



STRATEGY FOR RECYCLING STATE-OWNED ASSETS IN INDONESIA

Khairah Mukhlisah Hertanto¹, Roby Syaiful Ubed²

¹*Directorate General of State Asset Management (DJKN),*

²*Polytechnic of State Finance Stan (PKN STAN),*

MINISTRY OF FINANCE INDONESIA

Abstract

This study aims to formulate strategies for implementing asset recycling for state property in the form of buildings owned by the Indonesian government. Ten structured interviews were conducted amongst 14 practitioners from the government and the private sector. The data were analyzed using qualitative data analysis software, NVivo 12. The results of the research are asset recycling implementation strategies in the form of considerations in implementation, mandatory steps, and implementation support strategy. Based on the research conducted, the implementation support strategy emphasizes overcoming the risk and challenge aspects in implementation. Furthermore, implementation support strategy is also formulated related to the issue of relocating the national capital city of Indonesia. The results of this study mainly recommends that the government should formulate a more flexible term of payment policy in asset recycling scheme; provide a digital information platform to entrepreneurs; carry out regulatory arrangements and provide guarantee of legal certainty for the private sector, the government itself, and the public; adopt a market-oriented state asset optimization policy paradigm; and develop an incentive system to encourage Ministries/Agencies to recycle their assets. The context of this research is limited to the study of asset recycling of state-owned buildings in general and is not simulative. The results of this study can be used as consideration and reference analysis for the government in implementing asset recycling policies with objects in the form of state-owned buildings.

Keyword: asset recycling, building, state asset, state property, implementation

¹ Officer at Directorate General of State Asset Management (DJKN), Ministry of Finance, Indonesia.
Email: khairah.mukhlisa@gmail.com

INTRODUCTION

The infrastructure funding gap encourages the government to maximize creative financing and encourage investment participation from both the public and business entities. The very high need for infrastructure development that requires funds of up to Rp 6,445 trillion cannot be fully met by the government. The government's funding capacity is only able to fund 37% of the total required investment. State-owned enterprises (BUMN) are expected to contribute to funding 21%, while the remaining 42% of funding needs from the private sector (Bappenas, 2020).

The government then made a new infrastructure funding scheme policy through Presidential Regulation Number 32 of 2020 concerning Infrastructure Financing through Limited Concession Scheme through a state-owned asset recycling scheme that allows infrastructure financing without going through loan debt. Assets that can be recycled are limited to state-owned assets or assets belonging to state-owned enterprises (BUMN), in the form of strategic infrastructure that has generated cash flow, such as toll roads, airports, and seaports (Andriansyah et al., 2017; Casady & Geddes, 2020).

The asset recycling scheme has the potential to be applied more broadly. In addition to strategic infrastructure, government buildings also have the potential to fund infrastructure development through an asset recycling scheme. Australia, Canada, and Japan have implemented asset recycling with lease schemes on their government office building assets (Chalmers et al., 2018; Patterson, 2016; Tomo, 2020). Indonesia has this potential based on several considerations. Firstly, according to the 2020 Indonesia Central Government Financial Statement, it is recorded that idle state property is worth Rp 75 billion, and as much as 55% of this value is in the form of land and buildings on it.

Secondly, the government has planned to relocate the capital city from Jakarta to East Kalimantan. Despite the relocation, the government still plans to make Jakarta a regional and global business, finance, trade, and service center area (Hutapea, 2020). The consequence of this relocation is that government buildings in Jakarta must be recycled to generate state revenue.

Thirdly, recycling state-owned buildings offers several advantages to the government. In terms of costs, asset recycling with a lease scheme will reduce the lifecycle cost maintenance incurred by the government for the recycled assets (Casady & Geddes, 2020). Then, in terms of optimizing use, handing over the management of the building to the private sector through asset recycling under a lease scheme can also maximize the potential for wider use of the building. For example, if a building from the government's point of view only functions as an office building, then from the private's point of view the building can function as an office, hospital, shopping center, to a data center.

