to prepare themselves for these blows and whether minor injuries can be properly recognised and treated.



Source: Internet

Number of months needed for labor market to recover to its pre-recession level	
1991 recession	15 months
2001 recession	39 months
2008 GFC	43 months

So why did employment take so long to recover? Because new technology and competition from emerging markets have undermined routine clerical and factory tasks. This is often referred to as the "jobless recovery". In fact, the technologies that automated millions of clerical and production jobs at that time, are now also rapidly encroaching on high-skill interaction jobs as well (i.e. jobs that require personal interaction, problem solving, and critical thinking).

We read a great book about a related topic called "*No Ordinary Disruption: The Four Global Forces Breaking All The Trends*", written by the directors of the McKinsey Global Institute¹. It describes the major disrupting forces that are reshaping the global economy and why leaders must adjust to a new reality. The major trends identified are urbanisation, accelerating technological change, aging and greater global connections.

While these trends are probably not new to most of our informed readers, the authors explain how these forces amplify each other and produce a monumental change. As the authors believe this will cause traditional patterns to break, they warn us against extrapolating our recent experience into the future.

For example, a traditional pattern is that having a higher education means better odds to obtain a decent job. Unfortunately, this pattern has changed and will break down further in the near future. The book describes how the force of technological advancement is driving a gap between the supply and demand of certain skill sets. The so called "skills gap" that is dislocating the Labour Market.

It is interesting to note that until 1991, the US economy displayed a fairly predictable cyclical pattern. After every recession, once GDP had recovered to its pre-recession level, the labour market would recover its prior peak employment level in another three to six months. This pattern can be observed following the recessions post World War II, in 1969, 1973, and 1981.



Embracing the digital world. A street scene that would not have been imaginable just a couple of years ago. This photo was taken recently in Jakarta CBD. Street sweeper in Jakarta buried himself into his smartphone. Digital world is expanding quickly in this part of the globe.

Source: Heyokha

“With artificial intelligence we are summoning the demon. In all those stories where there’s the guy with the pentagram and the holy water, it’s like – yeah, he’s sure he can control the demon. Doesn’t work out.”

-Elon Musk

Even in developing countries that have high graduation rates in science and engineering, the skill gap is still widening. The previous era was defined by millions of workers in developing countries joining the global labour force. The next era will see skill gaps emerge even in China and other developing countries like India.

In fact, recent World Bank research warns that automation threatens 77% of the jobs in China and 69% in India.

In India, the desperation for job security is evident as recently almost half a million people, some with post-graduate qualifications, applied for 1,778 positions as street sweepers.

You can imagine that if you think you did everything right in life, being a good boy or girl and getting good qualifications, ending up as a street sweeper is a major cause of anger and frustration about unfairness. And as discussed in our earlier our IQ 2016 quarterly report, collective feeling of unfairness gives rise to instability or even social unrest. That is why the response by leadership to the disrupting forces is key.

Leadership response...crucial to preventing injury

“I fear the day that technology will surpass our human interaction. The world will have a generation of idiots.”

- Albert Einstein -

In our IQ2016 report, we discussed the spirit of the time “Zeitgeists” by looking around us at events at home and around the world. We observed a period where news has been dominated by topics such as the Panama paper, Brexit and the immigration crisis in Europe.

On the business side, we see waves of disruptions challenging incumbents. These disrupting effects of innovation are now accelerating the divide between winner and loser.

“Within five years, Gojek’s Founder, Nadiem Makarim provides jobs for 200,000 people within 5 years while it took me 15 years to provide jobs for 70,000.”

- TP Rachmat, prominent Indonesia businessman -

Another issue we discussed is the massive money printing programs that resulted in increased inequality of wealth without providing any significant economic improvement for the average people that do not own assets.

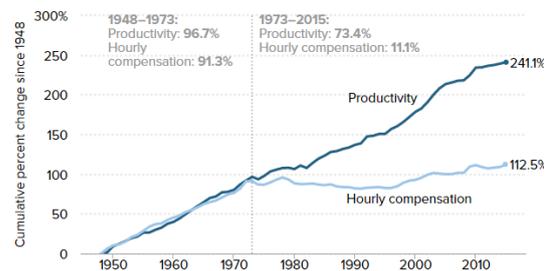
As history shows, there are cycles of concentrated wealth accumulation, followed by wealth distribution amongst the people. After the longest and greatest period of wealth accumulation, it is only natural that there would be a massive backlash, which is only just beginning now and the trend is global.

Case in point, this month the Hong Kong government has raised the property stamp duty for the second time in three years to an unprecedented 15%.

The problem is that many of these new trends are not only hurting but in some cases injuring players, be it countries, businesses or individuals.

Disconnect between productivity and a typical worker’s compensation in the US

Period 1948-2015



Data are for average hourly compensation of production/non-supervisory workers in the private sector and net productivity of the total economy.

Source: EPI analysis of data from the BEA and BLS

Wages stagnating, pain or injury for middle class?

The effect is that frustration takes over, with injuring consequences from which a society could take a long time to recover.



First Duterte, then Brexit and now Trump. Really, what’s the message here?

Source: Independent, Internet

In a recent publication “An Anatomy of Inclusive Growth In Europe” it notes that in areas of the U.K. with higher inequality and poverty, voters were more likely to support Brexit.



In fact, a one percentage point of higher income inequality, as measured by the Gini coefficient, boosted the share of 'leave' votes by about 0.9 percentage point.

The key is that leadership needs to address the issues hurting the economy and social situation before frustration leads to populism, external projections of failure and irrational decisions.

