LEGAL POLICY OF GOVERNMENT INVESTMENT REFORM IN INDONESIA

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Abstract

The study aims to find a legal policy model the Indonesian government in the management of government investment in infrastructure financing alternatives towards improving the welfare of all the people of Indonesia. This study uses a normative approach. The results showed that the management of government investment undertaken by the Government Investment Unit as a public service unit is not optimal and governance need to be improved. Legal reform through the establishment of a legal entity sui generis and realignment of authority operators, regulators and supervision in the management of government investment is expected to realize the objectives of the management of government investment as stipulated in Article 41 of Law No. 1 of 2004 on State Treasury.

Keywords: legal policy, government investment, and legal reform

Introduction

Legal policy is defined as a basic policy of state officials in the field of law that will and has been applied, which is derived from the values prevailing in the society to achieve the idea state. The purpose of national legal policy is as a tool or facilities and step that can be used by government to create a national legal system and with national legal systems will create the greater ideals of the Indonesian nation1.

At the empirical level, Moh. Mahfud MD used the legal policy as an approach to understanding the relation between law and politics, as well as defining the legal policy as the policy direction that made by the state relating with the law that will be enforced or not be enforced to achieve state goals. Law is placed as a tool to achieve the goal of state so that the manufacture of new laws or repeal old laws by the state should be a step to reach the goal state. According Pablo Holmes,2 politics and law must have a correlation which is consistent but not as an instrument to support the executive willingness or the government in power.

One of the state purpose contained in the Preamble of 1945 Constitution is achieved prosperity for the people of Indonesia. For that reason, the foundation of Indonesia's economy needs to be strengthened by one through con-

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trol a good public finance management in order to achieve these objectives.

State financial management which stipulated in Law Number 17 Year 2013 concerning State Finance is derived from the theory of the welfare state which explicitly adopted in 1945 Constitution. The founding father of 1945 Constitution has envisions the establishment of Indonesian state government to protect the people of Indonesia and is able to promote the general welfare.

Historically, arrangement of state financial began in 1864 at the time of enactment Indonesische Comptabiliteit Wet (ICW), which applies first time on January 1 Year 1967. After Indonesian independence, ICW is still applied through the Transitional Provisions of Article II 1945 Constitution, until then converted into Indonesian Treasury Law through Law No. 6 Year 1968. The issuance of Law Number 17 Year 2003 concerning state Finance, is a form of policy to make a paradigm shift financial laws of the country to build the country’s financial management system that is effective, efficient, consistent and in accordance with the principles of good governance. After issued the Law Number 17 Year 2003, followed issued Law Number 1 Year 2004 concerning the State Treasury, Law Number 15 Year 2004 concerning Financial Management and Accountability State (later known as the “Package Law on Finance of the State”) as an instrument to do bureaucratic reform in the financial administration of the State. The package of laws in the field of government finance is conducted in order to improve financial governance, including with regard to the management of government investment.

At the end of the decade of 1990s Indonesia experiences the financial crisis, based on that condition the government is more focused on strengthening the economic recovery and the lack of infrastructure development. In the Fiscal Policy Office reports regarding fiscal policy in 2010, it was stated that the Government of Indonesia has a funding gap of 62% from the total provision of infrastructure funds amounted US $ 145 billion in the period 2005 until 2009. Under these conditions, the government tried to reduce the funding gap in this infrastructure financing including through government investment. Deputy Acceleration of Infrastructure and Regional Development Coordinating Ministry for Economic Affairs, in a statement dated January 5, 2016 states that in Indonesia’s infrastructure development plans during the year 2015 to 2019 will face challenges due to the financing from the infrastructure investment needs Rp. 6,541 trillion, state and local budgets planned only able to pay Rp. 1,555 trillion or 24% from the total needs. This encourage the government to look for alternatives in the financing including infrastructure through government investment.

In Article 1 point 1 of Government Regulation Number 1 Year 2008 concerning government investment, the definition of government investment is the placement of funds and/or items in the long time to purchase investment securities and direct investment for the benefit economic, social and/or other benefits. Government investment activities in line with national development objectives of Indonesia to realize a just and prosperous society based on Pancasila and the 1945 Constitution Republic of Indonesia.

