Legal Policy of State Financial Losses Arrangement in a State-Owned Enterprise

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ABSTRACT

This research aimed to examine the elements of state loss in regulations concerning the legal policy of state financial arrangements in a bankrupt state-owned enterprise and to analyze the effort of asset recovery related to state loss due to corruption based on the prevailing law in Indonesia and China. This is normative legal research with a comparative approach, with China being taken as a comparison. The study indicated that the elements of state loss are short of money, securities, and goods; it was caused by unlawful actions, either intentionally or negligently; and losses whose amount can be calculated based on the findings of the authorized agency or appointed public accountant, in the Indonesian legal system, asset recovery efforts can be examined from the perspective of criminal law and administrative law. The substance of state finances reveals the same element, namely that the financial loss of SOEs is a loss to state finances. In the execution of court decisions on SOE-owned assets in bankruptcy cases, the regulation does not provide fair legal recognition, protection, certainty, and equal treatment before the law in the management and accountability of state finances.

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1. Introduction

Generally, institutions are commonly perceived as factors that impede economic performance. However, a body of research presents an alternative perspective, arguing that institutional constraints can actually be beneficial and that the concept of complementarity plays a vital role in fostering better outcomes. This study aims to highlight the correlation between institutional complementarities and economic performance, with a specific focus on two distinct institutional forms: the State and finance. By examining these two institutions, we aim to develop a comprehensive understanding of state capabilities that takes into account the role of financial systems. Following the conventional definition of institutional complementarities, we consider two institutions to be complementary when the presence of
The concept of state capabilities holds a central position in our argument. This idea is widely accepted among political scientists, economists, and economic historians who aim to discern the fundamental factors contributing to the varied levels of prosperity observed among nations. \(^2\)

State-Owned Enterprises (SOEs) represent a manifestation of the state's entrepreneurial role in overseeing sectors that directly impact the well-being of a significant number of individuals. Consequently, the growth and advancement of SOEs emerge as a crucial determinant of the long-term sustainability of national development, aiming to foster overall prosperity within the community. \(^3\) SOEs are expected to assume responsibility for managing strategic business sectors to prevent them from being dominated by specific entities. These government-established and -managed corporations operate within the industrial and commercial domains. \(^4\) The primary objective of SOEs, similar to other business entities, is to pursue profitability while also fulfilling their community service responsibilities. In their business development endeavors, SOEs often engage in collaborations with various entities, including financial institutions. However, the pursuit of higher profits also entails an increased risk of incurring losses for SOEs. Along their journey, SOEs may experience financial losses due to a range of factors, including inadequate management practices, political and economic volatility, unfavorable legal conditions, and other adverse circumstances. When such losses occur, SOEs may face challenges in meeting their financial obligations to creditors. \(^5\)

The notion of a legal entity, it is important to note that the assets of a Persero SOE cease to be classified as state assets. This stems from the fundamental principle that the separation of state assets from the State Budget (APBN) has been achieved through direct state participation in the form of capital investment in a Persero SOE, wherein the state acquires either all or at least 51% of the shares in the Persero SOE. As a result, the wealth is repositioned from being categorized as state-owned assets to state-owned Persero assets. \(^6\) While Article 1 number 1 of Law No. 19 of 2003 regarding State-Owned Enterprises (hereinafter referred to as the SOEs Law) currently outlines that business entities, in which the state holds either full or partial ownership through direct participation from separated state assets, are subject to the provisions of the SOEs Law, it is proposed that the SOEs Law

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be amended as follows.\textsuperscript{7} Furthermore, Article 4, paragraph (2) of the SOEs Law clarifies that the equity participation for the establishment or involvement in SOEs is sourced from the state revenue and expenditure budget, reserve capitalization, and other relevant funding sources. It should be noted that SOEs take on various organizational forms, including Public Companies (Perum) and Limited Liability Companies (Persero).\textsuperscript{8}

The business operations of Persero SOEs are funded not only by the state but also through borrowing from banks or non-bank institutions, issuing government bonds, and receiving foreign aid. However, the business activities of Persero SOEs are not immune to challenges, leading to performance issues. A decline in profits for Persero SOEs can have wider implications, impacting national income and potentially resulting in difficulties in meeting financial obligations to creditors and employees.\textsuperscript{9} As stated in Article 2, paragraph (1) of Law Number 37 of 2004 concerning Bankruptcy and PKPU (referred to as the Bankruptcy and PKPU Law), bankruptcy proceedings may occur when certain conditions are met. These conditions encompass the existence of two or more creditors and the debtor's failure to fulfill at least one due and enforceable debt. Bankruptcy, as a measure of last resort (\textit{ultimum remedium}), serves to safeguard the interests of both honest debtors and creditors when the debtor genuinely lacks the capacity to repay their debts.\textsuperscript{10} In developing nations, the enforcement of agency contracts within state-owned enterprises (SOEs) poses challenges, often resulting in ineffective monitoring mechanisms.\textsuperscript{11} Consumer bankruptcy serves as a social insurance mechanism that offers debt relief to financially burdened consumers who have not yet initiated the bankruptcy process (referred to as debtors). When a consumer decides to file for bankruptcy (referred to as the filer), unsecured debts can be discharged or restructured through the submission of a repayment plan.\textsuperscript{12} The bankruptcy of a company yields a plethora of adverse consequences for its investors, creditors, employees, customers, and other pertinent stakeholders. Prior scholarly investigations have demonstrated that suppliers associated with financially distressed enterprises likewise suffer financial setbacks.\textsuperscript{13}