In simple terms, if politicians don't move/look after the grassroots, the grassroots will move governments out

Click [here](#) for our IQ16 report

Indonesia seems to be coached well, conditioning programs paying off

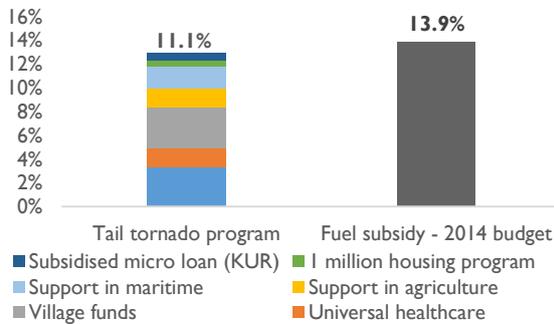
Looking at developments around the world, it is becoming increasingly obvious that Indonesia is one the few countries where the top leaders are addressing core symptoms of pain before it becomes a serious injury.

“Man is the creature of the era he lives in; very few can raise themselves above the ideas of the time.”

- Voltaire -

Comparison budget spending

As percentage of total budget



Previous fuel subsidy was misdirected

Source: Government Budget 2014, 2016, Heyokha

History will tell whether President Jokowi will be able to raise himself above the ideas of the time. At least until now, Jokowi has been a good coach for Indonesians.

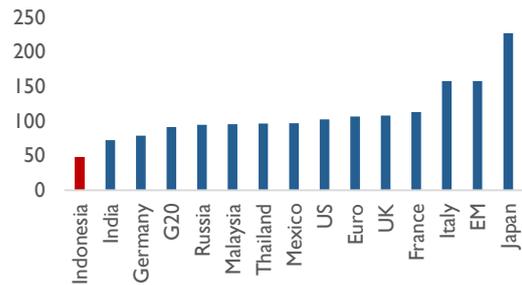
In the next section we list various government pro grass-roots programs that are either already happening or about to happen in the near future.

Some critics have pointed out that these programs are socialistic in nature and will weigh on the country's balance sheet. While there is an element of truth to this, we would like to address two key points.

1) The government's balance sheet is still strong

Government Debt as % of GDP

Per 1st Quarter 2016



Source: BIS

2) Taking care of the poorest is exactly what we need to fix the hurt before it becomes an injury. Injuries can lead into the rise of extreme populist leaders.

Finally, as it is observed on many of our trips, some of these social programs, such as farming, irrigation, and education will have a net positive economic impact.

We trust that there are multiple tailwinds helping the grass-root in Indonesia. More on this in the next section.

Marunda, slum no more. Story of the grassroots of Jakarta

Just like the many mega cities in emerging markets, one will find many slum areas. Jakarta is obviously no exception.

Marunda is a low cost apartment area in North Jakarta developed to accommodate extremely poor people to relocate them from river banks, rail tracks, bridges and such.



Slums area in South Jakarta

Source: Internet

The project was first initiated by a previous Jakarta governor Fauzi Bowo back in 2004 but unfortunately it was neither properly supervised nor maintained. Units were even transacted for profits. In the end, it fell back to the state of a slum.



Marunda 1st cluster's construction is just finished

Source: Jakarta government

However, since Jokowi became the Jakarta governor in 2012, he initiated a complete transformation of the original Marunda project.

And now with the project passed over to current governor Ahok, the low cost housing area is slum no more. In fact, you might even mistake it for an HDB development in Singapore.

The government together with various foundations provide training such as basic computer skill, driving, and other skills for the people who have just moved in so that they are better equipped to join the labor force.

Also, they put in place an officer to regularly check the residents who live there are eligible to do so and ensure that the place is well maintained. People who live there only need to pay US\$ 12-25/month for rental and maintenance.



Heyokha visited happy kids enjoying the proper school facilities and one of the SME in Marunda that produces detergent

Source: Heyokha

Interestingly, we learned that initially it was extremely difficult to persuade people to move here but now that the community is thriving, there is now a long waiting list to live there.

At the moment there are three clusters comprising of 3,000 units that are occupied by approximately 10,000 people. Ahok is now constructing the 4th cluster that will add another 1,000 unit and plans to continue adding more.

Marunda is indeed a poorer area of Jakarta. Despite that, people we met there were all warm and welcoming. They were hurt but wound is being treated before it causes permanent injury. They are grateful.

Major Tail Wind in play

“The state budget has the function of carrying out three important issues. We must fight poverty and inequality, as these are actually for Indonesia's future as well. This is not a concept of taking wealth from the rich and distributing it to the poor. It is not populist destructive, but a constructive and productive populist policy.”

- Sri Mulyani Indrawati, Indonesian Minister of Finance -

While our loyal readers will obviously notice that we have talked about these programs before, we like to stress that newly available information from survey's and on-site visits all point to the fact that the tailwind programs are well underway.

These are indeed having a very positive impact on the intended people.

Below we list no less than 11 programs (divided into current and upcoming) that have or will have a positive impact on inclusive growth.

Some of the pro grassroots programs that are currently running

1. Magical Cards



Source: Sucorinvest

As the governor of Jakarta back then, Jokowi introduced a number of pro-grassroots policies.

We note that his Jakarta Smart and Jakarta Health cards have now been fully implemented at the

national level and are now known as 'Indonesia Smart' and 'Indonesia Health' cards.

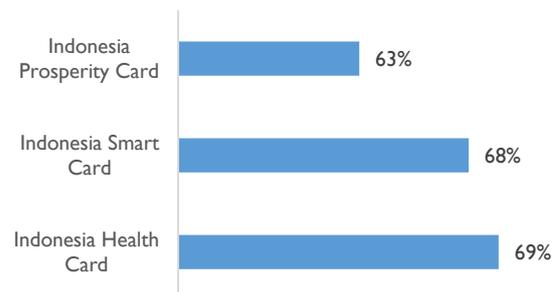
These cards cover basic expenses such as tuition and health care, which indeed deliver much needed relief to the least fortunate segments of the society.