Research on asset recycling is still rare in Indonesia. Meanwhile, this new scheme has been widely implemented abroad and is considered to be able to

take advantage of domestic and global financial markets to achieve national development goals (Nowacki et al., 2016). The researchers intend to formulate a strategy towards implementing an asset recycling scheme for state-owned buildings. This research is expected to provide a reference analysis for the government in implementing an asset recycling scheme for state-owned assets in the form of non-strategic infrastructure, that is buildings, as an alternative strategy for infrastructure financing sources.

RESEARCH BACKGROUND

Asset recycling is essentially a form of brownfield investment scheme. The difference is that the brownfield investment scheme is foreign direct investment, while asset recycling does not necessarily involve foreign investment. From Poole in Casady & Geddes (2020), the definition of asset recycling is: "[A] state government leases (for 50 to 99 years) existing infrastructure assets (airports, seaports, toll roads, electric utilities, transmission grids, etc.) to investment funds and pension funds-and uses the proceeds for new, greenfield infrastructure. Thus, the asset value that is liberated from existing infrastructure is recycled into much-needed new infrastructure. The assets that are leased are ones with healthy user-fee revenue streams, while the projects into which the proceeds are invested are ones without such revenues: transit systems, schools, other public buildings, etc."

According to Chalmers et al. (2018), asset recycling consists of two main components. First, the monetization of existing assets through sale or lease to the private sector. Second, reinvestment in new infrastructure using the proceeds received in the asset monetization.

Infrastructure asset recycling is a means of increasing investment in infrastructure, both existing and planned. The basic idea calls for a long-term leasing of aging existing facilities to well-qualified private partners and "recycling" the lease proceeds into new (but currently unfunded) infrastructure (Poole, Jr, 2018). Asset recycling allows governments to surrender future cash flows from existing projects to finance the construction of a new project (Nowacki et al., 2016).

Asset recycling offers the opportunity to provide newly needed infrastructure without increasing public debt while maintaining or potentially improving existing infrastructure service delivery (Chalmers et al., 2018). The term "public debt" mentioned by (Chalmers et al., 2018) refers to loan. In the context of asset recycling, asset recycling proceeds from advance payments received from private parties are indeed categorized as payable or obligations, because "unearned rent revenue" is included in the category of long-term debt. However, in this concept, the unearned rent revenue is passive income (Tori, 2017) that does not require the government to make payments in the future, because the debt is paid with "asset performance".

From the definition of (Chalmers et al., 2018) above, there are two asset recycling schemes, namely sale scheme and lease scheme. In the sale scheme, the government relinquishes the status of "state property" and transfers ownership to the third party. Therefore, the sale scheme is synonymous with privatization. Meanwhile, in the lease scheme, the government maintains its status of the assets, but hands over concessions on asset management to the private sector during the term of the agreement, in exchange for unearned rent revenue (rent paid in advance) or upfront payment (payment in advance).

However, several other sources such as Poole (2018), Nowacki et al. (2016) and Casady&Geddes (2020) argues that asset recycling is the term used for lease schemes, while asset recycling under sale schemes is referred to as "privatization". Asset recycling under a lease scheme is also known as the Limited Concession Scheme. While Fenn (2014) and Whiteside (2017) who are researchers from Canada categorize sale scheme as asset recycling, as well as Chalmers et al. (2018).

RESEARCH METHOD

This research is descriptive qualitative research using primary data and secondary data gathered. Primary data was obtained from the result of 10 structured interviews with 14 practitioners from the government and the private sector. Secondary data was obtained from various kinds of literature, publications, and regulations, data in the form of numbers from research results or journals, and other documents related to asset recycling schemes and their implementation on state-owned building.

Data analysis techniques consist of data collection, data reduction, data presentation, and conclusion. The tool used for data analysis is qualitative data analysis software, namely NVivo 12.

FINDINGS AND DISCUSSION

Considerations in Implementing the Asset Recycling Scheme

The things that must be considered by the government in implementing asset recycling are as follows:

1. In the asset recycling with lease scheme, the government must clarify the concession clause regarding the concession limits granted to third party whose role is as asset manager, whether the recycling is carried out in the context of the land or the building. Asset recycling in the context of the building means that third party is not allowed to change the structure or framework of the building. However, asset recycling in the context of land means that third party is allowed to change the structure and even demolish the building.
2. In the asset recycling with lease scheme, the government needs to consider the possibility of demolishing the recycled building even though the building in

question is not an old building. Considerations regarding the need for demolishing include inefficient building structures and designs that affect building productivity and unmarketable building facade designs. Demolishing will be increasingly necessary if there are any driving factors. For example, the concession period is quite long, and/or the building is in a strategic location that allows optimal productivity.

