

GOVERNANCE RECONSTRUCTION OF REGIONAL OWNED ENTERPRISE BASED ON JUSTICE (Case Study at ROE Riau Islands Province)

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ABSTRACT

The enactment of Law Number 23 year 2014 concerning Regional Government as amended several times the latest by Law Number 9 year 2015, has revoked and declared no longer valid of the Law Number 5 year 1962 concerning Regional Companies. Since the issuance of Government Regulation Number 54 year 2017 concerning Regional-Owned Enterprises (ROE), all the rules regarding ROE refer to the Government Regulation of the Republic of Indonesia for the benefit of Provincial and District/City Regional Governments. In Riau Islands Province, there are still deficiencies in the governance of ROE, including those that have not been clearly regulated about the rights and obligations of regional heads in the ownership of separated regional assets. As well as the mechanism for delegating authority from the Regional Head to the regional apparatus representing the General Meeting of Shareholders (GMS). Another strategic issue is that the political process is more dominant in the management of ROE than in the ROE management process. This is due to the lack of regulation from the local government as the owner, the weak Regional Regulation (Perda) and the weak regulation of the General Meeting of Shareholders (GMS) so that researchers formulate the problem; (1) What is the current implementation of Regional-Owned Enterprises (ROE) governance? (2) How are the problems of governance of Regional-Owned Enterprises (ROE) at this time? (3) How is the reconstruction of Justice based Regional Owned Enterprises (ROE)? The method used in this study was empirical legal research, the legal research was taken from facts in a community, legal entity or government agency. The results of this study are 1). The current implementation of ROE governance can be concluded that the principles of Good Corporate Governance in the strategic management perspective carried out by ROEs in Riau Islands Province have not run optimally and are still not in accordance with the Basic Guidelines of the National Committee on Governance Policy which is the elaboration of the Decree of the Minister of SOE Number: KEP-117/M-MBU/2002. 2). The problem of governance of ROE in Riau Islands Province is the high cost of human resources compared to income; lack of HR competence; and some capital and investment issues. 3). Reconstruction of the value of equity-based ROE governance is to realize a ROE that benefits and prospers the people by reconstructing the law against Article 343 paragraph 1 of Law Number 23 of 2014 as amended several times, the latest by Law Number 9 of 2015 and Article 9 Riau Islands Province Regional Regulation Number 2 of 2006.

Keywords: Reconstruction, Governance, Regional Owned Enterprises, Justice.

A. Background

The discussion on the issue of the Corporate Governance system is increasingly important in current business activities, especially if it is associated with company law, the concept becomes a fundamental issue.¹The importance of implementing the principles of Good Corporate Governance is recognized by various parties. For example, the obligation to implement the principles of Good Corporate Governance in State-Owned Enterprises (SOEs) based on the Regulation of the Minister of State-Owned Enterprises Number PER-01/MBU/2011 concerning the Implementation of Good Corporate Governance in State-Owned Enterprises (SOW).

Regional-Owned Enterprises (ROE) is one form of business entity owned by the Regional Government which actually has characteristics that are hardly different from State-Owned Enterprises (SOE), but do not yet have a regulation on the implementation of Good Corporate Governance principles, whereas legally, State-Owned Enterprises (SOE) and Regional-Owned Enterprises (ROE) are both part of state finances (based on Law No. 17 of 2003 concerning State Finance), so that it cannot be denied at the operational level in general, the performance of Business Entities Regional Property (ROE) is far behind that of a State-Owned Enterprise (SOE).

One of the reasons is because stakeholders of Regional-Owned Enterprises (ROE) look less responsive in following the dynamics, especially governance dynamics in Regional-Owned Enterprises (ROE). In fact, if we look closely, many things that apply in State-Owned Enterprises (SOEs) can be role models or benchmarks for the management of Regional-Owned Enterprises (ROE), especially with regard to the application of the principles of Good Corporate Governance.

¹Lessio M. Paccès (ed), *The Law and Economics of Corporate Governance Changing Perspectives*, (Northampton:Edward Elgar,2010),p.12

From the aspect of governance, for example, institutions of Regional-Owned Enterprises (ROE) are still treated equally with government institutions. In fact, Regional-Owned Enterprises (ROE) are not government institutions. The implication is that various obligations attached to the government are also attached to Regional Owned Enterprises (ROE). For example, in some Regional-Owned Enterprises (ROEs) still have to follow the provisions of goods procurement imposed in the government, which should not be necessary because Regional-Owned Enterprises (ROE) are companies that are always tied to the momentum of business that expects quick response from management Regional Owned Enterprises (ROE).

Regional Owned Enterprises (ROE) also still have to undergo an examination of financial reports by the Supreme Audit Agency (BPK) for reasons of state finances. In fact, as a Limited Liability Company (PT), Regionally Owned Enterprises (ROE) is also examined by an independent Public Accountant Office (ina: Kantor AkuntanPublik). The absence of equal treatment for Regional-Owned Enterprises (ROE) that are demanded must have a profit, causing Regional-Owned Enterprises (ROE) cannot compete in a balanced manner with other companies such as State-Owned Enterprises (SOE) and private companies that are more flexible in carry out business moves that are always influenced by the interests of the global market.

Arrangement and management regarding Regional-Owned Enterprises (ROE) previously regulated in Law Number 5 of 1962, Post-revocation of Law No. 5 of 1962, the government promulgated Minister of Home Affairs Regulation No. 3 of 1998 concerning Legal Forms of Regional-Owned Enterprises (ROE) In this Permendagri (Regulation of the Ministry of Home Affairs), it is becoming known that ROE is divided into ROEs in the form of Perusda and ROE legal entities in the form of Limited Liability Companies (PT). Since the enactment of the Permendagri, a number of regional governments have begun to form ROEs in accordance with the form of legal entity stipulated in the Permendagri.²

There are two missions from the formation of a ROE, the first ROE as a business activity that provides public services, and second, a ROE is formed as a regional regulation that is expected to contribute to PAD through regional retribution. According to RustianKamaluddin³, the goal with the formation of a number of local enterprises is expected to be able to carry out regional development through service to the community, the implementation of public benefits and increased local government revenues.

Based on categorization, ROE can be divided into two groups⁴, the first is the regulation to serve the public interest and two, local regulations for the purpose of increasing regional revenues in PAD. ROE engaged in various business fields, namely financial and banking services (eg Regional Development Banks) and clean water services (drinking water companies/PAM), and various other productive services and businesses such as in the industrial, trade, hospitality, agriculture, plantation sectors, parking, printing and others.⁵ROE has not been maximized in contributing to the region, it was also revealed by DjamalAziz⁶ who said that ROEs were still unable to become a locomotive for development.

On the other hand, ROE activities are also based on the concepts of a company that applies in general, especially in Law No. 1 year 1995 concerning Limited Liability Companies as amended by Act No. 40 year 2007. As a result, if a local government wants to carry out its activities, it often experiences problems because the nature of the company is not like a company's activities.⁷

From a capital perspective, Regionally Owned Enterprises (ROE) also face legalistic constraints because the fulfillment of capital by the Regional Government must follow the mechanism of Regional Regulations formulated jointly between the Regional Governments and their respective Regional Representatives.

The arrangement and management of Regionally Owned Enterprises (ROE) is currently formed based on Law Number 23 year 2014 concerning Regional Government as amended several times, the latest by Law Number 9 of 2015, which is contained in Articles 331 to 343. And to fulfill Regional needs are assessed through studies covering aspects of public services and community needs, including drinking water, markets, and transportation, namely the business fields to be run by Regionally Owned Enterprises (ROE) are assessed through economic feasibility analysis, market analysis and marketing, feasibility analysis finance and other aspects of analysis. However, with the still very new existence of Law Number 23 Year 2014 which has not previously been equipped with implementing regulations, so that at that time all laws and regulations which are implementing regulations of Regional-Owned Enterprises (ROE) from the Law can still be used Number 5 year 1962 concerning Regional Companies insofar as it does not conflict with Law Number 23 of 2014 Article 405 and Article 410. However, since the issuance

² Ronny SautmaHotmaBako, 2010, " *Permasalahan Hukum Atas Bentuk Badan Hukum Pada Badan Usaha Milik Daerah* " Kajian, Vol. 15, No. 4, hp 752.