The budget allocation is quite sizable. The government targeted distributing 19.5 million Indonesia smart cards and the student will receive US\$ 17-38/month. This is equivalent to US\$ 4 billion or 2.5% of total government budget in 2017.

The smart card holder can't withdraw the cash so it can be only spent on buying school related items through merchants appointed by the government such as Matahari, Bata, Ramayana etc.

Public satisfaction toward magical cards program

As % of total respondent



Source: CSIS survey, September 2016

2. Universal Healthcare

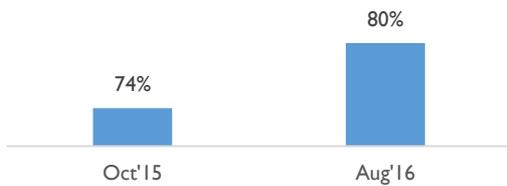
With the universal healthcare program in place, every Indonesians can get access to healthcare services. They only need to pay small amount of premium to get the healthcare plan because it was cross subsidised by employers and government.



Employers are responsible for paying 80% of the premium for their employees while the government is responsible for the premium of low income people.

Public satisfaction toward Universal Healthcare program

As percentage of total respondent



Source: CSIS survey, September 2016

3. Village funds

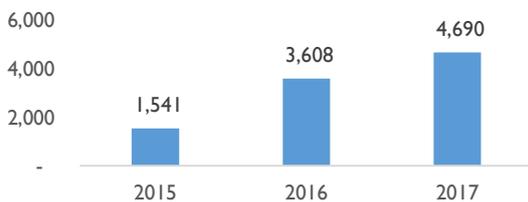
Village funds is a fund allocated to villages from central government budget. The objective is to accelerate village development.

We learn from our trips that village fund is typically used for irrigation and other basic infrastructure such as roads, bridges etc.

For 2017, the village fund budget will be increased by 30% (despite the total government budget remaining unchanged).

Village funds in state budget

In US\$ million



Source: Ministry of Finance

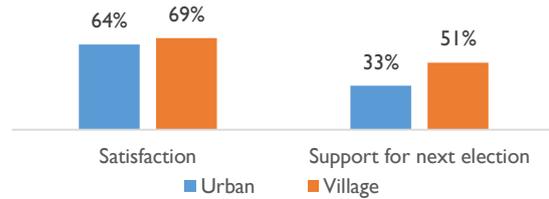
We believe the surging allocation for village fund has to do with the commitment from the Jokowi administration to assist the previously most neglected parts of society.

Moreover, a recent CSIS survey found that President Jokowi's strongest approval rating came from male respondents who resided in villages

across Java (we assume mostly rice and corn farmers who benefit from infrastructure build-up in the villages, financed by village funds).

Jokowi approval rating based on area

As percentage of total respondent



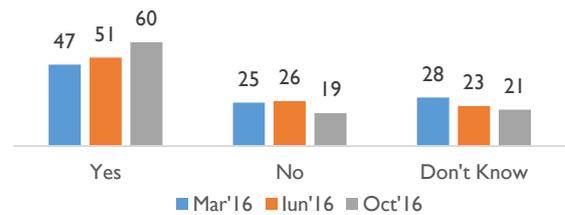
Source: CSIS survey, September 2016

Interesting to note that since new Minister of Villages, Disadvantage regions, and Transmigration, Eko Putra Sanjoyo took the office, the disbursement of village fund is not only functioning but accelerating.

Per September 2016, 82% of 2016 targeted village funds have been distributed. This is much better compared to the government budget realisation of only 59%.

Does village fund program run well in your village?

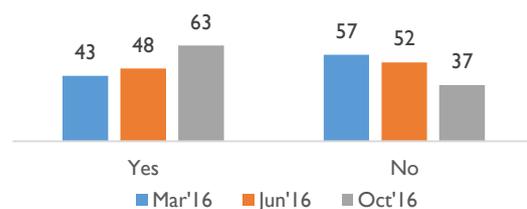
As percentage of total respondent



Source: SMRC survey, October 2016

Did your village receive the village fund?

As percentage of total respondent

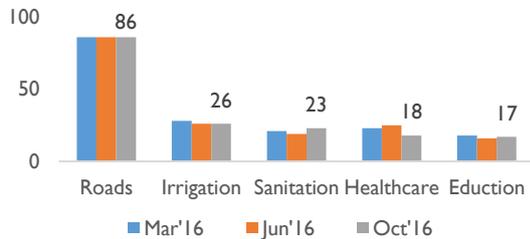


Source: SMRC survey, October 2016



What does the village fund being used for?

As percentage of total respondent



Source: SMRC survey, October 2016

From our trips to rural areas, we learned that village funds have lifted the standard of living. Rejuvenation and development of the tertiary irrigation network are often funded by village funds.

The benefits for the farmers are twofold (1) increase the number of plantings in a year (2) enhance productivity yield. Better roads and bridges reduces the logistics costs for farmers.

Please see the next section on page 14 for more details regarding our findings in West Nusa Tenggara.

4. Support in agriculture



President Jokowi, Agriculture Minister Amran Sulaiman, and Minister of Villages, Disadvantage regions, and Transmigration Eko Putro Sanjoyo working together to improve farmers' prosperity

Source: Jakarta Post

Recently, Jakarta-based stock broker Sucorinvest wrote a piece about President Jokowi's speech on August 1st 2016, in front of 10,000 attendants, socialising the Tax Amnesty program. In his speech, President Jokowi was explaining where the tax revenues will be channelled.

