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The National Interests and Sustainability of State-Owned Banks in Indonesia

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ABSTRACT

State-owned Banks in Indonesia carry out supportive business activities based on economic democracy. Economic democracy is related to Pancasila Economics as enshrined under Article 33 of the 1945 Constitution. Article 33 defines the parameter of national interests in the banking sector to be consistent with the overall national interests of Indonesia. This paper examines and evaluates how State-owned Banks may sustain and play a distinctive role in protecting national interests in the banking sector. For this purpose, this paper analyses and considers some provisions that improve ordinary people's welfare under the relevant laws as part of the strategic industry and conduct their activities according to the democratic principle of economics. The discussion employs a doctrinal approach. However, a historical analysis applies to studying past facts, events, and institutions. The paper finds that against the backdrop of open competition, State-owned Banks sustain by playing a strategic role in Indonesia's banking sector, especially in terms of the dominance of the asset, mobilising public funds and channelling them back to the public. The success model of State-owned Banks underscores SDG 8, which promotes sustained, inclusive and sustainable economic growth, productive employment and decent work for Indonesians. At the same time, it epitomises the Indonesian way to achieve SDG 16, which promotes just, peaceful and inclusive societies based on the Constitution of Indonesia.

Contribution/Originality: This article provides that the role of Indonesian state-owned banks in the banking sector is highly essential to Indonesian economic aspirations, as reflected in the Constitution. At the same time, they help achieve the SDGs' goals while still guided by the 1945 Constitution

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1. Introduction

The 1945 Constitution defines the objectives of Indonesia as a nation, and it reflects the aspiration of the people. The Preamble of the 1945 Constitution states the objectives of the Indonesian nation, which, among others, the state must protect all people, their independence and land. Indonesians, therefore, must adhere to the 1945 Constitution to promote peaceful and inclusive societies for sustainable development as defined under Goal 16 of the Sustainable Development Goals (SDG) agenda. This article will address the issue of how State-owned Banks function as one of the most critical economic actors by adhering to the institutional setup enshrined under the 1945 Constitution. To that end, the State-owned Banks also are an institution that must achieve Target 16.6 to be effective, accountable and transparent.

From a sustainable development goals (SDG) perspective, the 1945 Constitution conforms to the Indonesian goal for sustained, inclusive and sustainable economic growth as defined under Goal 8. In the Preamble of 1945, the Constitution states that Pancasila shall guide in achieving these goals. The state must improve public welfare and educate the life of the people. It must also establish a world order based on freedom, perpetual peace, and social justice. Thus, the Preamble represents Indonesia's national interests. Pancasila is a philosophy of life, national ideology, and a unifier in Indonesian State life. Pancasila is also the source of identity, personality, morality, and the nation's salvation. Article 33 of the 1945 Constitution provides a guide for how the economy should run to achieve the goals of the Indonesian people. In addition, article 33 of the 1945 Constitution advocates Pancasila Economics which provides for the main foundation of Indonesian economics.

Based on Pancasila Economics, policies in the economy are that most decision-making is in the hands of the Indonesian people. Thus, all citizens of Indonesia are economic actors. For implementation purposes, state-owned enterprises become part of the economic actors. Foreign elements, such as foreign loans, foreign investment, and foreign workers, are only complimentary and temporary. As we can see, the State-owned Banks complement the overlooked areas where foreign banks may give less emphasise, especially in providing loans for small and medium entrepreneurs. Thus, they help to achieve Target 8.3. As we shall see later, State-owned Banks provide essential financial services for entrepreneurship to achieve national development policies. Their functions may ensure responsive, inclusive, participatory and representative decision-making of the ordinary Indonesians in the economy as provided under 16.7.

This article explains the concept of Pancasila Economics and Article 33 of the 1945 Constitution. Then, this paper further presents the idea of State-owned Banks and national interests in the banking sector considering the 1945 Constitution. Finally, this paper explains, analyses, and examines State-owned Banks' role in pursuing the national interest in the banking sector. Thus, this paper contributes to understanding the State-owned Banks' role in the banking sector. This objective is in line with Target 8.10: Strengthen the capacity of domestic financial institutions to encourage and expand access to banking, insurance and financial services for all.

The discussion revolves around doctrinal research. The materials are available in libraries, archives, and other databases (Soekanto & Mamudji, 2011). This discussion combines descriptive, explanatory, analytical and historical studies. The analysis focuses on assessing the role of State-owned Banks in protecting national interests in Indonesia's banking sector, following Article 33 of the 1945 Constitution. First, the paper examines

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and evaluates the concept of State-owned Banks and national interests by the 1945 Constitution. Besides, it used a historical approach that includes studying facts, events or institutions over the past period. By this approach, the background and the concept of Article 33 of the 1945 Constitution become explicable.

This research used primary sources such as the 1945 Constitution of Indonesia; Law No. 25 of 2007 on Investment; Law No. 10 of 1998 on Amendment to Law No. 7 of 1992 on Banking; and Law No. 19 of 2003 on State-Owned Enterprises. The discussion also refers to secondary sources, consisting of written works explaining the primary sources. They derive from books, journals, official statistics, research documents, published articles, government or international bodies reports, and other library-based sources related to Pancasila Economics and foreign investment in Indonesia's banking industry. In support, the researchers also interviewed the Indonesian Financial Service Authority officials.