Article 1, point 1 of the Bankruptcy Law and the PKPU provide a definition of bankruptcy as the comprehensive seizure of all assets owned by the debtor declared bankrupt.


\textsuperscript{12} Ho-Seok Lee and Byung Hwa Lim, ‘Personal Bankruptcy and Post-Bankruptcy Liquidity Constraint’, \textit{Journal of Banking & Finance}, 152 (2023), 106861 https://doi.org/10.1016/j.jbankfin.2023.106861

This process involves the appointment of a curator by the court, who is responsible for managing and resolving these assets under the supervision of the Supervisory Judge. It is important to note that the general confiscation of assets, known as "algemene beslag," occurs upon the declaration of bankruptcy by a judge. However, in practical implementation, the priority and classification of claims determine the order in which creditors are compensated, thereby limiting the application of this principle solely to concurrent creditors. According to Article 21 of Law Number 37 of 2004 concerning Bankruptcy and Suspension of Obligations for Payment of Debt, bankruptcy encompasses all of the debtor's assets at the time the bankruptcy decision is issued, as well as any assets acquired during the course of bankruptcy proceedings. Consequently, upon declaration of bankruptcy, the debtor forfeits the legal authority to control and manage the assets included in the bankruptcy estate, effective from the date of the announcement of the bankruptcy decision. However, it is important to note that this provision cannot be applied to the bankruptcy of SOES Persero, given that the capital status of SOES Persero is derived from distinct state assets. This distinction renders it impractical to draw a direct comparison between the implementation of general asset confiscation in the case of SOES Persero and that of other legal entities.

As per the State Finance Law, State-Owned Enterprises (SOEs) are classified as state-owned business entities. However, under the "SOEs Law," a SOEs Company is considered a private legal entity and is thus subject to the PT Law. This disparity in categorization and the overlapping nature of laws and regulations can lead to legal ambiguity, particularly concerning the management of state finances. This situation has been further accentuated by two Constitutional Court decisions, namely Numbers 48 and 62/PUU-XI/2013, which have exacerbated the existing uncertainty and inequality in a legal application. The aforementioned decision has established that the capital of State-Owned Enterprises (SOEs) will retain its classification as "state assets." Consequently, the management of this capital will continue to be governed by regulations concerning state finances and the state treasury. Moreover, the decision affirms that the Supreme Audit Agency (BPK) and other relevant authorities will retain their authority to conduct audits and oversee the financial affairs of the BPK. However, this situation has resulted in a deadlock concerning the regulation of asset execution in cases involving bankrupt state-owned companies.

It becomes imperative to thoroughly examine the matter of handling the asset liquidation of bankrupt state-owned enterprises. Undoubtedly, the role of the legal system in addressing this issue is of utmost importance. Placing trust in the law as a vital element in a nation’s economic revitalization is a common practice that has been embraced by many countries. It is widely believed that the law, as one of the pillars of the social system, can make a positive

Contribution to Indonesia's economic recovery. This article attempts to compare Indonesia with China as a benchmark. The selection of China as a comparative country is closely related to its condition as a nation that has experienced rapid growth in recent decades.

2. Research Method

This study employs normative legal research, incorporating several approaches, namely the statutory approach, by placing China as a benchmark. This research adopts a descriptive nature, aiming to provide a comprehensive account of the subject matter. The primary data sources consist of secondary data derived from a thorough literature review. The collected data are then subjected to qualitative descriptive analysis for analysis and interpretation.

3. Results and Discussion

3.1. State-Owned Enterprises and the State Financial Losses Arrangement in Indonesia

The impact of fiscal policy on economic outcomes is a widely studied subject in the field of economics. The relationship between government expenditure and growth on a macroeconomic scale can potentially operate in either direction based on theoretical considerations. On one hand, an increase in government spending could result in a decrease in private consumption and investment. This can be attributed to a negative wealth effect and higher interest rates. On the other hand, an increase in government spending could also lead to a rise in private consumption and investment. This can be attributed to higher disposable income and an enhanced anticipated return on capital. According to Law No. 17 of 2003, the definition of State Finances does not provide a specific explanation but offers a general understanding that elaborates on the meaning and scope of State Finances. This includes the utilization of the object, subject, process, and objective aspects when formulating State Finances. State finances encompass all the quantifiable rights and obligations of the state, as well as any monetary or tangible assets owned by the state.