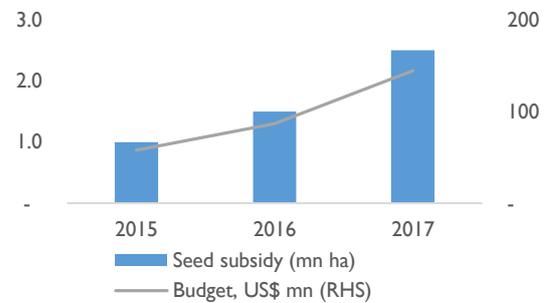
Interesting to note that there is a paragraph in the script dedicated to farming programs. And interestingly, there are only two topics that the President brought up: CORN and SUGAR.

The word "CORN" (jagung in Bahasa Indonesia) was mentioned 6 times and "SUGAR" (gula in Bahasa) was mentioned only 3 times.

Although hybrid seed generates much higher yield than conventional seed, higher seed cost has previously been a major deterrent.

Corn hybrid seed subsidy

In million hectare and US\$ million (RHS)



Source: Internet , Heyokha

With the corn hybrid seed subsidy program, farmers have an opportunity to experiment with hybrid seeds and experience the incremental productivity yield.

Corn hybrid seed typically generates 2-3 ton/ha (up to 50%) more than conventional seed. By using the floor corn price at Rp3,150/kg, the additional income for farmers would be US\$ 500-730/ha.

This translates to 40-60% incremental income for farmers.



ROIC of 500%...

Economics wise, assuming 100% hybrid corn adoption on 3.8m ha of corn harvested area (government figure), total seed cost would be US\$210m or only 0.1% of the government’s budget.

With a conservative 20% yield improvement, that would translate into an additional US\$1bn of value creation.

Not to mention the potential multiplier effect and effect from capital formation/entrepreneurship – please see page 22 on success story from a remote village

Another way to look at it is US\$210m equates to only 4 days of wasteful fuel subsidy back in 2011.

Irrigation

We’ve mentioned in our previous reports that water supply is an essential part of harvest yield. We see that a large part of the irrigation network has been abandoned for decades. Finally, the government acknowledged this problem.

Govt projects	2015F	2016F	2017F	2018F	2019F	Total
Dams						
Addition (unit)	13	8	9	11	8	49
Budget (Rp tn)	8.0	4.9	5.2	6.2	7.7	32.0
Rehabilitation (unit)	5	10	10	10	10	45
Budget (Rp tn)	0.0	0.1	0.1	0.3	0.2	0.7
Irrigation						
Addition (m ha)	0.12	0.22	0.22	0.22	0.22	1.00
Budget (Rp tn)	2.8	13.0	13.0	13.0	13.0	54.9
Rehabilitation (m ha)	0.25	0.68	0.68	0.68	0.68	2.97
Budget (Rp tn)	1.7	3.8	3.8	3.8	3.8	16.9
Total budget for agri infrastructure (Rp tn)	12.6	21.8	22.1	23.3	24.7	104.5

Source: National Development Planning Body

The table above highlights the government’s commitment to revive investment in irrigation. This would improve the cropping ratio (number of planting in a year) and productivity yield. This combo would greatly boost the farmers’ income.

Interestingly, we noted that the new Finance Minister Sri Mulyani (known for prudent fiscal policy) would not cut the budget for dam construction despite a shortfall in tax revenue collection.

Farming equipment

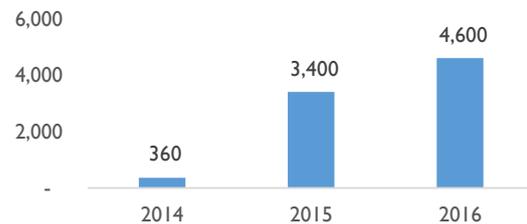
“It took a week for us to harvest one hectare manually and we also need to recruit labors in case of rain, otherwise the corn would rot. With equipment aid from the government, we can harvest two hectare area within just one day.”

- A farmer from Bara Village, Woja District – Dompu Regency, West Nusa Tenggara

We learned that farmers could save up to Rp3million / person (USD230, a meaningful amount matching minimum monthly wage in Jakarta) per harvest season.

Agriculture equipment

In billion rupiah



Source: Internet , Heyokha

It would add to farmer’s income by 20-30%. Moreover, given the shortage of labour and lack of young people who are willing to work in the farmland, this would be a big help for farmers.



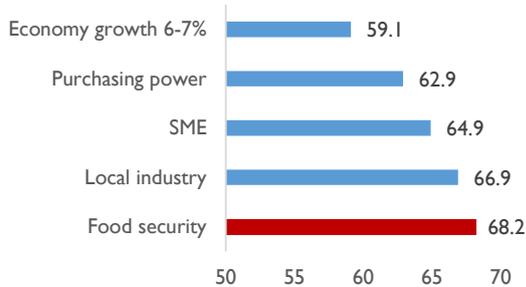
Source: Heyokha

Interesting to note that public support for government food security program is very high. In fact the highest amongst government programs.



Public confidence toward government program

As percentage of total respondent



Source: CSIS survey, September 2016

The public seems to believe that the food security program is super important and well executed.

Enjoying such a popularity whilst not taking up too much of the government’s budget, we believe that the food security program is not only sustainable but more importantly value accretive.

5. Support in maritime and port infrastructure

Wind of change with retired four star general Luhut Binsar Pandjaitan assuming the post of Coordinating Minister for Maritime Affairs of Indonesia since July 2016.

Pak Luhut and his team earned a reputation for execution speed, so we will stay tuned for possible acceleration in maritime sector reform, such as port development and the fishery sector.

With regard to port infrastructure, learning from our extensive travel, we understand that lack of port (and road) infrastructure is one of the major deterrents for farmers to improve their productivity.

What’s the point in producing more if you can’t even ship the harvest?