3. The government needs to consider that recycling historical assets or heritage assets is possible. Historical or heritage asset recycling is possible to be applied by refurbishing. For example, by maintaining the design of building front or exterior while rebuilding and changing the interior design to suit the function of the building.
4. The government needs to consider the asset recycling with lease scheme as either of the option for state-owned asset utilization arrangement offered to the private sector. That is, if an asset is included in the category or list of recycled assets, but there are no investors who are able or willing to operate it with asset recycling-lease scheme, the government consents the asset to be cultivated with utilization scheme other than asset recycling.
5. In the asset recycling with lease scheme, the government should consider granting a sufficiently long concession period to third party operating the asset. The term of the concession granted must be more than 10 years and can be extended.
6. The government needs to consider that the location of assets and the condition of the property market are highly considered by the private sector (investors) in assessing the prospects for state-owned buildings to be recycled. On the other hand, the private sector (investors) also depends on the utilization scheme offered by the government because it is related to the investment costs that must be provided. The upfront payment scheme could be quite a burdensome for investors and the comparison to be a resolve is the prospect of location of the state property being offered.

Mandatory Steps in Implementation

Mandatory steps must be taken by the government to be able to implement the asset recycling scheme. Firstly, the government needs to establish a policy for calculating upfront payment, which in the 2018 SPI is called property valuation with an income approach. Upfront payment in asset recycling schemes is calculated by discounting the cash flows generated from asset operations. In the upfront payment policy, the government needs to reconsider the terms of payment, especially in special conditions such as weak economic conditions and a weak property market. For example:

1. provide a grace period of 5 years until the asset operates,
2. credit payment system for 3-5 years,

3. 50% of the upfront payment is paid within 3 years, while the balance is paid within 10 years.

Secondly, government needs to appoint and authorize an “entity” to manage the asset recycling program. This entity will later run and coordinate the implementation of asset recycling, manage recycled state-owned assets, and manage fund proceeding from upfront payment (proceeds from asset recycling). Referring to the existing regulation, that is Presidential Regulation Number 32 of 2020, the entity meant is a Public Service Agency (BLU) which is under the Ministry of Finance. However, at the time the research was conducted, the BLU had not been appointed or formed.

Thirdly, the government needs to provide a legal basis for asset recycling schemes. The concept of asset recycling must be spelled out in a clear and complete statutory regulation with schemes and procedures, apropos the funding scheme, the Non-Tax State Revenue (PNBP) earmark in the budget system, the contract mechanism, and the period. Still, technical regulation and technical instruction are also required as a legal umbrella for implementation of asset recycling schemes.

Strategies to Support the Implementation of Asset Recycling

The implementation support strategy is a series of concepts and plans carried out with a long-term perspective aimed at the success of asset recycling program. The implementation support strategy focuses on overcoming the risk and challenge aspects that might be faced in implementation of the asset recycling scheme in accordance with results of the research conducted, along with crucial strategy related to the issue of relocating the capital city and the ensuing condition of government buildings post-relocation.

1. Asset Securitization as an Alternative Method

- Model 1: Asset Securitization by Third Parties
 - a) Submissions and Transactions