³ RustianKamaluddin, " *Perandan Pemberdayaan BUMD Dalam Rangka Peningkatan Perekonomian Daerah* ", makalah yang disampaikan dalam Rapat Koordinasi Pemberdayaan BUMD, Jakarta 4 - 6 Desember 2000, p 1.

⁴ SyahfrudinAtan Wahid, " *Pemberdayaan BUMD Dalam Rangka Perekonomian Daerah* ", Seminar BUMD di DPR, Jakarta 5 March 2010.

⁵ Ibid

⁶ DjamalAziz, " *BUMD Pilar Perekonomian Nasional* ", Seminar BUMD : Membangun Perusahaan Daerah Yang Kuat Melalui UU Tentang BUMD, diselenggarakan oleh Fraksi Hanura DPR-RI dan BKS BUMD SI. Jakarta 5 March 2010.

⁷ Abdul latief, *Hukum Dan Peraturan Kebijakan (Beleidsregel) Pada Pemerintah Daerah*, p. 156.

of Government Regulation Number 54 year 2017 concerning Regionally Owned Enterprises (ROE) towards the end year 2017 yesterday, the regulation this is the implementing regulation of Regional-Owned Enterprises (ROE).

ROEs are business entities that all or most of their capital is owned by the Region. ROEs are established with the aim of providing benefits to regional economic development in general, organizing public benefits in the form of providing quality goods and/or services for the fulfillment of people's livelihoods in accordance with the conditions, characteristics, and potential of the region based on good corporate governance.

Riau Islands Province is the 32nd province which was formed based on Law Number 25 year 2002. The purpose of the establishment of Riau Islands Province is to further improve public services in order to accelerate the realization of public welfare in line with the growing interests and aspirations. Law Number 23 of 2014 concerning Regional Government outlines that what is meant by regional autonomy is the right, authority and obligation of an autonomous region to regulate and manage their own government affairs and the interests of the local community in accordance with the laws and regulations.

The potential that can be mobilized in accelerating economic development is to give the maximum role to economic institutions, namely Regional-Owned Enterprises (ROE) to become the locomotives of the economy in the Riau Islands Province. With its function to encourage economic growth (agent of development), as a servant for the public (public servant) in providing the needs of the community that is not provided by other economic actors, as well as one of the sources of Regional Original Income (PAD), then overall it is expected to be able to provide " good multiplier effects, in the form of improved quality of economic development in Riau Islands Province with expanding employment opportunities and reduced numbers of poor people.

In reality, this is certainly something that is not easy. Although there are indeed a number of successful Regional-Owned Enterprises (ROE), but the reality is that there are so many Regional-Owned Enterprises (ROE) with various problems that cannot yet be resolved and a solution must be sought immediately. In general, the factual conditions and activities of Regional-Owned Enterprises (ROE) have several problems, such as: (a) almost no business unit has run well especially able to provide decent dividends as an economic institution; (b) existing assets have not been used optimally; (c) there are still many ineffective local government budget subsidies; and (d) the contribution of regional companies to Regional Original Revenue (PAD) is not adequate as is the case for a business institution.

Reflecting on the various problems faced by Regional-Owned Enterprises (ROE) in general in the Riau Islands Province, the Riau Islands Provincial Government has to take several steps, policies or strategies that are truly prioritized to fix the existing problems, especially with carry out a fundamental revitalization program, including in its regulatory aspects, its institutions, and especially its management aspects.

Regional-Owned Enterprises (ROE) of Riau Islands Province have serious problems regarding efficiency and effectiveness. Regional-Owned Enterprises (ROE) have not provided rational benefits even though they have incurred huge costs at the time of establishment and operation. And some Regional Owned Enterprises (ROE) have not been operated in accordance with the original establishment goals.

Conceptually, Regionally Owned Enterprises (ROE) are companies whose control and capital are owned by the Regional Government. Regional Owned Enterprises (ROE) function as providers of public needs and contributing sources of Regional Original Revenue (PAD). And also cannot be separated from accountability constraints, so that Regional-Owned Enterprises (ROE) must generate profits, management must formulate clear rules of the game and condition all parties to comply with the existing rules. Clear rules will reduce the negative influence of informal governance and economic-political conflicts between stakeholders and local governments.

There are several strategic issues in the governance arrangements of Regional-Owned Enterprises (ROE). Some of them are regarding the rights and obligations of regional heads in the ownership of separated regional assets have not been regulated clearly. As well as the mechanism for delegating authority from the Regional Head to the regional apparatus representing the General Meeting of Shareholders (GMS). As well as the more dominant political process in the management of Regional-Owned Enterprises (ROE) compared to the management process of Regional-Owned Enterprises (ROE).

In the future, if all the existing problems can be resolved, then the Regional-Owned Enterprises (ROE) in the Riau Islands Province and in the thousands of Indonesian regions are expected to be the main strength of the Indonesian economy.

Based on the reasons as described above, the author conducted a study on the Governance Reconstruction of the Regional-Owned Enterprise in Riau Islands Province Based on Justice.

B. Research Methods

The author in this study used the constructivism paradigm. It is a paradigm that considers that legal science is not only dealing with legislation alone, but also by looking at the existing reality. With this type of qualitative research that is expected to find hidden meaning in the text and facts in the reality of the community related to Justice-based Owned Corporate Governance. Therefore the workings of this research use the naturalistic inquiry paradigm⁸. The main characteristic is to observe and collect

⁸Yvonna Lincoln danEgon G. Guba, *Naturalistic Inquiry*, Sage Publication, Beverly Hills, 1985, page. 39. Lexi J.Moleongmenjelaskanbahwapenelitianataukiniri *naturalisticataualamiahmenekankanpadakealamiahansumber*

data in a natural setting, so as not to manipulate the subject under study. Qualitative research with this paradigm is unknown population, variables, samples and sampling techniques to make generalizations because the object of research was about the reconstruction of governance of the Regional Islands Province of Riau Islands which includes the rules and forms of implementation of policies and responsibilities towards Riau Islands community. The important factor that was prioritized was the informant (key person) whose numbers were not limited, but according to the need.

The approach taken in this research was sociological juridical, by examining the form and rules regarding the governance of Riau Islands Regional Owned Enterprises (ROE) through reference to existing laws and regulations, including the Regional Regulations in Riau Islands relating to research and further reconstruction of the governance of Regional Owned Enterprises (ROE) in Riau Islands Province will be carried out based on justice. And empirically, this study sought to obtain data on the implementation of governance of Regional-Owned Enterprises (ROE) in Riau Islands Province, including the weaknesses surrounding them.

The data source of this study used primary and secondary data. Primary data were data obtained by researchers in the field. Secondary data included (1) primary legal materials, (2) secondary legal materials, and (3) tertiary legal materials⁹. These legal materials were in accordance with the practice of the reconstruction of Regional-Owned Enterprises (ROE) governance in Riau Islands Province by using the concept of progressive law. Moreover, data collection techniques were carried out with literature, observation and in-depth interviews with key informants that have been determined by researchers based on the characteristics of the study.

The data were analyzed by using qualitative descriptive data analysis techniques, used the technical data analysis type Strauss and J. Corbin¹⁰, namely by analyzing data since the researcher is in the field. Next the researcher did the preparation, categorizing the data in the pattern/theme. After the data were validated, researchers conduct inductive qualitative reconstruction and analysis to be able to answer the problem. Data were analyzed using an interactive model proposed by Matthew B. Miles and A. Michael Huberman¹¹ which included 3 (three) activities, namely data reduction, data presentation and conclusion drawing or verification.