2. Understanding national interests

As in other economies, banking is the core of the Indonesian financial system. Individuals, private business bodies, state-owned enterprises, and government agencies deposit their funds with the banking sector. Therefore, Banks' significant and crucial roles are undeniable evidence of the central pillar of economic development and support for national development (Hermansyah, 2005).

The term national interests are associated with the states. All countries, at a minimum, typically seek to survive and achieve economic vitality (or at least viability) and the protection of what they deem to be their core values. Objectives of national interests have more specific goals that any international actor may choose to pursue. For example, a concern for the security and welfare of a state with a long coastline that depends on foreign trade would likely lead its policymakers to view the protection of sea lanes as an essential national objective (Viotti & Kauppi, 2009).

The national interest conceptually is to explain the foreign policy behaviour of a country (Sitepu, 2011). Kindleberger (2000) describes national interests as "the relationship between states [which] is created because of the difference in each country's advantages in its production. Comparative advantage opens the opportunity on the specification which each country chooses to support national development according to the national interest."

Hans J. Morgenthau called national interests an influence, authority, and power. Joseph Frankel stated that national interests are to be permanent or highly durable. Typically, scholars interpret national interest variously. Interpretation depends upon several sets of contradictory considerations (Kersch, 1995). National interests are the objectives to be achieved concerning the needs of the nation/state or aspirations. Common national interests that are relatively fixed and equal between all countries or nations are security (including the survival of the people and the needs of the region) and prosperity. National interests often serve as benchmarks or essential criteria for decision-makers of each country before formulating and establishing attitudes or actions.

A sceptic would claim that the national interests of any state are simply what political leaders say it is, merely a rhetorical device designed to justify the pursuit of a controversial policy (Viotti & Kauppi, 2009). It is similar to Dewi Fortuna Anwar, who stated a subjective interpretation of national interests; they are always personal

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preferences changed following the decision-makers national interests. Although on the other side, the definition of national interests is with objective criteria and tends to be constant over time (Wuryandari, 2008).

Mulyono asserts that national interests are absolute, non-negotiable, and unlimited. Therefore, they are prioritised in carrying out their objectives and cannot be postponed or diverted to other purposes. Moreover, in realising the national interests, they are indispensable from the influences of current liberalisation, especially in the banking sector (Mulyono, 2017).

3. Article 33 of the 1945 constitution

Historically, Article 33 (initially under Article 32) of the 1945 Constitution of Indonesia was formulated by the Financial and Economic Committee led by Mohammad Hatta. The Indonesian economy is based on the idea of cooperation and joint efforts. The implementations are in stages by developing cooperatives. The control of people's lives and livelihoods depends on their lives and livelihoods and should be in the hand of the government, not by large corporations. Such an economic model is necessary as it is against social justice to let profit-making entities led by a few people determine the fate of the people. The government should act as a regulator, supervise, and provide capital for the development of large corporations. The bigger the company and the more people depend on it require a high level of intervention (Kusuma, 2004).

For the above reason, all economic activities in Indonesia should base upon the spirit of Article 33 of the 1945 Constitution of Indonesia. Article 33 of the 1945 Constitution of Indonesia previously consisted of three provisions:

"(1) The economy shall be organised as a mutual endeavour based on family system principles.

(2) Sectors of production, which are essential for the country and affect the people's lives, shall be under the powers of the state.

(3) The land, waters and natural resources within shall be under the powers of the state and shall be used to the most significant benefit of the people."

Before the amendment, the Elucidation of Article 33 of the 1945 Constitution stipulated the basis for economic democracy. Under the leadership or ownership of community members, production is carried out by all for all. The priority is the prosperity of the people, not the means of individuals. As a result, the economy is organised as a collaborative effort based on the principle of kinship. A cooperative is a business entity that is compatible with this concept. The economy is built on economic democracy and prosperity for all. As a result, the state must exert control over the sectors of production that are critical to the state and have a significant impact on many people's lives and livelihoods. If not, those in power and the people they oppress seize control of the means of production. Individuals may only own companies that do not deal with many people's lives and livelihoods. The earth, water, and natural resources in the land are the primary sources of people's prosperity because they must be controlled by the state and used as much as possible for their wealth.

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On 10 August 2002, Article 33 of the 1945 Constitution was amended by incorporating two other provisions and the previous three provisions. The additional provisions read as follows:

"(4) The organisation of the national economy shall be conducted based on economic democracy upholding the principles of togetherness, the efficiency with justice, continuity, environmental perspective, self-sufficiency, and keeping a balance in the progress and unity of the national economy.

(5) Law shall regulate further provisions relating to the implementation of this article."

The 1945 Constitution has increasingly and firmly declared itself an economic constitution, the Constitution of monetary policy, and a political constitution. All financial policies developed must refer to or must not conflict with the principles set out in the 1945 Constitution. The 1945 Constitution is an agreement on citizenship and the highest national consensus that must be held together in all state administration activities. If any policy violates this agreement, that policy becomes voidable through the judicial process.