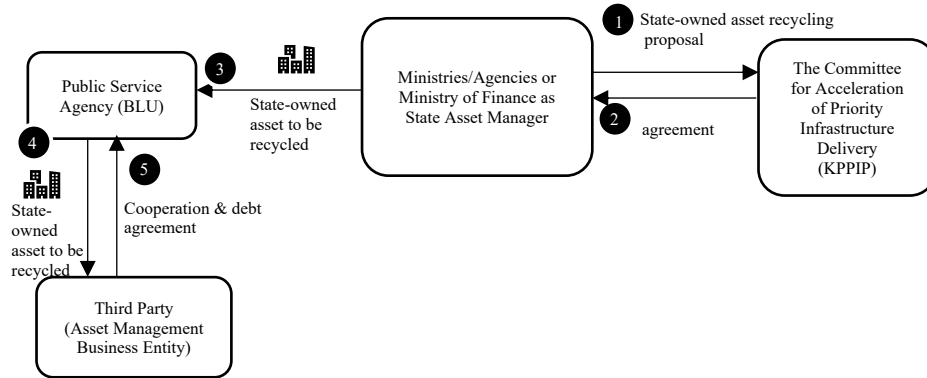


Figure 1: Submissions and transaction processes

Source: processed by researchers

b) State-owned Building Management and Revenue Generating During Grace Period

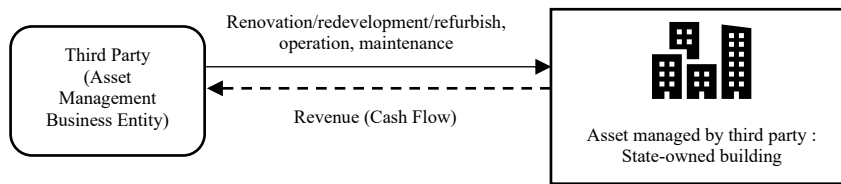


Figure 2: State-owned building management and revenue generating processes during grace period

Source: processed by researchers

c) Issuance of Asset-Backed Securities and Fundraising from Investors

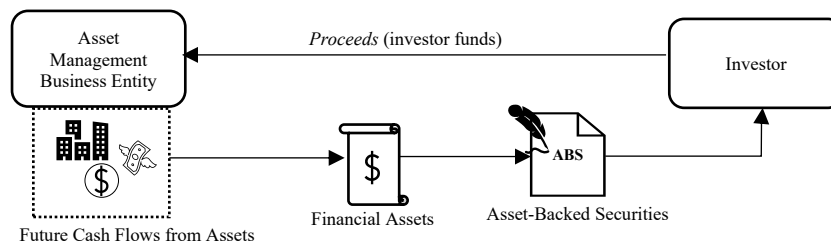


Figure 3: Process of issuance of asset-backed securities and fundraising from investors

Source: processed by researchers

d) Debt Settlement of Asset Management Business Entities after the Grace Period

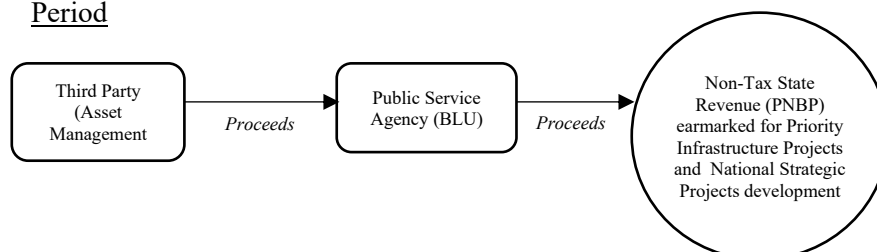


Figure 4: Debt settlement process of asset management business entities after the grace period ends