To find out how far the validity of the data that has been obtained in the study, the data were validated by triangulation techniques on data sources, namely (1) making comparisons between data obtained from observations with data obtained from interviews with informants; (2) making comparisons between perceptions, views and public opinion with the perceptions, views and opinions of researchers; (3) making comparisons between the results of interviews with the documents of the literature review. After the triangulation process was carried out, then the researcher determined the data considered valid to be used as research material.

C. Research Results and Discussion

C.1. The Implementation of ROE Governance in Riau Islands Today

Based on the Regional Regulation (Perda) of Riau Islands Province Number 2 year 2006 dated April 22, 2006 and the Deed of Establishment of PT Pembangunan Kepri No. 48 dated June 28, 2006 before Notary H. Abdul Rahman SH in Tanjungpinang, and based on the Decree of the Riau Islands Governor Number 686 year 2013 and Deed No. 08 dated August 30, 2013 a ROE was formed which was secured by PT. Pembangunan Kepri or PT. KEPRI GLOBAL INVESTMENT or PT. KEPRI INVESTMENT CORPORATION.

The purpose of the establishment of the company and the source of its capital can be seen in Article 7 and Article 9 of the Regional Regulation of the Province of Riau Islands Number 02 year 2006 concerning the Establishment of Regional Owned Enterprises:

Article 7

The company as referred to in Article 2 has activities to:

- a. carry out and develop business in the field of exploration and exploitation of natural resources;
- b. carry out and develop, manage, transport, distribute and sell all tradable goods;
- c. carry out and develop businesses in the field of fisheries, livestock, agriculture/carry out and develop businesses in the field of fisheries, livestock, agriculture/plantations and various other types of agribusiness businesses;
- d. assist and develop various manufacturing industries;
- e. carry out and develop business in the field of tourism;
- f. carry out and develop business in the field of telecommunications and energy;
- g. implement and develop services including financial services, insurance, and banking, as well as
- h. carry out other types of legitimate businesses.

data. Lexy J. Moleong, *Metodologi Penelitian Kualitatif*, edisi revisi, Remaja Rosdakarya, Bandung, Cetak kedua puluh tujuh, Januari 2010, p. 6

⁹Soerjono Soekanto & Sri mamudji, 2007, *Penelitian Hukum Normatif, Suatu Tinjauan Singkat*, Rajagrafindo, Jakarta, p. 7

¹⁰Stauss and J. Corbin Busir, 1990, *Qualitative Research: Grounded Theory Procedure and Technique*, Lindon Sage Publication, p. 19

¹¹Matthew B. Miles & A. Michael Huberman, 1992, *Analisis Data Kualitatif*, UI Press, Jakarta, p. 22

Article 9

- 1) For the first time, ROE's authorized capital is sourced from the APBD (Regional Budget) Fund of Riau Islands Province in the amount of Rp 10,000,000,000 (ten billion rupiah);
- 2) From the authorized capital as referred to in paragraph (1) the amount of fulfillment of issued and paid up capital will be carried out in accordance with the provisions of the Law on Limited Liability Companies.
- 3) Amendments to authorized capital are determined by the GMS in accordance with the provisions of the prevailing laws and regulations after obtaining approval from the Riau Islands Province Regional Representative Council.
- 4) Fulfillment of issued and paid-in capital as referred to in paragraph (2) will be deposited when the ROE is established with a Notarial Deed.

The result of interviews with local officials related to the role of PT. Pembangunan Kepri in empowering community welfare is seen from the passage of the dialogue as follows:¹²

"The role of PT. Pembangunan Kepri in creating prosperity for the people in Kepri Province is by making business units help smooth air traffic to and from Kepri Province, especially Bintan Island by meeting aircraft avtur needs at Raja Ali Haji Fisabilillah Tanjungpinang Airport with capital participation from the Riau Islands Provincial Government, but contribution against the Local Original Revenue (PAD) for the past 4 years never been felt"

From the above facts shows that there are weaknesses in governance at PT. Pembangunan Kepri, so that the objective of establishing ROE as one of the economic sources to improve the welfare of the people in Riau Islands is not achieved. The success of a local government in the economic field is largely determined by its ability to improve the welfare of the community. Therefore, every local government should need to think about, not only in an effort to increase Regional Original Revenue, but more important is to create a job. One of the efforts that can be carried out by the regional government in realizing the things mentioned above is to make equity participation in a government-owned and/or private-owned business entity. The equity participation can be added or reduced, even the company can be sold to other parties, and/or can be transferred to other Regional Owned Enterprises if there are urgent matters.

The government has a role as a shareholder or investor, namely in the company of State-Owned Enterprises (SOE) and Regional-Owned Enterprises (ROE). Aside from being an investor, the Government through its appointed institutions can also act as regulators, such as through the Ministry, Financial Services Authority, Bank Indonesia and others. The government can also act as an auditor or supervisor through a number of institutions, such as Ministries, the Supreme Audit Agency (national or regional level) or also through the Business Competition Supervisory Commission.

The many and important roles of the government have a very significant role in realizing the implementation of good corporate governance. The basic relationship is the better governance, the better the implementation of corporate governance in Indonesia. Although this is not the only prerequisite for the implementation of good corporate governance.

As shareholders in SOE and ROE, the Government certainly needs to strengthen capital to SOE and ROE, so that SOEs and ROEs can grow in a healthy and sustainable manner. Although capital strengthening is not the only way for SOEs and ROEs to have good performance.

Substitution or transition of leadership in SOE or ROE companies will always be colored with high level of cheating and politics and always colored with interests that are likely to clash with each other. Therefore, it is important for the government to be able to recruit company management that is transparent, honest and fair and free from conflicts of interest. This recruitment can be carried out by cooperating with third parties who have independence and integrity in recommending competent people (from all aspects: managerial competence, leadership competence, ethical competence and integrity and morals). In the selection of management must also be free from political intervention or other conflicts of interest.

As a shareholder, it must be subject to the mechanism of implementing corporate governance, especially by not intervening that can harm the company. The government as a shareholder can participate in the mechanism of corporate governance through the General Meeting of Shareholders, or by appointing representatives as Chair/members of the Board of Commissioners.

The implementation of good governance lies in the quality and competence and integrity of the officials and apparatus. Clean, transparent and professional government bureaucrats will encourage good governance practices and in turn can support the government to actively support the implementation of good corporate governance, especially in SOE and ROE.

In accordance with the mandate of the 1945 Constitution of the Republic of Indonesia, especially Article 18 paragraph (1) and (2), the Region has the right and authority to implement regional autonomy and manage regional wealth. Regions have the freedom to regulate, manage, and optimize all the potential of the resources they have in order to accelerate the realization of public welfare through improving community welfare, increasing income, empowering, and increasing regional competitiveness through economic development by taking into account the principles of democracy, transparency, justice, privileges and the specificity of an area within the system of the Unitary State of the Republic of Indonesia.

The vision and mission and social functions of the ROE itself are contained in Article 33 of the 1945 Constitution which is stated as follows: (1) The economy is prepared as a joint effort based on the principle of family; (2) Production branches that are

¹²Interview result with chief of Biro Admin Perekonomian Setda Provinsi Kepulauan Riau (Mr. Herry Andrianto., SE., MM.)

important for the State and concerning the livelihood of the public are controlled by the State; (3) The earth, water and natural wealth contained therein are controlled by the State and used for the greatest prosperity of the people. Therefore, ROE is demanded to be able to explore the potential of the region with the aim of gaining maximum profit and prospering the local community by placing professional ROE management, accountability, credibility and integrity.