Article 41 of Law Number 1 Year 2004 concerning State Treasury has mandated the government to conduct long term investments with the purpose of obtaining the benefits economic, social, and/or other benefits. The mandate of the law then followed by the issuance of Government Regulation Number 8 Year 2007 concerning Government Investment (hereinafter referred to as Government Regulation Number 8 Year 2007) which was later changed to Government Regulation Number 1 Year 2008 concerning Government Investment (hereinafter referred to as Government Regulation Number 1 Year 2008).

Investment management authority of government implemented by the Ministry of Finance as State General Treasury that includes planning, implementation of investment, investment administration and accountability, monitoring and divestment represented by 3 (three) forms of authority, namely the regulatory, supervisory and operational. To carry out super-
visory authority, the Minister of Finance established the Investment Committee of the Central Government of ad hoc. While for organizing operational authority, the Ministry of Finance has established the Government Investment Center as the Task Force to implement Financial Management Public Service Agency as well as to regulatory authority are conducted by the Directorate General of Treasury.

Government Investment Management undertaken by The Government Investment Center can not meet the investment objectives as stated in Article 41 of Law Number 1 Year 2004 concerning State Treasury. The Government Investment Center role as a driver of infrastructure development are not optimal, from the allocation of state budget that allocated annually to The Government Investment Center has not been fully disbursed in investment management. This can be seen in the Financial Statements The Government Investment Center mentioning The Government Investment Center asset structure, the composition in the form of 60% of assets in cash and cash equivalents placed on deposit with a cash amount for Rp 12,63 trillion to Rp 21 trillion in total assets. The Government Investment Center only carry out investments with lending instruments that may be made to the State Electricity Company Rp.7.5 trillion and 19 provincial/city/district for Rp.961,82 billion (outstanding loans at September 30th 2014). Indications yet optimal management of government investment is also confirmed from the results performance audit of the State Audit Agency in 2012, which among other things stated that: first, institutional The Government Investment Center as the Public Service Board complicate the implementation of tasks as investment manager of the central government; second, the authority of the Independent Election Monitoring Committee and the Supervisory Board of Supervisors has not been set out clearly and have not been implemented optimally; and third, the government investment funds managed by Government Investment Center has not been fully rolled out and invested so that the investment objectives have not been achieved.

This paper will review the legal policy with respect to necessity legal reform of government investment to realize the management of government investment in Indonesia better with the goal of achieving the government investment as a financing alternative infrastructure to the welfare of all people in Indonesia. This article will discuss about: first, How does the perspective management of government investment in the concept of the welfare state?; and second, How does the model of law reform in the management of government investment in Indonesia for the welfare of entire people of Indonesia?

Discussions

Based on the audit results for 2012 and a review of institutional transformation in the Ministry of Finance conducted by McKinsey in 2014 stated that the Government Investment Center as an operator government investment in the form of Public Service Board Unit is not optimal in the performance of their duties. From the research, identified some of the difficulties faced by Government Investment Center as an operator in the implementation of government investment in Indonesia in the form of Unit Public Service Board: first, the issuance of Government Regulation for any equity participation and the purchase shares of Government Investment Center because the fund of Government Investment Center is a 'wealth of the country' unsorted 'slowing the acceleration of Government Investment Center as an investment entity if they want to invest or purchase shares of; second, monitoring dualism between the Independent Election Monitoring Committee and the Supervisory Board; third, difficulty performing of debts and is highly dependent on state budget and revenues; fourth, financial reporting mechanisms as a working unit of Public Service Board in accordance to best practice investment entities is less;