Source: processed by researchers

• Model 2: Asset Securitization by the Government

a) Submissions and Transactions

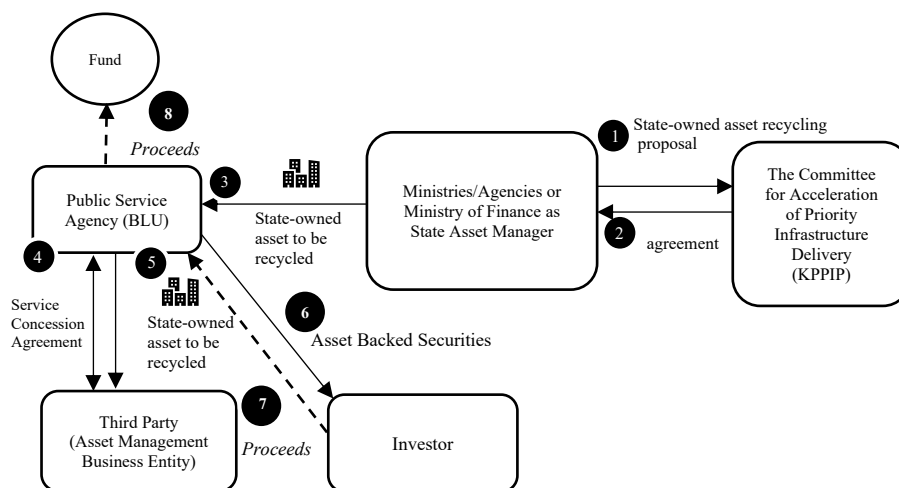


Figure 5: Submissions and transaction processes

Source: processed by researchers

b) State-owned Building Management, Revenue Generating, and Return Distribution

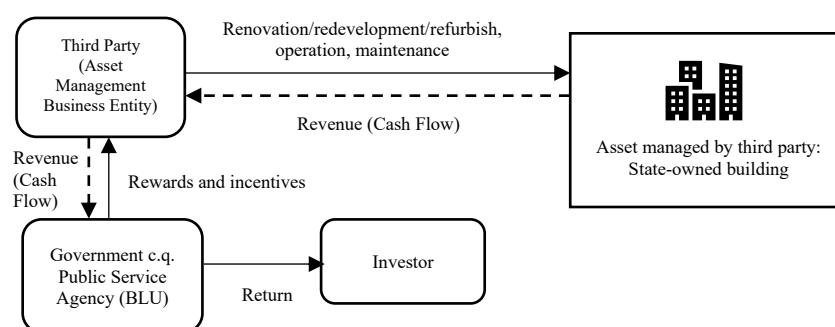


Figure 6: State-owned building management, revenue generating, and return distribution processes during grace period

Source: processed by Author

2. *Pilot Project*

The government needs to conduct a pilot project to find the most appropriate asset recycling scheme for certain types of state-owned building and to provide reassurance to potential business partners.

3. *Management of State-Owned Asset*

Regarding the strategy for managing state property, the key points includes: a sophisticated state-owned building database and information system; a list of state-owned buildings that have the potential to be recycled; asset mapping to identify asset which underperforms and exceeds the Goods and Requirements Standards; and reorganizing legality to ensure legal certainty over state-owned lands to prevent problems or disputes that could be detrimental in the future.

4. *A Platform to Support Asset Recycling Program*

To support sufficient information to the public and business actors/private sector, it is necessary to have a platform to carry out state-owned assets optimization business processes digitally, especially asset recycling. For example, developing application system which front-end informs description of the asset, offer value, designation recommendation, geotagging, specific conditions of the asset, applicable methods of utilization, and restrictions prescribed.

5. *Bureaucratic Regulations and Procedures*

In terms of laws and regulations and bureaucratic procedures, the government needs to consider synchronization of regulations, a guarantee of legal certainty, and the need for provisions in regulations regarding force majeure aimed at making asset recycling policies more investor friendly.

6. *Reporting, Accountability, and Publication*

Public acceptance determines the success of asset recycling implementation. Therewith, transparency and accountability mechanism are needed to build public support. Therewith, publication and private sector engagement are also necessary to ensure that there will be enough private sector interest to generate competitive bids.

7. *Regulatory Dissemination and Dialogue with Business Actors*

The need for dissemination and dialogue on regulations related to business is due to three points. Firstly, the issuance of several new laws and regulations, especially the Job Creation Law. Secondly, the government needs feedback from business actors on utilization and optimization schemes that already exist in policies or regulations. Thirdly, specifically concern asset recycling scheme of government buildings in Jakarta after capital city relocation, it is necessary to disseminate regulations regarding the new basic spatial plan that will be implemented in the Jakarta area as the old capital city in order to provide certainty that real estate entrepreneurs would be more prepared with all the prospects, then start to prepare funding.

8. *Formulation of the Paradigm of State Property Management and Systematic Dissemination*

The Ministry of Finance, as state asset manager, should integrate its concepts and perspectives on state asset management with other institutions. Emphasized the need for a whole-of-government approach to ensure that all institution's asset managers who are asset users, from the Ministry/Agency level to the vertical unit, understand the formulated state asset management paradigm.