Source: Heyokha

President Jokowi also seems to be very determined to reduce the price gaps of various commodities between the main island of Java and outer island.

The government, for example, is eying a standard fuel price across Indonesia in 2017. The fuel prices in Papua could be as high as Rp100,000 (US\$7.6) per litre or 13x the fuel price in Java.

Considering that the towns at the western and eastern tips of Indonesia are 5,000km apart, reducing logistic costs is one obvious solution, better than subsidising the price in the outer island.

6. One million housing program



Source: Sucorinvest

One of Jokowi’s national priorities during his term is the “One Million Housing Program”.

Launched in April 2015, the program has a goal of providing affordable housing for the estimated 13.5 million households who have been denied access to own a proper home.

Government helps by subsidising mortgage rates for units that meet the criteria.

7. Subsidised micro loan



Source: Sucorinvest

Since later 2015, President Jokowi has re-initiated a program called Credit for Business (or KUR), to provide financing for unbankable micro, small, and medium enterprises.

After some success during the previous administration, the Jokowi government revives the program by slashing down the interest rates on KUR to only 9% and



targeting an ambitious Rp100tn (US\$7.7bn) disbursement for 2016.

With this cheap funding (by Indonesian standard), poor people could develop their business and drag themselves off the poverty line.

8. Social security program

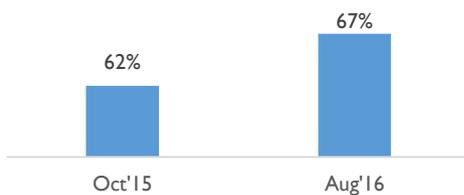
Social security program caters retirement plan, work accident, death security, and pension plan.

With the new regulation in place, all employee both private and publics are required to subscribe to the social security program provided by BPJS Ketenagakerjaan (BPJS Manpower).

Just like in the case of the universal healthcare program, employer is the one that pay the bulk of the premium.

Public confidence on social security program

As percentage of total respondent



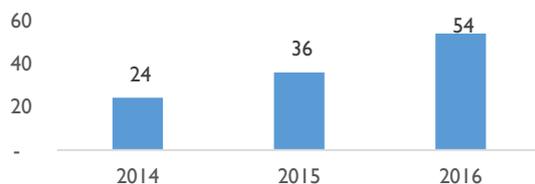
Source: CSIS survey, September 2016

9. Tax cut: non-taxable income bracket to increase in 2017

Non-taxable income bracket has been adjusted upward by 50% per year in the past two years.

Non-taxable income bracket

In million rupiah per annum



Source: Internet

Thanks to these bracket adjustments, those who earn minimum wage are now earning well below the non-taxable bracket.

As such, they no longer see their monthly wage deducted for income tax. This obviously translates to a higher disposable income.

Programs that will be running (coming tailwind)

1. Regional election



Source: Internet

Next year, there will be 101 regencies or cities holding election simultaneously across Indonesia, including the super high profile one in Jakarta. The government budget allocated for regional election is about US\$ 350 million. We expect the grassroots to be on the receiving end.

Plus we believe that candidates will spend significant amount to win the hearts of voters.

2. Higher allowance for civil servants, police officers, and soldiers

The allowance for civil servants, police, and army will increase by 17% in 2017. For army members in particular, this increase is the 1st increase for many years so it will improve their welfare in a meaningful way.

“The budget is spent on things that will be enjoyed by people in the bottom 40 percent wealth bracket and will determine whether the nation can create a taxation regime that creates a productive and competitive economy while at the same time addressing inequality.”

- Sri Mulyani Indrawati, Indonesian Minister of Finance



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Catching the Jet Stream

We at Heyokha believe that our investment approach should not only be about finding great businesses with protective moats at a reasonable valuation.

Equally important, we prefer our core holdings to be supported by a strong tail wind preferably multiple tailwinds as described earlier.

Such an opportunity is rare but when we see such opportunity, we are not afraid to size up our position and ride the jet stream.



"I always say you can't have a spontaneous grass roots movement without a little seed money."

Source: Jantoo

Enjoy reading our reports? Check out our [website](#) for more!

-The End-

Heyokha and our off the beaten track tradition

West Nusa Tenggara: Witnessing first hand agriculture reform driving prosperity

When starting Heyokha about two years ago, one of our main objectives is to obtain freedom and an opportunity to see the real world from the ground up.

This would represent a complete departure from our previously super hectic city-centric sell-side job, in which the opportunity to explore the regions and small villages is very limited.

Our post sell-side experience gives us a new meaning to the words “off the beaten track”.

We believe that embarking on a journey of discovery and getting our feet dirty provide us with unique first-hand experiences and allow us to discover investment ideas or angles.

In another word, we see this as part of our continuous learning.



The new meaning of off the beaten track?

Source: Heyokha

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Dear our guest,

The Accommodation Regulations, each client must abide by the following rules in order that all clients will be able to stay in our hotel in a safe and comfortable atmosphere.
If a guest does not abide by the regulations, that guest might be asked not to use our facilities and that guest might be liable for any damages.

For the customers who visit (for lunch or dinner) without reservations are asked to abide to the following regulations.

- ❖ The use of fire in the hallway and or guest rooms for the purpose of heating and cooking is prohibited.
- ❖ Do not smoke in an area where is easily to cause a fire, "NO Smoking in bed".
- ❖ Do not bother other guests, such as singing loudly, or any other noisy actions, etc.

THE FOLLOWINGS ITEMS ARE PROHIBITED IN THE GUEST ROOMS.

- Animals, birds and the things with bad smell.
- Flammable things such as gunpowder, benzine, etc.
- Non-approved guns and swords.

❖ Gambling or any other behaviour that is against public morals in the hallways or guest rooms is prohibited.