Fifth, Budget Business Plan and Strategic Plan is more oriented towards spending/revenue rather than profit and growth, it is given the Government Investment Center as a working unit of of Public Service Agency is not only
pursuing economic benefits but also social and other benefits in the implementation of government investment; sixth, there is reluctance especially from the private sector to carry out investment cooperation with Government Investment Center, Government Investment Center given as a working unit of Public Service Agency is still impressed as a “the government representative”; seventh, meaning a low risk in the implementation of cash management, as a working unit of of Public Service Agency managing cash management is not recognized as the performance of Government Investment Center could turn as investment entity this including part in the performance; eighth, Government Investment Center as a working unit of Public Service Agency in the management of assets following the provisions management the government assets, resulting in the implementation of their duties Government Investment Center difficulty performing receivables which causes difficulty doing the assessment, managing, and determining the amount of collateral value in the transaction business conducted; and ninth, the lack of clarity about the source of government investment other than from the State Budget cause the source of Government Investment Center only derived from State budget and difficulty per-forming fund rising. The new concept is needed in the management of government investment, so that managing government investment in Indonesia to be better for the welfare of entire people of Indonesia.

Government Investment Management in the Context of the Welfare State

Jurdical thinking options that selected in this writing based from the theories about the existence goal of a state. Some theories are known in the existence of a country famous among other things the concept rule of law and the concept of the welfare state. In the concept of state law, the state run its activities with the corridors of various legal instruments. Whereas, in the concept of the welfare state, the role of state became dominant in every aspect of people’s lives for the realization of social welfare. Emmanuele Pavaloni and Ranci Costanzo³, stated that some countries in the area of western Europe has to reform the law in a long period of time to support the realization of increase welfare.

Objectives state within the concept of the welfare state is to the general welfare. State’s power to organize political and administrative control to modify the market for the social welfare and economic power from the society. Haksoon Kim⁴ in his research said that the legal policy stability that are created will create a good investment climate to attract foreign investors. In the implementation of government investment that embodies the state’s responsibility in the management of state finances within the framework of the welfare state, the government investment regulation should provide legal certainty in the implementation of government investment.

The welfare state refers to an ideal model from the development that focuses on improving the welfare through the provision of an important role and greater to the state to provide social services thoroughly and comprehensively for its citizens. Paul Spicker states that “...stands for ideal developed in which welfare is provided comprehensively by the state to the best possible standards”. Economic development obviously affects the prosperity of a country. The government’s policy aims to change the conditions of state to be better.

Management of government investment as part of the management state finances is a form of participation state in economic development efforts for the improve people’s welfare. John Maynard Keynes⁵ stated that state participation is a response to market imperfections condition that demands greater government role in its function as an agent of develop-

ment, including in the management of government investment. However, Rian Duchin and Denis Sosyura, said government intervention should be limited so as not interfere with the mechanism of implementation of existing government investment.

According to the Chinese economy, Shimin Chen appropriate government interventions will increase the effectiveness in the economy, as was the case in the management of state-owned enterprises in China, where government intervention to improve governance of state-owned enterprises can improve the efficiency of the company, on the contrary, if intervention is not appropriate, for example, enter political interests in the management of state-owned enterprises will have a negative impact on the company's performance. In the context of managing government investment, the participation of government aims to increase the welfare of society.

According Freidrich Wu, managing government investment in Singapore conducted by the Government of Singapore Investment Corporation Private Limited (GIC) is the legal policy gamble economic law where government investment management policy conducted in the middle funding needs considerable development. This policy led to the success of government investment to support long-term economy of Singapore.

In 2008, the Monetary Authority of Morgan Stanley estimates that the GIC assets approximately US $330 billion. The participation of the Government of Singapore which is so powerful in determining the implementation of decision-making mechanisms of government investment for national interests to be one of the keys to success in the management of government investment. The Minister of Finance determines the investment objectives, risk parameters and investment portfolio policies, and supervision is conducted by the Monetary Authority of Singapore.

The economic policies need to be translated in the regulation should be oriented towards welfare. Stephen K. Aikins said in global economic crisis the government should make a regulation in economic sector (market protecting) that protect the society for reach the prosperity. Those policy also implemented in government investment management in German by KfW. The ownership composition of KfW government investment manager is the German Federal Government by 80% and the State Government of Germany by 20%. KfW is exempt from tax payment obligation because the legal status is as a public institution. KfW can give an interest that lower than the interest from commercial bank. KfW only paid some project that the commercial bank can not entering for paid those project as a government.