The subject aspect of state finances comprises all items owned by the state and/or under government control in relation to state finances. From a process perspective, state finances encompass all the activities involved in the administration of these objects. In the context of Business Law, state finance refers to the financial aspects of State-Owned Enterprises (SOEs). However, based on the provisions of Law No. 19 of 2003 concerning SOEs, there are specific criteria that deviate from the general definition of SOEs. The phrases "SOEs is all capital owned by the state" and "SOEs is the majority of its capital owned by the state" establish the criteria for SOEs, stating that a SOEs can be wholly owned or majority-owned by the state.

According to Law No. 19 of 2003 regarding State-Owned Enterprises (SOEs), the concept of state financial substance or state wealth is appropriately explained in relation to...
the separation of state assets. This separation refers to the detachment of state assets from the State Revenue and Expenditure Budget, which are then utilized as capital participation in SOEs for their development and management. This shift signifies a transition from the budgetary system of state income and expenditure to a system based on the development and management of these assets. As per the provisions of Law No. 19 of 2003, the division of state assets from the State Budget for use as SOEs capital represents not only a physical separation but also a legal separation of the status of state finances (state assets) that were originally a part of the broader state financial framework. Under Law No. 40 of 2007 concerning Limited Liability Companies, the provisions of this law also apply to the assets of State-Owned Enterprises (SOEs) companies with the legal form of Persero that have been converted into corporate assets. This particularly pertains to SOEs companies with the legal form of Persero. SOEs, when established, are granted legal entity status, with specific regulations determining the recognition of their existence.\footnote{21}

The case of SOEs in the form of Perums (Public Companies), legal entity status is bestowed following the enactment of a Government Regulation governing their establishment. Meanwhile, for SOEs adopting the form of corporations, the Minister of Law and Human Rights is responsible for granting legal entity status. The distinction between State-Owned Enterprises (SOEs) in the form of Perums (Public Companies) and SOEs in the form of Persero lies in the nature of state capital participation. In the case of Perums, the state capital is not divided into shares and remains fully owned by the state. On the other hand, for SOEs in the form of Persero, the state capital is converted into shares, and subsequently, these shares are divided among shareholders after the company issues them. This difference in capital structure reflects the varying ownership and governance models between the two types of SOEs.\footnote{22}

The elements mentioned, including State Finances, Law No. 17 of 2003 regarding State Finance, Law No. 1 of 2004 regarding the State Treasury, Law No. 15 of 2006 concerning the Supreme Audit Board, and Law No. 15 of 2004 concerning Examination of the Management and Accountability of State Finances, all converge on the notion that financial losses incurred by State-Owned Enterprises (SOEs) are losses to state finances. The main challenge arises from regulatory inconsistencies, conflicts in norms, as well as horizontal conflicts between ministries/institutions, and vertical conflicts between the central and regional authorities. These conflicts and disparities can lead to confusion and hinder effective management and accountability of state finances in relation to SOEs.\footnote{23} The crucial legal issue surrounding losses incurred by State-Owned Enterprises (SOEs) is whether these losses fall under the purview of state financial losses.\footnote{24}

State financial losses are often associated with the losses experienced by SOEs due to the policies implemented by their directors. The definition of state losses is stipulated in various regulations, including Article 1 paragraph (22) of Law No. 1 of 2004 concerning the State Treasury. According to this definition, state losses refer to actual and quantifiable reductions in money, securities, and goods resulting from intentional or negligent acts that violate the law. This definition encompasses several key elements that classify a loss as a state loss. Firstly, the loss arises from intentional or negligent wrongdoing, thereby necessitating accountability for the responsible party. Secondly, the reduction occurs in real and quantifiable amounts of money, securities, or goods. Thirdly, there is a causal link between unlawful acts and the loss of cash, securities, or commodities. The concept of state losses, as outlined in Article 1 paragraph (22) of Law No. 1 of 2004, pertains to material offenses. Therefore, a detriment to state finances can only be established if there are actual state financial losses. Furthermore, the term "loss to the state" is also mentioned in Law No. 31 of 1999 concerning the Eradication of Corruption Crimes, as amended by Law No. 20 of 2001. According to this Anti-Corruption Law, state losses constitute a criminal element, and if discovered by investigators and proven to exist, appropriate action can be taken to address them.