A good reminder that we might be visiting a place that not many travelers have seen before: non-approved guns and swords are prohibited in the “hotel” guest rooms. Did anyone try this before? We wonder...

Source: Heyokha

After crisscrossing many parts of rural Java and South Sulawesi, we were spending a good part of third quarter 2016 traveling to stunning West Nusa Tenggara province in the eastern part of Indonesia.



HEYOKHA
BROTHERS

The 'hardship' trip



Gorgeous West Nusa Tenggara

Source: Heyokha, Internet

The combo of white sand, diving paradise, care-free Gili island party scene and hidden surfing gem hardly qualified our journey as a hardship trip.

We were stunned by a chain of islands that is lush and people that are very welcoming. The food is

also delicious and almost everything is produced locally.

One of the reasons that attracted us to West Nusa Tenggara is the apparent rising prosperity there.



**HEYOKHA
BROTHERS**

In 2015, West Nusa Tenggara province registered a staggering 21% GDP growth (13% ex mining sector), the highest in the country and significantly above national GDP growth of 5.98%.

Mining (mainly Gold) and agriculture were the key drivers.

Throughout our trip, we saw motorcycle everywhere. The statistics are just amazing.

Motorcycle sales have been growing at 18% CAGR from 2010 to 2014 and car sales have been growing at 90% CAGR (not a typo!) in the same period. Granted that it took off from a very low base, but still quite phenomenal.

West Nusa Tenggara auto sales

In unit, 4W (RHS)



Source: BPS, Heyokha

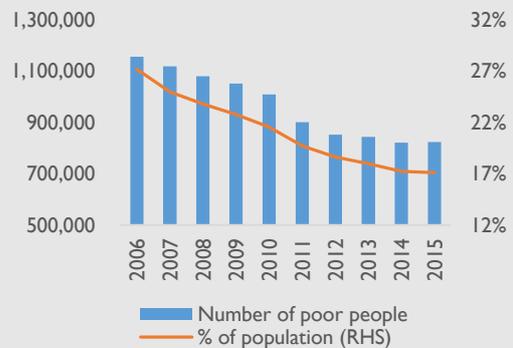


Motorcycle is everywhere in West Nusa Tenggara, highest per capita of motorcycle ownership in the country

Source: Heyokha

One main driver for the rising prosperity in West Nusa Tenggara is the agriculture sector (13% growth in 2015, making up 28% of the province's GDP ex-mining).

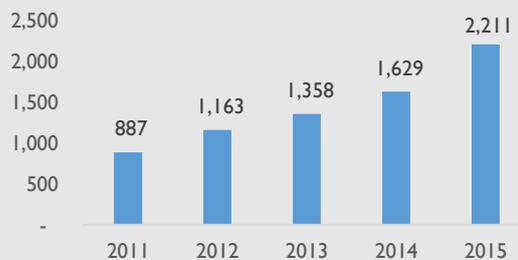
West Nusa Tenggara poverty is declining



Source: BPS, Heyokha

Tourist visitor in West Nusa Tenggara

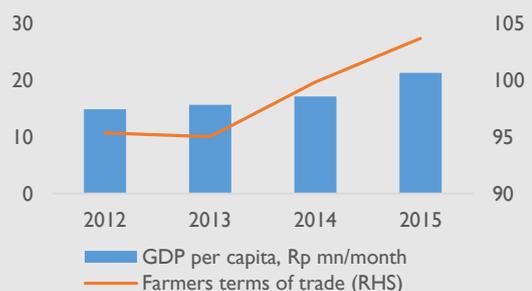
In thousands of people



Source: BPS, Heyokha

West Nusa Tenggara prosperity is rising

GDP per capita vs. farmers terms of trade



Source: BPS, Heyokha

Corn, in particular, is a big success story, growing production by 31% CAGR thanks to both improvement in productivity and harvested area (18.4% CAGR) between 2010 and 2015.

We learn that there has been a lot of switching out of planting soy to corn, as the locals learn that their soil is more suitable for corn than soy.



Corn made America what it is today. Centeotl, Aztec God of Corn (left). The ancient Aztecs even had a whole god dedicated to corn. The people of West Nusa Tenggara do not worship god of corn, but increasingly corn becomes a central part of their life (right).

Source: Heyokha, Internet

Nusa Tenggara Barat	2010	2011	2012	2013	2014	2015	CAGR
Food crops GDP	6,263	6,990	7,416	7,815	8,293	9,459	8.6%
Rice							
Harvested area, ha	374,284	418,062	425,448	438,057	433,712	467,503	4.5%
% of total nation	2.8%	3.2%	3.2%	3.2%	3.1%	3.3%	
Production, ton	1,774,499	2,067,137	2,114,231	2,193,698	2,116,637	2,417,392	6.4%
% of total nation	2.7%	3.1%	3.1%	3.1%	3.0%	3.2%	
Corn productivity, ton/ha	4.7	4.9	5.0	5.0	4.9	5.2	1.8%
Corn							
Harvested area, ha	61,593	89,307	117,030	110,273	126,577	143,117	18.4%
% of total nation	1.5%	2.3%	3.0%	2.9%	3.3%	3.8%	
Production, ton	249,005	456,915	642,674	633,773	785,854	959,973	31.0%
% of total nation	1.4%	2.6%	3.3%	3.4%	4.1%	4.9%	
Corn productivity, ton/ha	4.0	5.1	5.5	5.7	6.2	6.7	10.7%

Source: National bureau statistics

Obviously, given the remote location, we can't find any media or brokers report on this miraculous transformation. To see with our own eyes, we went straight to the province's main corn production pockets Bima and Dompu.



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Into the villages of West Nusa Tenggara Dompu: from soy-belt to corn-belt

When the new Dompu regent, Bambang M. Yasin was elected in 2010, he saw the potential in agriculture to fight poverty in his regency.