Investment management in Australia is implement by The Australia Government Future Fund (AGFF) with the goal for manage the government fund independently for fulfil the obligation of government in the future related with public service and the payment for the pensioner of civil state. The mechanism of investment management by the government are: first, the government determining the investment mandate; second, Body of Guardian gives an investment; third, investment manager is implementing the investment; fourth, utilizing a fund from the investment by the ministry who are competent; and fifth, Controlling by Australian Prudential Regulation Agency (APRA).

From the explanation above, the framework consideration of the state is thinking that
the prosperity is need a responsibility from all side include the legal expertist for prepare the regulation that oriented for the prosperity and protection of citizen. In implementation of government investment in the framework of welfare state, so, the regulation of investment implementation of government in Indonesia should give the certainty of legal and the goal of government investment management as one of fund resource of infrastructure development in Indonesia in a purpose for making a prosperity for society is finally can be reach. Paul Rose said, in the management of government investment is pointing a strong relation between a regulation with the politics of some state, when the legal give a certainty in the policy of management goevernment investment.

The reform of Government Investment Law in Indonesia

Nathan Roscoe Pound in his book "A Theory of Social Interest", make a statement that the function of legal is various, included for reconciliation, harmonization, and compromity of all conflict in society (individual, public and state) in the principle only for the most interest with the lowest cost the other interest, that called as legal as social engineering and or a system of social engineering legal as a device for configuring the society, the existences is similar with the existences of the society itself, that always growing as the society growing.

As a teaching by von Savigny, the legal is grow, life and growing in society, and John Austin said who are that seeing a legal as legal positivism that consist of a direction from sovereign of government and Austin said the legal is not grow, life and growing in that society, but a legal is seen as the tools of the ruler, legal is not using by its function for the goal of the legal itself which is giving the justice. The opinion from Austin is pointed that the legal is a sub system from the power system, so that the legal is not autonomy.

The statement by Austin is correlated with the statement from Roscoe Pound that found a concept that legal is growing naturally in the society and legal is always changed together with the social changing as Von Savigny.

The conception of legal as an infrastructure for social upgrading is convince that legal is a system that has a substance of new value that purposed for influencing and make a social changing directional and planable. Mochtar Kusumaatmadja said, legal has a strong correlation with the development, legal is an infrastructure of the upgrading society based on the opinion that the orderliness in the effort of developing or upgrading is something that wanted or maybe called absolute and a must. Legal is an infrastructure for development think that legal as a rule or legal configuration can be functioned as tools (configure) or development infrastructure that means for spreading to direct of human activity to the direct that wanted by development and upgrading. Ekoki, said that a legal and development rules is a success key of government investment management (SWF) in Nigeria.

In the context of the implementation of government investment in Indonesia, based on the Audit Board of The Republic of Indonesia (BPK) in 2012 declared that the government's institutional investment management is not optimal in the execution of their duties and governance of public investment needs to be perfected. So the concept of legal reform government investment presented in this paper is moving from institutional improvement and governance of government investment in Indonesia by


doing a comparison of management institutions of government investment in some countries and management practices of government investment in other countries (Singapore, Germany and Australia).

Institution or agency of government investment manager that known in some countries, among others, can be shaped Development Finance Institution (DFI) or a Sovereign Wealth Fund (SWF). In principle of Santiago delivered by IMF, stated that the definition of SWF is a state-owned investment fund, created and designed by the state to support a country’s macroeconomic policy. DFI is a development finance institution established by the state to promote strategic economic sectors that being a goal of socio-economic development of a country. The conception of Sui Generis Law Institution in the management of government investment in Indonesia that the legal entity is subject to its own laws and regulations and the implementation is expected to overcome the obstacles that faced by the current government investment operators now exist as BLU work unit.