The provisions stated in Article 2, letters g and i of Law No. 17 of 2003 do not offer equitable legal recognition, guarantee, protection, and certainty, nor do they ensure equal treatment before the law in relation to the management and accountability of state finances concerning the execution of court decisions on State-Owned Enterprises (SOEs)-owned assets in bankruptcy cases. These provisions effectively act as a shield for the execution of SOEs assets, which are subsequently distributed among creditors. Article 2, letters g and i of Law No. 17 of 2003 expand the scope of state finances to encompass rights and obligations that can be quantified in monetary terms, as well as anything of monetary value that originates from or is acquired from the state. These provisions result in inefficient management of the state budget and the distribution of state financial risks, which can lead to unjust outcomes for the parties involved in a SOEs bankruptcy case.

Despite the existence of Law No. 19 of 2003 regarding State-Owned Enterprises (UU No. 19 of 2003) and other laws pertaining to the financial management of state/regional companies and legal entities, the management, administration, inspection, and accountability of these entities continue to be governed by Law No. 17 of 2003. This includes the provisions of Article 2, letters g and i of Law No. 17 of 2003, which have implications for the management of receivables of state companies/regional companies that have been deemed not to be state receivables due to potential constitutional harm, as determined by Constitutional Court rulings. These circumstances raise questions regarding the seizure of State-Owned Enterprises (SOEs) assets for the execution of court orders. Whether in the form of equity participation or mere administration of state assets, the precise location of SOEs' assets must be determined in advance. The verification of Article 2, letters g and i of Law No.

17 of 2003 through Constitutional Court Decision Numbers 48 and 62/PUU-XI-2013 presents a contradictory standpoint in this regard.\textsuperscript{27}

The administration of state finances and the management of State-Owned Enterprises (SOEs) finances are conceptually separate entities. The establishment of SOEs serves the purpose and function of managing the production sectors of the country, with the ultimate goal of improving the economy.\textsuperscript{28} Profits and losses are indeed inherent risks for any enterprise, including State-Owned Enterprises (SOEs). Losses incurred by SOEs are considered enterprise risks. However, in the administration of state finances, the primary objective is not profit-seeking, and the state may incur losses as a result of business decisions. State receivables, in the context of administering state finances, typically refer to receivables from the central government and/or regional governments, excluding receivables from business entities that are directly or indirectly controlled by the state, such as SOEs.\textsuperscript{29}

The SOEs receivables are not included as part of state receivables, it may lead to an increase in overall losses and a decrease in wealth. Consequently, the directors of state-owned enterprises, as the governing bodies of SOEs, should be held accountable for their actions when making business decisions that have a detrimental impact on SOEs and state finances. In Constitutional Court Decision Number 48/PUU-XI/2013 and Constitutional Court Decision Number 62/PUU-XI/2013, the Constitutional Court affirmed the separation of state assets, including state finances, within SOEs. It also established that directors and commissioners of SOEs can be protected from liability for losses incurred by SOEs based on the implementation of the principles of the business judgment rule and rules governing their accountability. While SOEs losses can be considered as state losses, directors and commissioners still receive legal protection for their business decisions, as long as these decisions are made fairly, properly, in good faith, and solely for the benefit of the company.\textsuperscript{30}

The inconsistency between the State Finance Law, the State Treasury Law, the SOEs Law, and the PKPU Law has been highlighted and expanded upon by two Constitutional Court decisions, namely Numbers 48 and 62/PUU-XI/2013. These decisions have resulted in the government frequently deviating from the provisions of the PKPU Law in the process of liquidating a bankrupt company. Despite the provisions stated in Article 31 paragraph (1) of the PKPU Law, which stipulates that the declaration of bankruptcy has the effect of immediately ceasing all court implementation decisions on any portion of the Debtor's assets initiated prior to the bankruptcy, the government continues to act outside of these provisions. This means that no decision can be enforced through actions such as seizing the Debtor's assets or taking them hostage. It is important to recognize that this situation creates a challenge in effectively implementing bankruptcy proceedings and enforcing court decisions.


\textsuperscript{30}Tiyas Asri Putri and Tundjung Herning Sitabuana, ‘Pengawasan Pengelolaan Keuangan Negara Terhadap Badan Usaha Milik Negara (SOES)’, \textit{SIBATIK JOURNAL: Jurnal Ilmiah Bidang Sosial, Ekonomi, Budaya, Teknologi, Dan Pendidikan}, 1.7 (2022), 1003–18 \url{https://doi.org/10.54443/sibatik.v1i7.118}
The lack of clarity and inconsistency in the legal framework surrounding bankruptcies and the management of assets can lead to difficulties and uncertainties in the overall process.  