Considering that the role of ROE is considered important enough as a source of PAD in the region, of course, ROEs are required to be more professional and more efficient in carrying out their business. There have been many policies and efforts in that direction, but due to various constraints, it turns out that ROEs in general, especially outside PDAMs and BPDs, have shown unsatisfactory results. This is evident, among other things, in the relatively small role and contribution of profits of ROE in the acceptance of PAD in the regions, both at the provincial and district and city levels.

The impact on the management of local government since the enactment of Law Number 32 year 2004 concerning Regional Government as amended several times, most recently with Law Number 9 year 2015, among others, that the regional government must be more professional in managing its region, considering that each region must be able to support the needs of the region itself and are responsible for the welfare of the community, so that it is necessary to identify the form of the ROE organization in accordance with regional autonomy. ROEs are expected to be one of the most important sources of local revenue and become one of the profit centers for local governments and their existence as the heart of activators in all sectors carried out by local governments.

C.2. Current Problems of Regional Owned Enterprises Governance in Riau Islands

The results of interviews with the Head of the Secretariat of the Riau Islands Provincial Economic Administration Bureau, HerryAndrianto., S.E., M.M., related to the problems and governance solutions of Regional Owned Enterprises (ROE) in Riau Islands are as follows:

"Constraints and solutions that have been made by the Riau Islands Provincial Government to improve the efficiency and effectiveness of PT. Pembangunan Kepri are:

- a. The high Human Resource costs of the company when compared to income.

The solution: The government is carrying out streamlining of Commissioners, Directors and Employees.

- b. Lack of HR competence.

The solution: The government elects Directors through fit and proper tests.

In addition, the capital factor is an obstacle for the Riau Islands Government as seen as follows:¹³

"The policy regarding the problem of business capital of PT. Pembangunan Kepri is to open opportunities for cooperation with third parties ".

In general, the issue of capital or investment consists of the following:¹⁴

1. Quality and consistency of regulations.

The absence of legal certainty still makes investors hesitant to expand their business in Indonesia, so efforts are needed to streamline regulations.

2. Taxation which limits the space for businessmen.

The existence of a tax regime does not provide more space for entrepreneurs. As a result, investors choose to invest in other regions that provide taxation facilities.

3. The quality of human resources is still low.

To overcome HR constraints, the government encourages young people to take vocational education, so that they have special abilities needed in the industry.

4. Complicated certification, building permits and land zoning.

The complexity of land issues in the central government and regional governments. Covering issues surrounding investors who are interested in investing but constrained by problems in certification, building permits and land zoning.

5. Inadequate infrastructure.

To overcome these obstacles, the government is actively developing infrastructure, ranging from electricity, transportation facilities, clean water and garbage collection.

Coordinating Management of Investment Activities in Riau Islands Province is the authority and responsibility of the Riau Islands Province Investment and Regional Promotion Board (BPMPD). These large investment planning projects can contribute to Kepri's economic growth if the projects are realized in accordance with the prevailing laws and regulations. There are 5 major projects of the Government of the Riau Islands Province, namely:

1. Riau Islands Province Regional Regulation Number 2 year 2006 concerning the Establishment of ROE.

¹³Interview result with the chief of Biro Admin PerekonomianSetdaProvonsiKepulauan Riau (Mr. HerryAndrianto., SE., MM.)

¹⁴Head of the Investment Coordinating Board, Thomas Lembong, was accessed on <http://finansial.bisnis.com/read/20170204/9/625806/5-kendala-investasi-di-indonesia>

2. Riau Islands Province Regional Regulation Number 6 year 2006 concerning Fisheries Business in Riau Islands Province.
3. Riau Islands Province Regional Regulation Number 2 year 2011 concerning Regional Equity Participation to PT. Bank Riau Kepri.
4. Riau Islands Province Regional Regulation Number 4 year 2008 concerning the Establishment of TirtaKepri Regional Water Supply Company of Riau Islands Province.
5. Riau Islands Province Regional Regulation Number 2 year 2013 concerning the Establishment of the Port Business Entity of PT. Kepri Port.

Of all the business entities that have been established, until this research was carried out, none of the ROEs in Riau Islands contributed to local revenue, even became part of the problem for the Regional Government of Riau Islands Province, especially PT. Pembangunan Kepri.

Among the problems that occur at PT. Pembangunan Kepri can be seen in the table below.

PT. PEMBANGUNAN KEPRI				
No.	Problem Identification	The Amount	Cause	Resolution
1	Receivables from Riau Islands Distribution Cooperative Center that have not been received by PT. Development of Riau Islands	+/- Rp. 1,200,000,000 (one billion two hundred million rupiah)	Occurs before the Board of Directors 2013 Not in accordance with the agreement	Until now the problem still unresolved. The confiscation process is hampered by the authorities (cooperative administrators who object to their assets are confiscated).
2.	Debt to the third parties that have matured (PT. Deraya, tax payable, PT. KepriJasaAngkasa, PT. Putra KundurJasaBahari, PT. Kharisma Petro Gemilang).	PT. Deraya Rp. 5,154,779,607 (five billion one hundred fifty four million seven hundred seventy nine six hundred seven rupiahs). Tax +/- Rp 2,000,000,000 (two billion rupiah) PT. KJA (no supporting documents) Rp 85,000,000 (eighty five million rupiah) PT. Putra KundurJasaBahari (no supporting documents) Rp 130,854,000 (one hundred thirty million eight hundred fifty four thousand rupiah) PT. Kharisma Petro Gemilang Rp. 383,350,909 (three hundred eighty three million three hundred fifty thousand nine hundred nine rupiah)	Airplane charter cooperation August 19, 2010 VAT starting from 2009 is not paid. Reference data as a material for solving problems does not exist.	Confiscation of assets and company accounts. Temporary blocking of company accounts. Possible to CRIMINAL or PAILIT cases. Debt must be paid in installments. Not able to provide a definite explanation to the parties concerned.
3.	Debt for Salary	Some are finished. Jaspro Debt 2012 Rp 122,100,000 (one hundred twenty two million one hundred thousand rupiah). Board of Directors Housing Debt IDR 150,000,000 (one hundred fifty million rupiah) three years.	Already at the GMS. Already at the GMS.	There are employees who still ask. The director sometimes lives in a shop or office.

		Operational Car Debt of the Board of Directors IDR 324,000,000 (three hundred twenty four million rupiah) three years.	Already at the GMS.	Director of car rental / public transportation. Delays in the results of work due to lack of facilities.
4.	Deficit financial condition because income is less than operating costs.	Current income is 30 million / month. The average operating cost is 60 million / month. BPR Batam Dividend 16 million / month is received once a year following the BPR GMS.	Inadequate income sources. Dividends are decreasing because PTPK is not able to increase capital.	Every month MINUS plus has to repay debt. Out to pay debt.
5.	The need for avtur transporters	Currently borrow using the provincial government of Riau Islands. Gross monthly yield of Rp. 35,000,000 (thirty five million rupiah)	Don't have an avtur transport vehicle myself.	The results are small. Lack of income, hampers maintenance, and operation of aviation fuel carriers.
6.	Submission of 10% PI utilization to the Ministry of Energy and Mineral Resources		Very tight Governor's schedule.	It has been two months since the letter of application for confirmation of the PI has not been signed.
7.	Activities / business fields do not focus on regional potential		As consortium	None are working
8.	The financial report since 2013 has not been audited until 2015	Existing funds to pay auditors are used to repay past debt. +/- Rp 150,000,000 (one hundred fifty million rupiah)	There is no capital	2013, 2014, 2015 unaudited financial statements.
9.	2016 GMS Not yet implemented	Very tight of the Governor schedule	An application has been submitted for the GMS	Until now the 2016 GMS has not been implemented. It's a little difficult to do activities.
10.	Many human resources have been fired.	At present there are only four employees.	Inadequate income.	Fired the employee
11.	Activities / business fields that are running only supply avtur fuel while others cannot run.		The old plan did not work.	PT. PK seems to have a business, in fact only walking is avtur.