The characteristics in the conception of Sui Generis Law Institution are: first, the conception of "state losses" in the management of government investment since the source of financing of the "wealth of the country that are not separated" can be eliminated and there is confirmation given as an investment entity; second, financial reporting mechanisms that are flexible and appropriate best practice in the management of the investment; third, capable of being the buffer of government funding if at any time the government run investment funds Government Investment Center required; fourth, profit oriented but not more than the economic benefits and social benefits in other legal entities sui generis that can continue to grow; fifth, investment instruments that are opened wide as possible but stay focused on the infrastructure sector is the main purpose of government investment management; sixth, have a representation of the RUPS to determine performance targets and budgets, the current Supervisory Board of Government Investment Center or the Investment Committee of the Central Government has not shown the representation of the RUPS and tend to overlap in oversight to the implementation of the Government Investment Center; seventh, for the acceleration in the management of government investment, the mechanism in the implementation of investment needs to be improved, among other things that the government investment transactions, cash management, and debt does not all have to go through the approval of Parliament (DPR).

To improve governance of government investment, the establishment of the Sui Generis Law should be followed by re-setting the authority and criteria operators, regulators and supervisors in the management of government investment. Authority of Government Investment Operator is necessary to apply the principles of: first, have the eligibility standards for investment and lending, governance, organizational and operational implementation; second, have a system which regulates the legal form and structure of investments and loans, separation and protection of assets of the owner of the funds; third, ensure that there is a basic right and open in asset valuation, calculation and withdrawal of investments and loans; fourth, management of investments and loans subject to the applicable regulations; fifth, develop internal function in accordance with organizational standards and operational implementation with the aim to protect the interests of funders (the client) and its assets and ensure there is a risk management in the implementation; sixth, there are procedures for addressing failures in the implementation of investments and loans to minimize the loss of funds, and the occurrence of systemic risk.

Authority of Government Investment Regulator, need to apply the principles of: first, the regulator should have responsibility and clear goals; second, independent and accountable in carrying out its duties and functions; third, sufficient authority, adequate resources

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and have the capacity to carry out the functions and authority; fourth, in exercising its authority, the regulator must carry out the clear process and be consistent; fifth, regulatory staff must work with high professional standards included in secrecy; sixth, contribute to review the limitations of the rules on a regular basis; seventh, have the authority to provide information to stakeholders; eight, should develop a mechanism of sharing information to stakeholders.

Authority of Government Investment Supervisor, need to apply the principles of: first, monitoring, mitigation and risk management as well as its authority; second, assure there is no conflict of interest among stakeholders; third, the authority to conduct the examination, investigation and supervision; fourth, there is a system of inspection, investigation and supervision of effective and credible; fifth, thorough legal action on the implementation of investment activities.

Legal reforms of government investment through the establishment of a legal entity sui generis in the management of government investment and re-setting authority operators, regulators and supervisors are expected to encourage the formation of holding the investment management of the government to synergize the pockets of the management of government investment are currently spread by: first, organization services non-bank financial (insurance and pension funds as well as others), namely: life insurance, general insurance and re-insurance, pension funds, as well as the guarantee fund; second, BUMN profits fund; third, Hajj saving fund; fourth, Zakat Fund; fifth, carbon emissions compensation fund and other investment funds. In the end the management of government investment is expected to be able to realize the welfare of all the people of Indonesia. Holdingitigation\textsuperscript{18} carried out by apply-ing good governance will drive the performance of a company, as well as in the context of the management of government investment, where the concept of the establishment of a legal entity sui generis to be holding the investment management of the government also needs to apply the principles of good governance in the process of holdingitigation.

Conclusion
Legal policy is the concept and principles that become an outline and basic plan of implementing the state in the formation and implementation of legislation which is based on the values developed in the community to achieve the purpose of the state in accordance with Pancasila and the 1945 Constitution, which was also reflected in effort to reform the management of government investment. Management of government investment by the Government Investment Center as a Government Unit that implement Financial Management General Services Agency is not optimal, so that the legal reform of government investment through the creation of sui generis and setting back the authority operators, regulators and supervisors are expected to realize the goal of investment management government as stipulated in Article 41 of Law Number 1 Year 2004 concerning State Treasury in order welfare of all the people of Indonesia.

Suggestion
Legal reforms to improve government investment in Indonesia which connected to all stakeholders (operators, regulators and supervisors) need to be realized, because of strategic role of government investment as one of alternative to create infrastructure financing for the welfare of all people in Indonesia.

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