3.2. State-Owned Enterprises and the State Financial Losses Arrangement in China  

Government-business relations are a crucial focal point in the context of economic reform and development, with policy burdens serving as a notable manifestation of government intervention in businesses. Since the advent of China's Reform and Opening-up policy, the reform of state-owned enterprises (SOEs) has remained an ongoing process. Over the course of nearly four decades, various reforms have been implemented, including the introduction of municipal enterprises as supplements, the separation of government and enterprises, the reform of the stock market system, and the ongoing mixed-ownership reform. These reforms represent one of the lengthiest and most successful endeavors in terms of property rights reform, leading to enhanced production efficiency and resource allocation. This reform trajectory has garnered attention from both economic development and academic research perspectives. Presently, the mixed-ownership reform has emerged as the central pillar of China's ongoing SOE reform. These policies exemplify how China's mixed-ownership reform allows for the integration of other capital into state-owned enterprises (SOEs) to address the challenges and shortcomings of the existing SOE system and establish a more efficient and contemporary enterprise framework.

Furthermore, it is evident that the deepening of this reform will enhance the market awareness and risk consciousness of SOE executives, thereby driving SOEs to operate more effectively within the market context. The degree of government control serves as a distinguishing factor between centrally controlled and locally controlled state-owned enterprises (SOEs). Decentralization in China, both at the central and local levels, has led to changes in the dynamics and relationships between the government and state-owned enterprises (SOEs), particularly when considering other factors of government intervention. On one hand, governments at various levels exert direct control over major SOEs through complete ownership or a substantial percentage of ownership shares. This is observed in significant industries like the military and petrochemical sectors. On the other hand, governments at all levels have relinquished some control over smaller or less competitive SOEs by indirectly controlling them or holding a smaller share percentage.

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The credit resources brought about by the policy burden of SOEs not only decrease investment efficiency but may also cause SOEs to deviate from the objective of maximizing operational performance. The policy burden of SOEs has several negative effects on their performance. Firstly, the presence of redundant personnel in SOEs increases labor costs, leading to inefficiencies in their operations. The excess workforce can strain the financial resources of the company and hinder its ability to compete effectively in the market. Secondly, the promotion criteria for public servants are often tied to their political achievements rather than the financial performance of the enterprises they oversee. This can result in a prioritization of projects with high political visibility rather than those with the best long-term profitability. These "vanity projects" may generate short-term economic benefits or serve political purposes, but they often fail to generate sustainable returns on investment. As a result, the focus on political impact and the pressure to undertake inefficient investment projects can undermine the overall profitability and performance of SOEs. This can lead to a misallocation of resources and hinder the long-term growth and competitiveness of the enterprises.

Since the third plenary session of the 18th CPC central committee, the promotion of the mixed-ownership economy has gained significant attention and support across various sectors. The primary objective of this reform is to foster balanced and mutually beneficial development among different types of ownership, promoting effective checks and balances within the economy. The reform takes the form of both non-state capital participating in state-owned enterprises and state-owned capital participating in non-state-owned enterprises. In 2015, the Chinese State Council issued the "Opinions of the State Council on the Development of Mixed Ownership Economy in State-Owned Enterprises," which emphasized the encouragement of state-owned capital to participate in non-state-owned enterprises through various means, aiming to actively develop a mixed-ownership economy. This document provides important guidance for the reform of private enterprises in the new era of socialism with Chinese characteristics and proposes a fresh approach to enterprise supervision and management. Through the ongoing reform and refinement of the mixed-ownership system, the complementary nature of diverse shareholders brings benefits to private businesses. State-owned participation as shareholders can enhance the environmental governance standards of private enterprises.

The positive effects of this development are more prominent when the enterprise is an industrial entity registered in a region with a higher level of marketization. Overall, the promotion of mixed ownership in Chinese enterprises aims to foster a more dynamic and balanced economic landscape, combining the strengths of different ownership types and promoting greater efficiency and innovation within the market. SOEs have indeed played a significant role in China's economic development, particularly during the period of planned

economy-driven growth. As products of the planned economic system, SOEs shouldered the responsibility of driving socialist economic development and alleviating economic pressures. To improve the internal governance of SOEs, the Chinese government has implemented various regulations. Firstly, recognizing the limitations of SOEs within the original planned economic system, the government prioritized structural transformation after the introduction of reforms and opening-up. In 2003, the State Council established the State-owned Assets Supervision and Administration Commission (SASAC) to facilitate the rational allocation of resources, protect assets, and develop the state-owned economy. Secondly, the quality of accounting information plays a crucial role in ensuring transparency and efficiency.