C.3. Governance of ROE in Various Foreign Countries

Before the researchers compared several SOE/ROE, in principle other than Indonesia, a State-Owned Enterprise (SOE) is a company created and approved by Congress, one of which is the United States, Government Sponsored Enterprise (GSE) leased by the Federal Government for public policy purposes. The absence of ROE because in countries other than Indonesia have implemented SOEs in the states of these countries.

Tiongkok

In the 90s, China implemented an economic reform policy called the Socialist Market Economy system. This policy changes the SOE entity, which initially only as a production unit of a country becomes a business entity that is formed to suit a particular market, but is still under state control. This policy is called the modern enterprise system. The biggest change is to change the relationship between the state and SOE itself by emphasizing on 4 (four) pillars, namely the clarity of property rights, clarity of rights and responsibilities, separation between bureaucracy and business, and scientific management improvement to measure the requirements required in market-based economy (OECD Working Group on Privatization and Corporate Governance, 2009).

This shows that there is a process of a combination of market and socialism, in which the state provides strong controls and policies to support the financial performance of SOEs in China, in order to achieve the country's goals. According to Virmani (2005), a market-based economy developed by China focuses on products, where the export process has the largest role in the PRC economy (Virmani, 2005). In addition to strengthening products that are in line with the market, China also seeks to improve the product image made by China and reduce trade conflicts or reject products labeled "made in China" by forming a multinational production system. Moreover, China also plays a role in the process of negotiating a free trade agreement, and this is one indication of China's efforts to develop a product export market in the world (OECD Working Group on Privatization and Corporate Governance, 2009).

The steps taken by China not only strengthen internal processes within the SOE itself, such as reducing the number of employees, acquisition and debt reduction in related SOEs (OECD Working Group on Privatization and Corporate Governance, 2009), but also clearly positioning the role of the state and its SOE. Moreover, the state is the strongest authority of SOE shareholders, carrying out its role as a regulator in the country and as well as an overseas negotiator very well. This forms a synergic relationship between the state and SOE, where there is a large market for products made by PRT SOE which also linearly increases economic growth in China.

United Arab Emirates (UAE)

The UAE is a federation of seven emirates formed in 1971. The Federation is expanding in several business sectors, including industrial production, health services, aviation and tourism. The international business cooperation policy established by the UAE has been regulated by zone, namely the free zone and the zone outside the free zone. The free zone is formed as an area built for foreign investors in operating their companies in the area with various benefits, one of which is the ownership of foreign shares that is possible at 100%, no local sponsor is required as a requirement, and there is no company tax for 15 year (UHY Saxena, 2015). The zone was built to develop the diversity of the business sector in the UAE (Denman, 2013).

According to the USA Department of Commerce (2013), to carry out international business cooperation with the UAE especially in zones outside the free zone, compliance with its own requirements and laws is required. For example, to export to the UAE, foreign companies must involve local agents, where the agent is a company whose share ownership by the UAE is 51% or 100%. If there are foreign companies wishing to operate in the UAE, especially in zones outside the free zone, they must establish cooperative relationships with companies where the ownership of the shares owned by the UAE is at least 51%. In addition, if a foreign company wants to build a branch office in the UAE (the zone outside the free zone) must get a national company sponsor whose ownership of the UAE is 100%.

From the above rules it can be seen that the federation controls business practices carried out in zones outside the free zone, which is beneficial in maintaining security and resilience and providing convenience in achieving the targets set by the federation. Moreover, the rules of business in zones outside the free zone must comply with the laws in force in the UAE, so this shows that the UAE has the power to protect its own federation and economy. However, the free zone that provides flexibility to foreign business actors is one of the strategic steps for the UAE to diversify its business, so that it is not only dependent on the oil business sector. In addition, with the entry of foreign companies with certain capital value requirements to the UAE, the federation ensures that foreign companies operating in free zones have strong expertise and capital in their fields.

Russia

The government in Russia has significant control over Russian SOEs, whether through full government ownership, majority or minority (Sprenger, 2008). The Russian government's aim in developing SOEs is for industrial development, innovation, economic diversification (Sprenger, 2008), surviving in international competition through integrated vertical creation or structure, and to modernize infrastructure (Sprenger, 2012). The legal form of SOE in Russia is divided into three parts (Augustynowicz in Voszka et al, 2014), namely joint stock companies, unitary enterprises, and state corporation (Augustynowicz in Voszka et al., 2014). Joint stock companies are a form of company that allows the distribution of ownership with private parties, therefore the form of this company has the ability to conquer the foreign exchange market. Meanwhile, unitary enterprises are a form of company in which the ownership of shares is 100% owned by the Russian government. All assets in the unitary enterprises are owned by the state, whether they are represented by the federal, regional, or local governments. Business managers in the form of unitary enterprises must also obtain government approval for all decisions taken. In addition, there is also a state corporation, which is a form of company in which there are two different roles, namely as a business entity and also as a government agent (non-profit organization). The status of this state corporation is regulated in a separate law (Augustynowicz in Voszka et al, 2014).

Of the three forms of SOEs above, joint stock companies are large and strong enough to operate with considerable profits, and are often referred to as the heart of the Russian economy. What's more, the profit and income earned by the joint stock company SOE sometimes surpasses the private sector in the same business sector (Augustynowicz in Voszka et al., 2014). However, in addition to privatizing through the form of joint stock companies, Russia also carried out nationalization of several private companies focusing on the mining, banking and manufacturing sectors. The nationalization was not directly acquired by the government, but by several existing joint stock companies, such as Gazprom and Rosneft (Sprenger, 2012). From the analysis conducted by Sprenger (2012), it is known that the nationalized company has not shown significant performance after the 3 (three) years acquired, but there are other factors that influence the nationalization process, namely the ease of SOE in gaining access to cheap credit at banks government, debt guarantees by the state, and the acquisition of direct subsidies from the government (Sprenger, 2012).

From the above discussion, it can be seen that Russia has carried out a dynamic strategy in strengthening its SOEs, namely privatization and nationalization. Privatization is done so that SOEs can be competitive in international competition and strengthen the country's economy. However, on the other hand, nationalization is carried out to strengthen the state through "safeguarding" strategic sectors that can benefit the government. This is in accordance with what was stated by Chernykh (Sprenger, 2012) that the nationalization carried out by Russia was due to political reasons rather than economic reasons (Chernykh in Sprenger, 2012). However, the nationalization step above is a very important process for Russia, especially in maintaining strategic sectors for the country.

C.4. ROE Governance According to the 1945 Constitution of the Republic of Indonesia

Article 33 paragraph (3) of the 1945¹⁵ Constitution states: "The earth and water and the natural resources contained therein are controlled by the state and used for the greatest prosperity of the people". The 1945 Constitution in addition to being a political constitution can also be called an economic constitution. One characteristic that is important as an economic constitution is that the 1945 Constitution contains the characteristics of a welfare state¹⁶. Sunarjati Hartono¹⁷ called it the rule of law in its material meaning, namely the state of law that can bring justice according to and based on the values of Pancasila.

In accordance with the system of government in the Republic of Indonesia that knows the Provincial Government and Regency/City Government (hereinafter referred to as Regional Government), the responsibility is not only based on the Central Government but also on the Regional Government. In this case the Regional Government has obligatory affairs and optional affairs that must be carried out properly and with full responsibility. In the context of the intended autonomy, the Regional Government is authorized to form Regional Companies. With this authority, it can be seen that all Regional Governments in Indonesia have formed regional companies.