Given the climate and soil condition, he figured out that the food crops that work best there is actually corn.

He has been encouraging the farmers to plant corn (previously soybean) and the results have been very encouraging.

His team also allowed farmers to convert so called “forest land” on the farm and hill into farm land to plant corn.

In term of price support, an attractive floor price was set up to incentivise farmers planting corn. The rest is history.



Bambang Yasin, Dompu's regent with his award from President Jokowi after successfully improving the welfare through unlocking potential of agriculture sector (left). Idle land is everywhere (right) where Bambang Yasin utilise to plant food crop such as corn and generate more income to the local people there.

Source: Heyokha, Internet

With his extensive private sector background, Bambang Yasin followed his instinct to involve private parties in re-building Dompu.

His relentless effort bore fruit and now Dompu boasts a dryer-warehouse that can absorb the local corn harvest.

We understand that other big corn players will jump on the bandwagon soon and build warehouses.



This dryer facility was built by private party and helps to improve local prices in Dompu

Source: Heyokha

A good combo of local warehouse and corn import quotas has helped to create a better price environment for farmers.

Local farmers told us that the corn price ranges between Rp2,700-2,900/kg compared to sub Rp2,000/kg price 2-3 years ago. And they are happy folks.

Their regent Bambang Yasin has earned himself a nickname “The Corn Regent”. He is currently serving his second term as a regent in Dompu, after being re-elected in a landslide victory.

No wonder. He has successfully reduced the poverty rate from 23% in 2010 to only 12% last year with his corn-belt program.

With these achievements, he received several awards and is now quite a celebrity.



Port of Dompu, no activity sighted (left) vs. bustling Port of Bima (right) about 100 km away from Dompu.

Source: Heyokha

Of course, there is room for improvement, especially with regard to logistic cost. As we can see in the picture above, the port of Dompu (left-hand side) is no match for the port of Bima (right-hand side).

Anyone visiting Dompu port will understand why farmers prefer to ship their corn via Bima port, despite it being some 100km further away.

Logistics (or the lack of it) is the reason why the corn price in West Nusa Tenggara is lower than in Java.

This is largely due to the transportation cost which is around Rp700/kg or about 25% of the corn price. This should not be the case.

Out of the Rp700/kg transportation cost, land transportation cost alone can add as much as 70% or around Rp500/kg, due to the fact the port location is located too far away from the farm land.

Interesting tidbits

Happy farmers everywhere



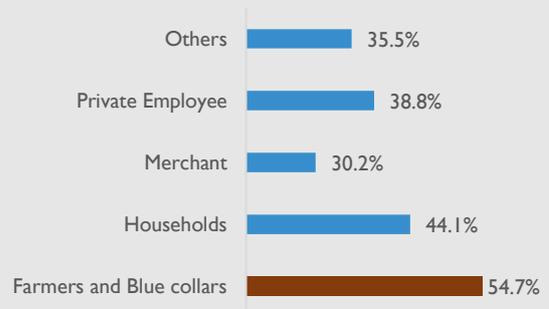
Source: Heyokha

Ok, farmers are not exactly driving Maseratis in West Nusa Tenggara and certainly don't expect a vintage car barn-find, but they are happy and grateful folks.

Latest CSIS survey validates our previous finding that farmer's satisfaction towards the current government is very high. This CSIS survey is particularly important given that many other reports cite findings that are contrary to ours.

Jokowi approval rating based on occupation

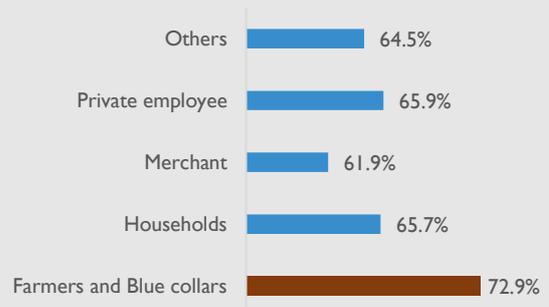
As percentage of total respondent



Source: CSIS, September 2016

Public satisfaction toward government program based on occupation

As percentage of total respondent



Source: CSIS, September 2016

Rice and corn prices are reasonably high and support from the government has been solid and overall, in the eyes of the farmers, is well executed.

Just like in rural Java, help (farming equipment, fertiliser, seed, and irrigation) manages to reach farmers.



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Dam construction in progress. The land clearing is almost finished once it is done, it could irrigate up to 400,000 ha of farm land

Source: Heyokha

The dam pictured above, located in Bima, will be a game changer. Most of the farmers here are only able to plant once in a year due to water shortage.



Our conversation with farmers from villages in West Nusa Tenggara. Different songs but the same upbeat message about better life and appreciation for the government agriculture reform, help from the army, decent rice and corn prices. Main challenges are typically lack of water and port/road infrastructure.

Source: Heyokha

The Battle of Food Self-Sufficiency

Also, just like the phenomena we observed in rural Java, the army in the villages of West Nusa Tenggara help to supervise the distribution of farming equipment, fertiliser, seeds, and irrigation works.

In fact, during this trip, we came across a soldier delivering a tractor to farmers.

As we mentioned in our 4Q2015 report, since coming to office, President Jokowi and General

Gatot Nurmantyo (commander of Indonesian National Armed Forces) and (Ret) General Luhut Binsar Pandjaitan have deployed the army to assist in the government agriculture reform.



A soldier delivering a hand tractor to farmers, making sure that the tractor went to the right hands (above), we spotted army in our every meeting with farmers (bottom).

Source: Heyokha

Literally in every meeting we had in the fields, we spotted soldiers. The farmers see the soldiers as “one of us” and are super grateful that they are fighting the country’s battle for food self-sufficiency side by side with the farmers.