The China Securities Regulatory Commission (CSRC) mandated regulations on accounting information quality. In 2007, the CSRC introduced the Administrative Measures for Information Disclosure of Listed Companies, aiming to enhance the quality of accounting information and ensure the stability of SOEs. In 2009, the Chinese government implemented measures to regulate senior executive salaries in SOEs. The salary of executives should not exceed 30 times the average employee salary, imposing limits on their remuneration and incentive structures. Furthermore, in 2013, the 18th Central Committee of the Chinese Communist Party expressed support for private and foreign capital developments. This endorsement highlighted the importance of developing a mixed-ownership economy, which encourages the participation of non-state-owned capital in various sectors, including SOEs. These measures and developments reflect the Chinese government's commitment to improving the governance and performance of SOEs, promoting transparency, and diversifying ownership structures in pursuit of economic stability and growth. In 2006, the National People's Congress of China approved a new bankruptcy law that drew inspiration from regulations and judicial experiences in the United States and Europe. This new law, enacted in June 2007, replaced the previous 1986 law and all other local insolvency legislation, establishing a unified legal framework for bankruptcy cases in China.

One of the key objectives of the 2007 bankruptcy reform was to provide unified rules for the mandatory liquidation of companies facing severe financial distress. This applied regardless of whether the companies were government-owned or privately owned. The reform aimed to address situations where bankruptcy proceedings became overly prolonged, and the likelihood of a company's survival was considered very low. In such cases, judges were granted the authority to bypass the reorganization procedure and move directly to liquidation. The purpose of this provision was twofold: to expedite bankruptcy proceedings and to ensure that creditors had a higher chance of recovering their claims from non-viable companies. By allowing for a more efficient liquidation process in dire cases, the reform sought to protect the interests of creditors and facilitate a more orderly resolution of financial distress. Overall, the 2007 bankruptcy reform aimed to enhance the bankruptcy system in China, aligning it with international standards and practices. By establishing a unified framework and introducing provisions to address cases of severe financial distress, the reform

sought to improve the efficiency and effectiveness of bankruptcy proceedings in the country.\textsuperscript{44}

The enactment of the Enterprise Bankruptcy Law in 2006 was a significant legal development in China. Accordingly, the 2006 law included two provisions enabling the reorganization of struggling companies, reorganization, and composition. The new law adopted a greatly reformed system of governance, reflecting a reduced role for the state. In insolvency systems, governance structures\textsuperscript{62} tend to involve a blend of controls by insolvency practitioners; the courts; the debtor, under supervision; and creditors. The Chinese law fits in with this pattern but it is notable that its blend is changing in accordance with the transition to a market-based system. State direction was ostensibly stripped away and a new role of administrator was created to oversee cases upon being appointed by the court. The utilization of a liquidation group was still applicable in certain cases, particularly when addressing labor-related concerns and managing the bankruptcies of state-owned enterprises (SOEs). Despite the option for direct liquidation mentioned earlier, the involvement of a liquidation group remained relevant and necessary in specific circumstances. This approach aimed to address the complexities associated with labor matters and the unique challenges posed by the bankruptcy of SOEs, which required specialized expertise and considerations beyond the scope of regular bankruptcy proceedings.\textsuperscript{45}

State-owned enterprises (SOEs) in China are actively encouraged to expand their operations and establish large-scale business empires. China's economic system, often referred to as social capitalism, is distinguished by a high degree of social embeddedness, where market dynamics are shaped by intricate social networks and connections. This socioeconomic framework is further shaped by a complex interplay of formal and informal institutions that govern business and political relationships. The Chinese government has pursued a deliberate strategy to foster a unique form of capitalism in which state-owned enterprises play a prominent role within the market economy. These efforts have been instrumental in propelling China's ascent to a position of global prominence. To facilitate this process, the government has taken decisive measures to revitalize and restructure its historically inefficient SOEs, enabling them to undergo a process of rejuvenation and achieve sustainable growth. Through a range of policies and initiatives, the Chinese government has sought to enhance the performance and operational efficiency of state-owned enterprises, encouraging them to expand their domestic and international activities. This comprehensive approach to transforming and modernizing SOEs has served as a cornerstone of China's economic development strategy.\textsuperscript{46}

3.3. The State Financial Losses Arrangement in State-Owned Enterprises and Legal Policy of Proposed Changes

This uncertainty and inequality in the application of the law were subsequently affirmed and expanded by two Constitutional Court decisions, namely Number 48 and 62/PUU-XI/2013. These decisions established that state-owned enterprise (SOE) capital would

\textsuperscript{44} Bo Li and Jacopo Ponticelli, *Going Bankrupt in China* (Cambridge, MA, July 2020) https://doi.org/10.3386/w27501