The philosophical foundation of the ROE governance that is intended primarily refers to the philosophical basis of the Unitary State of the Republic of Indonesia, namely Pancasila. SoerjonoSoekanto said that the rule of law applies philosophically, meaning that it is consistent with the ideals of law as the highest positive value¹⁸. The highest value in Indonesia is Pancasila. Article 2 of Law Number 12 of 2011 concerning the Establishment of Legislation that states: Pancasila¹⁹ is the source of all sources of state law.

The aim is the state of the Republic of Indonesia, which is to protect all the people and the nation, as well as all of Indonesia's bloodshed, promote the general welfare, educate the lives of the nation and participate in carrying out world order based on independence, eternal peace and social justice.

Economic development organized by a nation state today must be seen as a planned, programmed, systematic, and sustainable effort in order to improve the welfare and quality of life of all citizens²⁰. In relation to the economic administration system which is in favor of the people. Friedmann²¹ proposed four functions of the State in the economic field, namely: (1) as a provider of public welfare; (2) as a regulator (regulator); (3) as an entrepreneur (entrepreneur) or running certain sectors through a state owned corporation (SOE); and (4) as an umpire (supervisor, referee) to formulate fair standards regarding the performance of the economic sector.

To fulfill regional responsibility to the community, in order to improve welfare, the local government needs regional finance. The main characteristic that shows an autonomous region capable of autonomy is that it lies in the ability of regional finance. This means that autonomous regions must have the authority and ability to explore their own financial resources, manage and use their own finances which are sufficient to finance the implementation of their regional government.²²

C.5. Regional-Owned Enterprise Governance

Regional Owned Enterprises (ROE) are business entities which in their implementation are under the supervision, management and guidance of local governments. Most or all of the capital from this ROE is owned by the state which comes from the separated regional wealth. It could be said that ROE is a branch of a State-Owned Enterprise (SOE) in each region. ROE is one of the instruments of government that plays an important role in running and developing the regional economy and national economy.

ROE is a company whose control and capital are owned by the Regional Government. ROE functions as a provider of public needs and a source of contributors to Regional Original Revenue (PAD). Having accountability constraints: ROE must generate profits, management must formulate clear rules of the game and condition all parties to comply with existing rules. Clear rules

¹⁵Elucidation of Article 33 of the 1945 Constitution explains that in Article 33 there is a basis for a democratic economy, production is carried out by all, for all, under the leadership of the members of the community, it is the prosperity of the community that is prioritized, not the prosperity of the people. Therefore, the economy is prepared as a joint effort based on the principle of kinship.

¹⁶JimlyAsshiddiqie. UUD 1945, Konstitusi Negara KesejahteraanrealitasMasaDepan. PidatoPengukuhanJabatan Guru BesarTetapMadya FH-UI. Jakarta. 13 Juli 1998. Page. 4.

¹⁷Sunaryati Hartono. Apakah The Rule of Law itu? Alumni, Bandung. 1979. page. 103.

¹⁸SoerjonoSoekanto, Pokok-pokokSosiologiHukum, Rajawali, Jakarta, 1980, page. 13.

¹⁹ Elucidation of Article 2 of Act Number 12 of 2011: placing Pancasila as the basis and ideology of the state and at the same time the philosophical basis of the state so that every material contained in the legislation must not conflict with the values contained in Pancasila.

²⁰Sondang P. Siagian, Administrasi Pembangunan: Konsep, Dimensi, danStrateginya, Ed. 2, Cet. 4, Jakarta, PenerbitBumiAksara, 2005, page. 77.

²¹Friedmann W dalamAbrar. HakPenguasaan Negara atasPertambanganBerdasarkan UUD 1945. Disertasi, PPs UNPAD, Bandung. 1999. Page 28.

²² See Adrian Sutedi, ImplikasiHukumAtasSumberPembiayaan Daerah DalamKerangkaOtonomi Daerah, SinarGrafika, Jakarta, 2009, page. 160.

will reduce the negative influence of informal governance and economic-political conflicts between stakeholders and local governments.

Therefore, operational governance must implement Good Corporate Governance practices as the Minister of SOE Decree No. Kep-117/M-MBU/2002 concerning the Implementation of Good Corporate Governance Practices which theoretically can increase the value of the company because of the form of a set of rules that govern the relationship between shareholders, managers (managers) of companies, creditors, government, employees, and other internal and external stakeholders related to their rights and obligations. In other words, Good Corporate Governance (GCG) is a system that directs and controls the company.

There are five principles of GCG that are used as guidelines in corporate governance, namely Transparency, Accountability, Responsibility, Independency, and Fairness which are usually synchronized into TARIF.

Transparency (information disclosure) is simply interpreted as information disclosure. In realizing this principle, the company is required to provide sufficient, accurate and timely information to all its stakeholders.

Accountability, is the clarity of the function, structure, system and accountability of every element of the company, so that it will manifest clarity on functions, rights, obligations, authorities and responsibilities between shareholders, board of commissioners and board of directors.

Responsibility, is the company's compliance with applicable regulations, including; related to taxes, industrial relations, occupational health and safety, environmental and community protection, and so on, so that it is expected that the company's collective awareness is realized that in its operational activities, the company also has a role to be responsible to shareholders as well as other stakeholders.

Independence, means that this principle requires that the company be managed professionally without any conflict of interest and without pressure or intervention from any party that is not in accordance with applicable regulations.

Fairness means that this principle requires fair treatment in fulfilling the rights of stakeholders in accordance with applicable laws and regulations, so that the form of guarantee of fair treatment among various interests in the company.

ROE can take the form of PT (Limited Liability Company) as can be seen in Law Number 5 year 1962 concerning Regional Companies, Permendagri Number 3 of 1998 and Permendagri Number 2 year 2007. If it is profit oriented, ROE can be in the form of PT (Limited Liability Company) which is 51% the shares are owned by the regional government, the composition of members is determined through the articles of association of the company, the regional head is autonomous towards the Regional Representative Council (DPRD).

ROEs can also take the form of Regional Companies (Perusda), whose financial statements are attached to the Regional Head financial statements in the context of the use of Regional Expenditures (APBD).

C.6. Governance Reconstruction of the Regional-Owned Enterprises (ROE) in Riau Based on Justice

Based on the Regional Government Act, Governors, Regents/Mayors can establish and manage ROE in accordance with business principles based on the spirit and norms of Law Number 40 year 2007 concerning Limited Liability Companies, for example the principles of good corporate governance, management autonomy, etc²³. Local governments do not interfere with the operations of ROE. The success of ROE directors is measured based on performance and using sound financial management measures/principles, and before being appointed as directors, each director makes a management contract according to the principles of Good Corporate Governance (GCG).²⁴

²³<https://syukriy.wordpress.com/2009/12/15/format-ideal-pengelolaan-bumd/> accessed on 15 December 2017

²⁴ strengths and weaknesses of GCG implementation which are reviewed from three aspects, namely:

1. Governance Structure Assessment governance structure aims to assess the adequacy of the Company's governance structure and infrastructure so that the process of implementing GCG principles produces outcomes that are in line with the expectations of the Company's stakeholders. Included in the Company's governance structure are the Board of Commissioners, Directors, Committees and work units of the Company. As for the corporate governance infrastructure, among others, are policies and procedures, management information systems and the main tasks and functions of each organizational structure.
2. The Governance Process Assessment governance process aims to assess the effectiveness of the GCG principles implementation process that is supported by the adequacy of the Company's governance structures and infrastructure so as to produce outcomes that are in line with stakeholders' expectations.
3. Governance Outcome Assessment of governance outcomes aims to assess the quality of outcomes that meet the expectations of stakeholders which are the results of the process of implementing GCG principles that are supported by the adequacy of the governance structure and infrastructure of the Company. Included in governance outcomes include qualitative and quantitative aspects, including: - Adequacy of report transparency. - Compliance with laws