9. *Integration of Asset Recycling Scheme with Spatial Planning and Regional Development*

Asset recycling schemes need to be combined with national and regional long-term spatial planning and. Firstly, regarding the relocation of the capital city, if the government plans to provide support to digital-based startup companies that are about to be based in Jakarta, then the government needs to map out which state-owned buildings would be used for the support and which ones would be optimized through utilization policies. Secondly, the availability of

adequate infrastructures and public facilities in the environment around assets that are about to be recycled is very necessary, because adequate supporting infrastructure such as road, lighting, and public access could affect the market value of the property and the tendency of investors to cultivate the property...

10. Market Oriented Asset Optimization

State-owned asset optimization paradigm as outlined in the legislation should allow flexibility in following market realities. The government must be able to assess the assets from the view of private sector then conduct market research to discover the condition of the real-estate market.

11. Clarify and Synchronize Regulations on Land Rights in Relation to State Asset Optimization

For example, if an asset is recycled and then handed over to the private sector for a period of 50 years and can be extended, what is the status of the asset? Legally, the asset belongs to the government, but the control of the asset is in the hands of the private sector who manages it.

12. Strengthening The Position of DGSAM as State Asset Manager of Indonesia

The Directorate General of State Assets Management (DGSAM) is expected to be more proactive, especially in formulating the culture of state asset management. To formulate that culture, DGSAM needs to coordinate with all parties, especially Ministries/Agencies as direct state-owned asset users. DGSAM plays a role in configurating perspectives, norms, rules, incentive systems, then socializing and implementing them.

13. Granting Authority to State Asset Manager to Play an Active Role in Optimizing State-Owned Assets at Ministries/Agencies

The crucial active role that can be given to the Ministry of Finance-DGSAM in dealing with state-owned buildings which exceeds the user's need is the authority to regulate their usage cross-ministry/agency. As a benchmark, in Australia, the Queensland state government has merged several government buildings in the City of Brisbane into one building unit. In Indonesia, Ministry of Finance is one who initiated this. The Ministry of Finance has started implementing the initiative in vertical units within it through the New Thinking of Working (NTOW) and New Ways of Working (NWOW) initiatives.

14. Incentive System for Ministries/Agencies and The Vertical Units

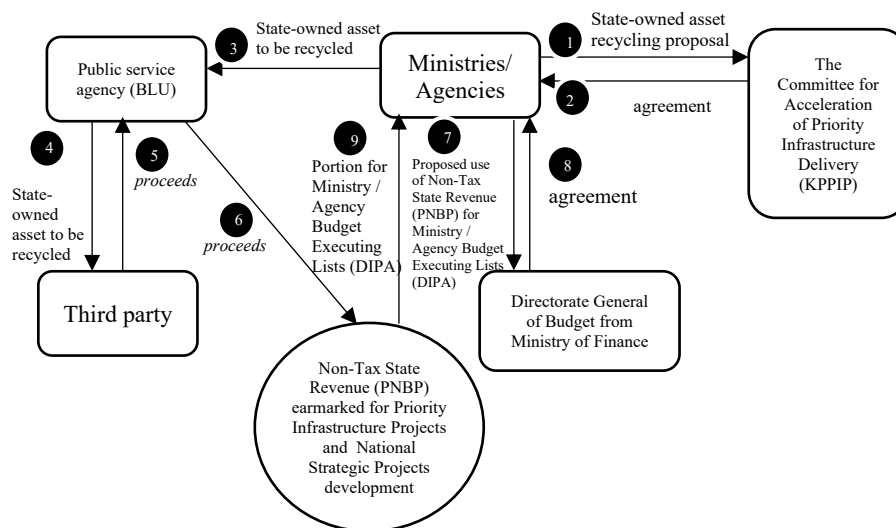


Figure 7: Monetary incentive system chart

Source: processed by researchers

CONCLUSION

For the purpose of implementing asset recycling schemes on state-owned buildings successfully, there are several considerations and steps that must be taken by the government, especially those related to the interests of the private sector and the interests of ministries/agencies as state asset users. Alongside that, there is formulated 14 supporting strategies playing a very important role and influencing the success of asset recycling for state-owned buildings implementation either directly or indirectly.