“He that cannot obey, cannot command.”

- Benjamin Franklin -

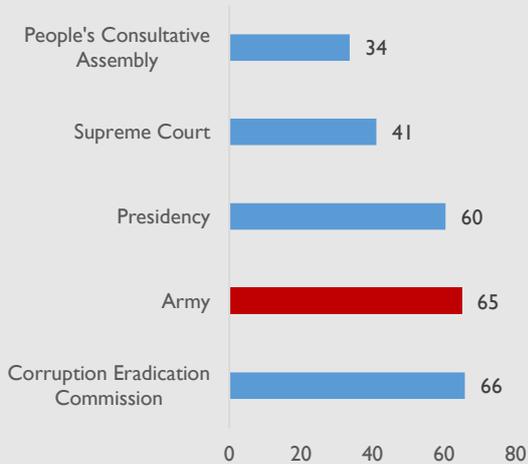


Apparently, the army's direct involvement also means the central government is able to listen and respond to suggestions and complaints swiftly. This is thanks to the army's more efficient framework.

The army's disciplined approach has so far proven that various subsidies and help from the government are less vulnerable to abuse.

Most trusted national institution – Sept'15

As percentage of total respondent



Source: Indobarometer, September 2015

Since last year (Sept 2015), the army was already the second most trusted institution

Human rights activists have criticised the decision to involve the army in food security program over concerns that the move could pave the way for an unhealthy involvement in the civilian affair, just like in the President Suharto's era.

The other high level criticism from people sitting in Jakarta said that staffs from the Agriculture Ministry have complained that soldiers were taking over their jobs. And mentioned that the soldiers forced the farmers to plant certain kind of crops.

Some media even cited unhappiness among the troops who said that they did not sign up with the military to work in farms.

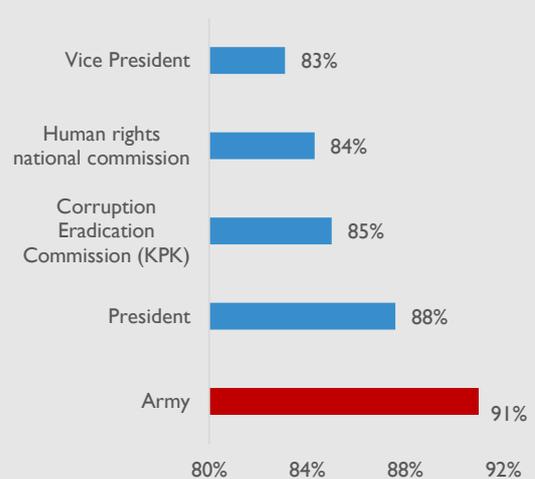
We beg to differ.

Our conversation with the staffs of Agriculture Ministry, farmers, and soldiers on the field suggested that it is not case.

The reality is that army helps to get things done and is immensely popular. In fact, 2016 survey shows public trust towards army is the highest in the country, higher than even towards President and anti-corruption agency KPK!

Most trusted national institution – Sept'16

As percentage of total respondent



Source: CSIS, September 2016

Now the most trusted institution



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INTERVIEW SERIES

Leaping Out of Poverty

The Inspiring Story of Mr Burhan

We met a successful entrepreneur and farmer, Burhan. We feel that entrepreneur-farmers like Burhan are the heart and soul of the new prosperous West Nusa Tenggara.

Now in his 30's, Burhan had started out a decade ago as a sales agent for seed maker BISI. The initial attempt was not successful as he had zero credibility with farmers. Higher seed cost was a major deterrent for hybrid seed adoption.

Burhan's ingenuity led him to adopt a new strategy. Instead of doing a usual sales pitch to farmers to buy his "expensive" seed, he opted to walk the talk.



Burhan in his warehouse, a good success story of West Nusa Tenggara

Source: Heyokha

He started to focus on optimising his own piece of land, adopting BISI hybrid corn seeds and employing modern farming techniques.

The result spoke for itself and his neighbouring farmers were impressed. They learned from Burhan and bought the hybrid seeds from him.

Then, Burhan went on to bigger and better things. He took risks, buying farmland and put in the hours.

In addition to corn and soybean farming, Burhan owns many warehouse properties in his village.

He is also the major commodity trader in town. Burhan is a success story in West Nusa Tenggara and the farmers there look up to him.



Great lunch at Burhan's place, corn is everywhere. Home is where the food is grown

Source: Heyokha



HEYOKHA
BROTHERS

How to spend it, West Nusa Tenggara style.

Back in 2007/8 during the commodity boom, when we were traveling in the region, we saw first hand how humble wooden houses in the commodity area received a major boost and converted into brick houses. In the villages, owning a brick house is a symbol of prosperity.

In the heartland of West Nusa Tenggara, we witnessed a similar story playing out.

If you are into traditional wooden houses, the bad news is that wooden houses with historical character may disappear in the not too distant future.

When harvest is good and money is easy, covering houses with tiles and adding parabolic antenna are also the “in” thing to do, just like in rural Java.

The pictures below illustrate how the farmers in West Nusa Tenggara spend their new found cash, thanks to corn.



Traditional wooden house (left) vs. brand new brick house (right).

Source: Heyokha



Farmers, relying heavily on weather for survival, naturally tend to be more religious. Rebuilding of the local mosques is a good sign of that times are good.

Source: Heyokha



In Mbawa village, in the middle of nowhere, there are more than 100 people applying to go on Haj annual Islamic pilgrimage. That is 100 out of only 5,000 population! Again another sign of prosperity.

Before the era of corn, Mbawa Village was not safe with many local youths spending time lounging around doing nothing. Now parents send young kids to school and college, thanks to rising income from planting corn.

Source: Heyokha