\textsuperscript{46} Jian Jun (John) Zhu, Caleb H. Tse, and Xu Li, *Unfolding China’s State-Owned Corporate Empires and Mitigating Agency Hazards: Effects of Foreign Investments and Innovativeness*, *Journal of World Business*, 2019, LIV https://doi.org/10.1016/j.jwb.2019.02.001
continue to be categorized as "state assets," subjecting its management to regulations governing state finances and the state treasury. As a result, the Supreme Audit Agency (BPK) and other authorities retain the power to conduct audits and oversight of SOE finances. This situation has created a deadlock in the regulation of asset execution for insolvent state-owned companies, particularly evident in bankruptcy proceedings. An illustrative case is the bankruptcy of PT. Kertas Leces (Persero), a state-owned enterprise. In this instance, the Supreme Court of the Republic of Indonesia issued a decision in Case No. 05/PKPU/2014/PN.Niaga.Sby jo Article 01/Pdt.Sus. Cancellation of Peace/2018/PN.Niaga.Sby jo. Article 43 PK/Pdt.Sus-Bankrupt/2019. PT. Kertas Leces filed for bankruptcy due to outstanding debts, including liabilities to former employees who were laid off.

The former president director of PT. Bank Mandiri (Persero) Tbk, Edward Cornelis Willian Neloe, faced primary charges under relevant provisions such as Article 2 paragraph (1), Article 18 of Law No. 31 of 1999, Article 55 paragraph (1), and Article 64 paragraph (1) KHP. The charges were related to unlawful acts resulting in state losses, as stipulated in Article 2 paragraph (1) of Law No. 31 of 2001, which constituted corruption offenses since SOE finances are considered part of state finances. These developments highlight the complex legal and financial implications of managing state-owned enterprise assets within the context of bankruptcy cases. The intertwining of state and SOE finances and the application of relevant laws and regulations present challenges and raise questions regarding accountability and the protection of state resources. According to Article 2 paragraph (5) of Law Number 37 of 2004 concerning Bankruptcy and Postponement of Debt Payment Obligations (referred to as the KPKPU Law), state-owned enterprises (SOEs) operating in the public interest sector are eligible to apply for bankruptcy in the discretion of the Minister of Finance. This provision essentially allows SOEs to be subject to bankruptcy proceedings. Among the various SOEs that have sought bankruptcy, only PT KERTAS LECES (Persero) and PT IGLAS (Persero) have been declared bankrupt by either the Commercial Court (which has jurisdiction over bankruptcy cases) or the Supreme Court through the Appeal for Cassation process.

It is worth noting that for other bankruptcies of Persero SOEs that have been petitioned and deemed insolvent by the Commercial Court under the provisions of the KPKPU Law, the Supreme Court has subsequently annulled the bankruptcy decisions at the Cassation or Judicial Review stage. This means that bankruptcy rulings for PT Dirgantara Indonesia (Persero) and PT Djakarta Lloyd (Persero), two Persero entities, were successfully overturned by the Supreme Court. These cases illustrate the complexity and variability in bankruptcy decisions concerning Persero SOEs. The outcomes demonstrate the significant role played by the Supreme Court in reviewing and potentially overturning bankruptcy rulings for state-owned enterprises, thus highlighting the need for consistent legal interpretation and application in bankruptcy cases involving SOEs.47

In the Commercial Court Decision at the Central Jakarta District Court with the case number 04/Pdt.Sus-Pailit/2016/PN.Niaga.Jkt.Pst. dated 7 April 2016, as well as the subsequent Supreme Court Decision with the number 447K/Pdt.Sus-Pailit/2016 dated 25 July 2016, the bankruptcy application filed by individual creditors against PT Merpati Nusantara...

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Airlines, a State-Owned Enterprise (SOE), was rejected. It was found that the Minister of Finance is not required for declaring PT Merpati Nusantara Airlines bankrupt. This implies that any creditor meeting the requirements as specified in Article 2 paragraph (1) of Law no. 37 of 2004 can file for bankruptcy against PT Merpati Nusantara Airlines. However, it is recommended that the provisions of Article 2 paragraph (5) be promptly revised by the DPR (People's Representative Council) to remove the restrictive interpretation regarding who may file for bankruptcy against SOEs. The current interpretation limits the ability to file for bankruptcy against SOEs to certain parties, and this restriction should be expanded. Moreover, there is a need to clarify the bankruptcy procedures for SOEs whose entire capital is not solely owned by the state and is divided into shares. Therefore, legislative harmonization is necessary, specifically through the revision of both the Bankruptcy Law and the SOEs Law to avoid duplication and ensure a clear framework for SOEs bankruptcy proceedings.48