The share ownership of ROE, especially those managing Natural Resource must be at least 51%. This portion is mandated by Article 33 paragraph (3) of the 1945 Constitution. Privatization can be accepted as long as the local government is still the majority shareholder, and the results are for the benefit of the ROE, not to be used to increase the budget shortage. Actually the system of profitability is an ideal principle in managing ROE. Profitization means that the ownership of ROE remains in the hands of the regional government, but the way of managing the business is pure without the intervention of the government in the operation of ROE, which is in accordance with the mandate of the constitution.²⁵

Problems that often become obstacles include human, managerial, capital and supervision. Broadly speaking, these problems can be grouped into several things, namely: First, efficiency problems. Most ROEs in Indonesia operate inefficiently. This happens partly due to the unprofessional management and management of ROE so that many managerial decisions are decided unprofessionally such as in the case of new investments or tariff determination so that there is a waste of funds. ROE inefficiency is also caused by underdevelopment of technology utilization.²⁶

Second, the problem of intervention and bureaucracy. The amount of interference and slow pace of the regional government in anticipating changes in business conditions and conditions is an obstacle to the progress of ROE. Business decisions both strategic and other conventional decisions must go through a bureaucratic process and licensing to the government which can be sure to take time and ultimately disrupt the company's movement.²⁷ From the aspect of governance, for example, ROEs are still treated equally with government institutions. In fact, ROE is not a government institution. The implication is that various obligations attached to the government are attached to ROE. For example, ROEs still have to follow the provisions for procurement of goods and services that are applied in government, which should not be necessary because ROE is a company.²⁸

In addition, ROEs also face the problem of lack of capital due to lack of attention from the local government. Ironically, the regional government which has more attention to capital aspects, also still has to face political obstacles from the legislature, so that the process of strengthening ROE capital becomes inefficient. Every capital investment must be made through a Regional Regulation. This obligation is regulated in Government Regulation Number 58 of 2005 concerning Regional Financial Management. In Article 75 stated:

"The participation of local government capital can be carried out if the amount to be included in the relevant fiscal year has been stipulated in the regional regulation concerning regional capital participation in respect".

In essence this provision is in line with Article 41 of Law Number 1 year 2004 concerning State Treasury which states:

"The participation of local government capital in state/regional/private companies is determined by regional regulations".

Referring to this Law, it is indeed appropriate that every investment of the Regional Government's capital to the ROE must be through a Regional Regulation (which means it must be approved by the DPRD). However, sometimes this provision is interpreted excessively where capital participation must be regulated separately in a special regulation, so that it is not efficient. In fact, if analogized, the practice of capital participation by the central government in SOE does not have to go through a separate approval mechanism by the DPR (or not through a separate Law). At the central level, every government capital participation to SOEs is jointly established in every discussion of the Law on APBN, not by a separate Law. After the Law on APBN (State Budget) was passed, the mechanism for the inclusion of central government capital to SOEs was determined through government regulations that did not require DPR approval.²⁹

In its operation, ROE must implement the practice of Good Corporate Governance as the Minister of SOE Decree Number Kep-117/M-MBU/2002 concerning the Implementation of Good Corporate Governance Practices. Therefore, if this is implemented, the management of regional-owned companies will be maximized and the objective of regional autonomy will be realized.

Based on the description above, the reconstruction of equity-based ROE governance is to realize the governance of ROE that benefits and welfare the people. The reconstruction of the law is as shown in the table below.

and regulations. - Consumer protection, objectivity in carrying out assessments / audits. - Performance such as profitability, efficiency, and capital. "Annual Report of Bank Mandiri (Persero) Year 2017. p. 412.

²⁵<https://syukriy.wordpress.com/2009/12/15/format-ideal-pengelolaan-bumd/> accessed on 15 December 2017

²⁶Eko Yulianto, "BUMD: Potret Buram Perusahaan Daerah" Yogyakarta, 5 June 2000, downloaded from <http://kskcp.tripod.com/kelompokstudikeuandangankebijakanpublik/id9.html>

²⁷*Ibid*, Eko Yulianto

²⁸Sunarsip, "Membuka Belunggu BUMD", JawaPos Group, Friday, 13 March 2009

²⁹Sunarsip. 2001. *Corporate Governance Audit: Paradigma Baru Profesi Akuntansidalammewujudkan Good Coorporate Gvernance*, Media Akuntansi, No. 17/Th. VII.pp. II-VII.

Table
Reconstruction of Law Number 23 year 2014 related
The Governance of ROE based on Justice

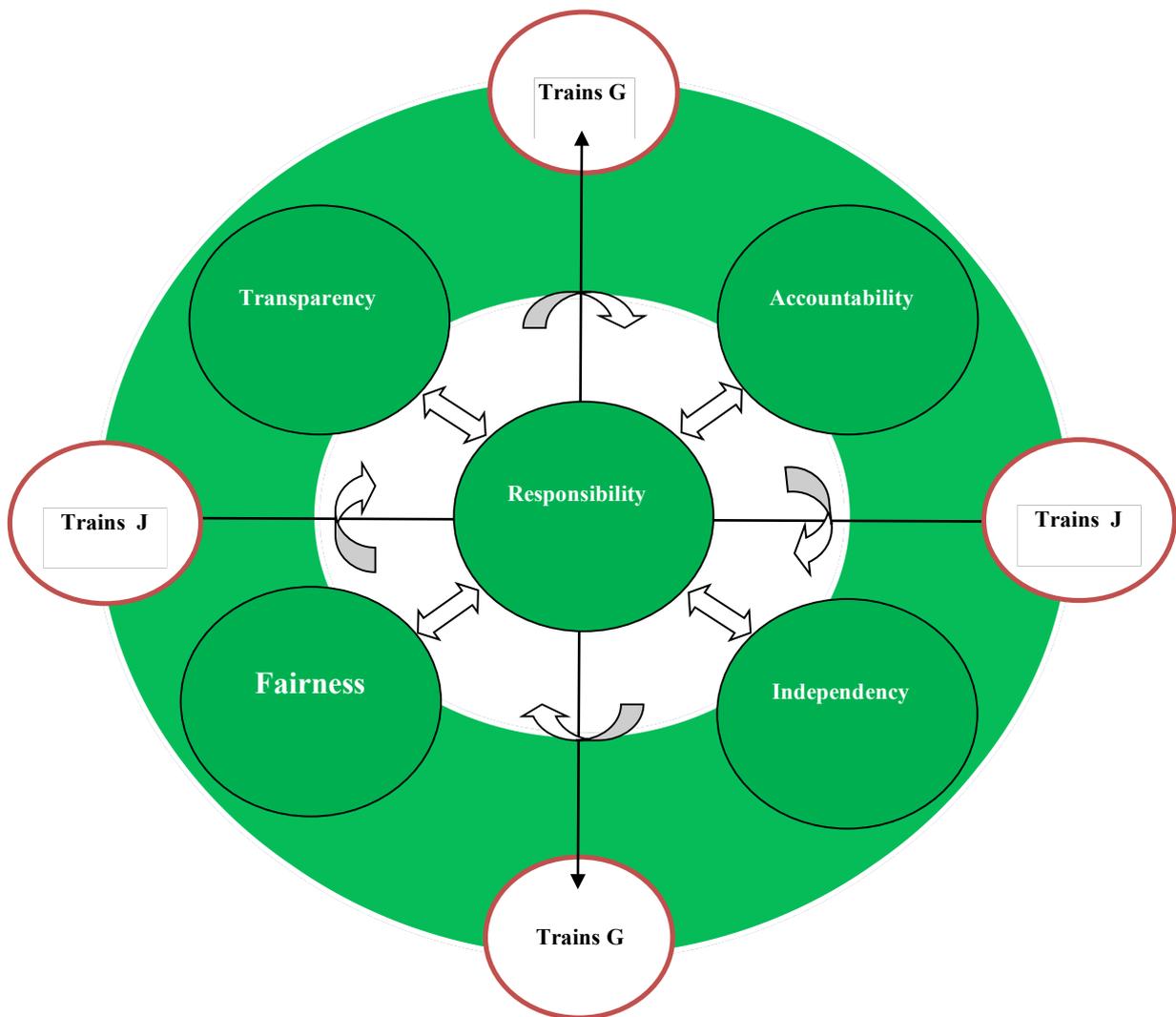
No	Before Law Reconstruction	Weaknesses	After Law Reconstruction
1.	<p>Law Number 23 year 2014 concerning Regional Government. Article 343 ROE Management ROE management must at least meet the elements:</p> <ol style="list-style-type: none"> a. procedures for equity participation; b. organs and staffing; c. procedures for evaluation; d. good corporate governance; e. planning, reporting, coaching, supervision; f. cooperation; g. profit use; h. assignment of local government; i. loan; j. internal supervisory unit, audit committee and other committees; k. assessment of health level, restructuring, privatization; l. changes in legal form; m. bankruptcy; n. merger, consolidation and takeover. 	<p>Law Number 23 Year 2014 in Article 343 paragraph 1 has not explained in detail the fulfillment of ROE management elements, so that the local government has difficulty in summarizing what is the government's obligation to carry out the mandate of Law Number 23 of 2014 concerning ROE.</p>	<p>Reconstruction of Law Number 23 year 2014 concerning Regional Government. Article 343 ROE Management. ROE management must at least meet the elements:</p> <ol style="list-style-type: none"> a. procedures for equity participation; b. organs and staffing; c. procedures for evaluation; d. good corporate governance; e. planning, reporting, coaching, supervision; f. cooperation; g. profit use; h. assignment of local government; i. loan; j. internal supervisory unit, audit committee and other committees; k. assessment of health level, restructuring, privatization; l. changes in legal form; m. bankruptcy; n. merger, consolidation and takeover. a. o. the remaining business results (SHU) which benefit and prosper the people.