ACKNOWLEDGEMENTS

The authors thank Polytechnic of State Finance STAN for the support during the research process.

REFERENCES

Andriansyah, A., Pratiwi, A., & Hapsari, F. (2017). Innovative Financing for Development And Growth: Infrastructure Asset Securitization of Airports, Seaports, and Electricity in Focus. *Badan Kebijakan Fiskal*.

Casady, C. B., & Geddes, R. R. (2020). Asset Recycling for Social Infrastructure in the United States. *Public Works Management & Policy*, 25(3), 281–297. <https://doi.org/10.1177/1087724X20911652>

Chalmers, Liu, & Viet. (2018). Infrastructure Asset Recycling: Insights for governments

- and investors. *Asia Pacific Risk Center, Marsh&McLennan Companies*, 33.
- Fenn, M. (2014). Recycling Ontario's Assets: A New Framework for Managing Public Finances. *University of Toronto, Mowat Research #85*.
- Hutapea, P. (2020). *Mengejar Status Sebagai Provinsi Daerah Khusus Jakarta Pasca Pemindahan Ibukota Negara Ke Provinsi Kalimantan Timur*. 2(1), 135–144.
- Nowacki, C., Levitt, R., & Monk, A. (2016). The Financier State as an Alternative to The Developmental State: A Case Study of Infrastructure Asset Recycling in New South Wales, Australia. In *SSRN Scholarly Paper ID 2860264*. Social Science Research Network. <https://doi.org/10.2139/ssrn.2860264>
- Poole, Jr, R. W. (2018). *Asset Recycling to Rebuild America's Infrastructure*. Reason Foundation. <https://reason.org/wp-content/uploads/asset-recycling-rebuild-america-infrastructure.pdf>
- Tomo, M. (2020). Segment Performance Evaluation and Asset Recycling: Case Study of Japanese Trading Company. In S. Hiraoka & A. Aoki (Eds.), *Management Control Systems For Strategic Changes: Applying To Dematurity And Transformation Of Organizations*. World Scientific.
- Tori, D. (2017). The Impacts of Rent Incomes on Capitalist Accumulation: Towards Coherence. *SSRN Electronic Journal*, 1–47. <https://doi.org/10.2139/ssrn.3065903>
- Whiteside, H. (2017). The Canada Infrastructure Bank: Private finance as a poor alternative. *Studies in Political Economy*, 98(2). <https://doi.org/10.1080/07078552.2017.1343008>
- Republik Indonesia. 2018. Undang-Undang Nomor 9 Tahun 2018 tentang penerimaan Negara Bukan Pajak. Lembaran Negara RI 2018. Jakarta: Sekretariat Negara.
- Republik Indonesia. 2020. Peraturan Pemerintah Nomor 28 tahun 2020 tentang Perubahan Atas Peraturan Pemerintah Nomor 27 Tahun 2014 Tentang Pengelolaan Barang Milik Negara/Daerah. Lembaran Negara RI 2020. Jakarta: Sekretariat Negara.
- Republik Indonesia. 2020. Peraturan Presiden Nomor 32 tahun 2020 tentang Pembiayaan Infrastruktur melalui Hak Pengelolaan Terbatas. Lembaran Negara RI 2020. Jakarta: Sekretariat Kabinet.
- Kementerian BUMN. 2020. Peraturan Menteri BUMN Nomor - 8/MBU/08/2020 tentang Rencana Strategis Kementerian Badan Usaha Milik Negara Tahun 2020-2024. Kementerian BUMN. Jakarta.
- Kementerian Keuangan. 2020. *Laporan Keuangan Pemerintah Pusat (LKPP) Tahun 2020 (Audited)*. Kementerian Keuangan. Jakarta.
- Ministry Of National Development Planning/ National Development Planning Agency (Bappenas). 2020. *Public Private Partnership: Infrastructure Projects Plan In Indonesia 2020*. Kementerian PPN/Bappenas. Jakarta.
- Patterson, B. (2016). *Will Trudeau privatize via "asset recycling"?* The Council of Canadians. <https://canadians.org/analysis/will-trudeau-privatize-asset-recycling>

Received: 19th December 2022. Accepted: 19th June 2023