The lack of coherence between laws and regulations governing the supervision of SOEs, particularly in terms of financial management, has resulted in legal conflicts. In such cases, the business judgment rule doctrine, as stated in Article 97 paragraph (5) of the Limited Liability Company Law, can be applied to directors who may face criminal liability for losses incurred by SOEs. This doctrine offers protection to directors who have fulfilled their fiduciary duties and met the requirements outlined in Article 97(5) of the Limited Liability Company Law. To address the aforementioned issues, it is advisable to establish a clear and comprehensive rule that provides certainty and clarity regarding losses incurred by SOEs that are not automatically categorized as state financial losses. Furthermore, considering the unique characteristics of SOEs as both development agents and business entities, a special supervisory model based on the business paradigm, such as the business judgment rule, should be implemented. This approach would enable directors to operate the company without being unduly burdened by criminal sanctions.49

Upon reflecting on the discourse surrounding Indonesia's state asset management reform, four significant errors come to light. Firstly, there have been instances of incomplete approaches to accountability in government practices, indicating a potential lack of understanding regarding the conceptualization and implementation of accountability within state asset management laws. This suggests a need for better comprehension and application of accountability principles within the context of state asset management. Secondly, it is observed that economic regulations tend to prioritize short-term planning, leading to aggressive and exploitative exploitation of natural resources and state assets. This approach has resulted in excessive production and consumption, which ultimately diminishes the longevity and conservation of these resources and assets. Consequently, there exists a prevalent culture of acquiring and maximizing the utilization of state assets, but a relatively low emphasis on stewardship and maintenance, as evidenced by past regulations pertaining to state assets. These errors highlight the importance of addressing accountability gaps and reevaluating economic regulations to ensure a more sustainable and responsible approach to state asset management. It is crucial to foster a culture of stewardship and long-term resource

conservation to safeguard the nation's natural resources and maximize the value derived from state assets.50

The existing laws and regulations related to SOEs companies, such as Law No. 19 of 2003, Law no. 17 of 2003 on State Finance, Law No. 1 of 2004 on the State Treasury, and various laws and regulations concerning the duties and functions of the Supreme Audit Board, are in need of revision. These revisions should aim to achieve synchronization and coherence between the different laws and regulations, particularly those governing the legal status of state finances and addressing state losses. To prevent financial losses in SOEs companies, it is essential that they comply with the provisions of the relevant laws, which include the separation of state assets from the State Budget (APBN). This separation also involves distinguishing the legal status of state finances, specifically for SOEs companies governed by the Persero law, which incidentally falls under the provisions of Law No. 40 of 2007 concerning Limited Liability Companies. By revising and harmonizing these laws and regulations, the aim is to establish a clearer and more consistent legal framework that ensures the proper management of state finances and minimizes the risk of losses in SOEs companies. These revisions should address the separation of state assets, provide guidelines for financial management, and establish effective mechanisms for oversight and accountability.

4. Conclusion

The substance of State Finance, as outlined in various laws such as Law No. 17 of 2003 on State Finance, Law No. 1 of 2004 on the State Treasury, Law No. 15 of 2006 on the Supreme Audit Board, and Law No. 15 of 2004 on the Examination of the Management and Accountability of State Finances, establishes that the financial losses incurred by SOEs are considered losses to state finances. The critical legal question in cases of SOEs losses is whether these losses fall within the scope of state financial losses. In Constitutional Court Decision Number 48/PUU-XI/2013 and Constitutional Court Decision Number 62/PUU-XI/2013, the Constitutional Court affirmed that state assets, including state finances, are distinct from SOEs. As a result, the directors and commissioners of SOEs can avoid personal accountability for losses suffered by SOEs through the application of the business judgment rule principles and a set of rules governing their accountability. These legal principles and decisions help clarify the extent of accountability and the separation of responsibilities between SOEs and state finances, providing guidance for the management and governance of SOEs in the event of financial losses. Unlike the case of Indonesia, in 2015, the Chinese State Council issued a significant document titled "Opinions of the State Council on the Development of Mixed Ownership Economy in State-Owned Enterprises." This document emphasized the importance of encouraging state-owned capital to actively participate in non-state-owned enterprises, promoting the development of a mixed-ownership economy. Furthermore, it proposed a new approach to the supervision and management of enterprises. However, the implementation of these policies has given rise to legal conflicts due to inconsistencies between various laws and regulations, particularly in the realm of financial management of these State-Owned Enterprises (SOEs). These conflicts have created uncertainties and ambiguities regarding the classification of losses incurred by SOEs that may not fall under the category of state financial losses. To address these challenges, it is

advisable to establish a clear and comprehensive rule that provides certainty, clarity, and firmness in dealing with losses experienced by SOEs, which may not necessarily be classified as state financial losses. Additionally, there is a pressing need to develop a conceptual framework and effective mechanisms for accountability in the long-term management of state assets, taking into account the specific provisions outlined in the laws governing the management of state assets. By addressing these issues and ensuring proper accountability mechanisms, the Chinese government can enhance the effectiveness and efficiency of state asset management, contributing to the overall development and stability of the mixed-ownership economy in SOEs.

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