Table
Reconstruction of the Riau Islands Provincial Regulation Number 2 year 2006 related Governance of ROE based on
Justice

No	Before Reconstruction of Regional Regulation in ROE	Weaknesses	After Reconstruction of Regional Regulation in ROE
1.	<p>Riau Islands Province Regional Regulation Number 2 of 2006 concerning the Establishment of Regionally Owned Enterprises (ROE). Article 9 Capital: (1) For the first time, ROE's authorized capital is sourced from the Regional Budget funds of the Riau Islands Province amounting to Rp 10,000,000,000 (ten billion rupiahs). (2) From the authorized capital as referred to in paragraph (1) the amount of fulfillment of issued and paid up capital will be carried out in accordance with the provisions of the Law on Limited Liability Companies. (3) Amendments to authorized capital are determined by the GMS in accordance with the provisions of the prevailing laws and regulations after obtaining approval from the Riau Islands Province Regional Representative Council. (4) Fulfillment of issued and paid-in</p>	<p>Weakness Article 9: Explaining the main points, namely about capital, but does not explain the procedure for capital participation as mandated by Article 343 of Law Number 23 of 2014 concerning Regional Government and Government Regulation Number 54 of 2017 concerning ROE</p>	<p>Riau Islands Province Regional Regulation Number 2 of 2006 concerning the Establishment of Regionally Owned Enterprises (ROE). Article 9: Procedure for Equity Participation: (1) The source of ROE capital consists of: a. Regional capital investment; b. Loan; c. Grant; d. Other sources of capital. (2) Other sources of capital as referred to in paragraph (1) letter d are: a. Reserve capitalization; b. Advantages of asset revaluation; and c. Agio shares. (3) Regional capital investments can be made to establish ROE, increase ROE capital and purchase shares in other regional companies. (4) The participation of regional capital can be in the form of money and property belonging to the region. (5) Regional capital participation as referred to in paragraph (4) constitutes a separated regional wealth.</p>

	<p>capital as referred to in paragraph (2) will be deposited upon the establishment of ROE with a Notarial Deed.</p>		<p>(6) The property of the Region as referred to in paragraph (4) is assessed in accordance with the real value when the goods belonging to the Region will be made into capital investments. (7) The real value as referred to in paragraph (6) is obtained by interpreting the price of regional property in accordance with the provisions of the legislation. (8) The ROE capital composition is divided into shares, wholly or at least 51% (fifty one percent) of the shares are owned by 1 (one) Region. (9) Mechanisms and procedures for the inclusion of Regional capital are determined by Regional Regulations.</p>
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From this study, the researcher formulated a new theoretical finding that the TRAINS G & J Theory (Pathway Theory G & J) is Transparency, Accountability, Responsibility, Independency, Fairness, and Prosperity which can be seen in the figure below.



Researcher:

"The effort to prosper the people by the regional government through ROE and cooperation with all parties, government and private, domestic and foreign, will be realized by implementing a governance system that directs and controls the company based on the principles of Good Corporate Governance (GCG) "

Information:

- Transparency (information disclosure) is simply interpreted as information disclosure. In realizing this principle, the company is required to provide sufficient, accurate and timely information to all its stakeholders.
- Accountability, is the clarity of the function, structure, system and accountability of each element of the company, so that there will be clarity on the functions, rights, obligations, authorities and responsibilities between shareholders, board of commissioners and board of directors.
- Responsibility, is the company's compliance with applicable regulations, including; related to taxes, industrial relations, occupational health and safety, environmental and community protection, and so on, so that it is expected that the company's collective awareness is realized that in its operational activities, the company also has a role to be responsible to shareholders as well as other stakeholders.
- Independence, meaning that this principle requires that the company be managed professionally without any conflict of interest and without pressure or intervention from any party that is not in accordance with applicable regulations.
- Fairness, meaning that this principle requires fair treatment in fulfilling stakeholder rights in accordance with applicable laws and regulations, so that the form of guarantee of fair treatment among various interests in the company.
- G: Government is the regional government as the controlling of ROE with majority share ownership.
- J : Joint Venture is a way of developing a company to work together that is mutually beneficial and prosperous with all parties, both government and private, both from within the country and from abroad.

D. Conclusion

From this research, it can be concluded as follows:

1. The current implementation of Regional-Owned Enterprises (ROE) governance can be concluded that the principles of Good Corporate Governance in the strategic management perspective undertaken by ROEs in Riau Islands Province have not run optimally and are still not in accordance with the Basic Guidelines of the National Committee on Governance Policy is the elaboration of the Decree of the Minister of SOE Number: KEP-117/M-MBU/2002.
2. The governance problems of Regional-Owned Enterprises (ROE) in Riau Islands are weak competencies and high costs of human resources (HR) compared to income. Also the problem of capital or investment, including the quality and consistency of regulations, taxation that limits the space for entrepreneurs, the quality of human resources that are still low, the complexity of certification, building permits and land zoning, and inadequate infrastructure.
3. Reconstruction of the value of equity-based ROE governance is to realize ROEs that are beneficial and prosperous for the people by reconstructing the law against Law Number 23 year 2014 as amended several times, the latest by Law Number 9 year 2015 by adding 1 (one) point in Article 343 paragraph 1 which reads "o. the remaining business results (SHU) which benefit and prosper the people ", and 1 (one) article, 9 (nine) paragraphs in Article 9 Riau Islands Province Regional Regulation Number 2 of 2006 which explains the procedure for capital participation for ROE.
4. Found a new theory with the name Trans G & J Theory which explains that the effort to prosper the people by the local government through ROE and cooperation on all parties, government and private, domestic and foreign, will be realized by implementing a governance system that directs and controls company based on the principles of Good Corporate Governance (GCG).

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