The values contained in Article 33 of the 1945 Constitution can be categorised into aspects:

3.1. Economic Organization

Article 33 Paragraph (1) of the 1945 Constitution implies that in achieving public welfare, the economy shall be organised as a mutual endeavour based upon the principles of the family system. A joint effort is from all Indonesian people in the economic sector. Thus, the economy is structured as a joint venture, reflecting the national economic system as a mutual endeavour of all elements of the Indonesian people. The notion of togetherness implicates that it is not concerned merely with the concept of business endeavours and that the idea of an association of actors in the economy is not confined only to corporations (Asshiddiqie, 2010).

Regarding the same notion, Subyakto stated that based on Article 33 Paragraph (1) of the 1945 Constitution, the most productive and efficient institution in the economic system lies in the market. The national financial system applies a market mechanism based on kinship, namely, based on justice, not a free competition. Social justice market mechanisms will create equal partnerships among economic actors, namely state-owned enterprises, cooperatives, and the private sector, in managing the economic potential for the most abundant prosperity of the people. Thus, the market will create interaction and interrelation between economic actors to play their roles maximum without causing unfair competition (Tjakrawerdaja & Soedarno, 2017).

3.2. Production Sector

Although the state has the right to control the vital sector of production and control the livelihoods of many people, the claim is subject to the conditions that the industry involves the participation of the most abundant prosperity of the people (Abbas & Manan, 2005). Private entities can own only corporations that do not control the livelihood of many people.

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3.3. The Land, Waters and Natural Resources

Land, water, and natural resources are the main elements of people's prosperity. Therefore, they must be controlled by the state and used for the most abundant worth of the people. This arrangement confirms people's sovereignty and substantial people's position (Firmansyah, 2012).

4. Economic Democracy

Economic democracy is closely linked to understanding people's sovereignty in the economy. Therefore, the supreme power of the people applies to the economic field, just like the position in political context.

In the Economic Democracy, production is by and for all under the leadership or ownership of community members. The prosperity of the people takes priority over the wealth of the individuals. The laws determine and limit the right of production by the individual. The laws include customary law, public interest norms, public ownership, and collective interests. The scope of the private sector is not limited if it concerns the industry of productions that are essential to the state and affect the livelihoods of many people. It follows that the role of the government is not limited to just being a regulator. The government should take the necessary actions even to be a direct actor in the economy if negative externalities arise, failure in market mechanisms, economic inequality or social inequality (Firmansyah, 2012).

5. State-owned banks

Primarily, banking in Indonesia is regulated under Law No. 7 of 1992 as amended by Law No. 10 of 1998. Article 1 (2) Law No. 7 of 1992, as amended by Law No. 10 of 1998, defines that "Bank is a corporate entity mobilising funds from the public in the forms of Deposits and channelling them to the public in the forms of Credit and other forms to improve the living standard of the common people." For State-Owned Banks, it must also refer to the law, which regulates explicitly State-Owned Entities.

State-Owned Entities are governed by Law No. 19 of 2003 on State-Owned Entities. Article 1 defines "State-Owned Entity" as "an entity, the capital of which is in part or whole owned by the state through direct participation, that is derived from the state's separated assets." Law No. 19 of 2003 explained that most capital comes from the state's separated assets.

The role of State-Owned Entities is embodied in almost all economic sectors' business activities. There are several roles of State-Owned Entities based on General Elucidation No. 19 of 2003, as follows:

a. In the national economic system, State-Owned Entities contribute to producing goods and services required to achieve the greatest possible prosperity for the Indonesian people;
b. State-Owned Entities' role is regarded as necessary as a leader and pioneer in business sectors where private entities have no interests;
c. State-Owned Entities play a strategic role as a provider of public services, a check on large private entities' power, and a supporter of the development of small-scale businesses/cooperatives;
d. State-Owned Entities contribute significantly to state revenue through various taxes, dividends, and privatisation proceeds.

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These two forms of State-Owned Entities, i.e.:

a. Public Enterprises (*Perum*)
   Article 1(4) Law No. 19 of 2003 states that Perum is organised to provide goods and services to the public at affordable prices based on healthy company management. The state owns the entire capital of Perum in the form of State assets separately designated as the capital of Perum and not divided into shares.
b. State-Owned Limited Liability Companies (*Persero*)
   Article 12 (1) Law No. 19 of 2003 states that Persero is organised to provide goods and services to the public. At least 51% of the capital of Persero is owned by the state and is divided into shares.

In the banking sector, several banks are categorised as State-Owned Entities. The top four the most prominent banks of State-Owned Entities are Bank of Mandiri, Bank of *Rakyat Indonesia* (BRI), Bank of *Negara Indonesia* (BNI) and Bank *Tabungan Negara* (BTN). They are all in State-Owned Limited Liability Entities (Persero) forms.

Under economic democracy, State-Owned Entities (BUMN), private entities, and cooperatives have a mutual support role in their performance of business activities.

a. Cooperative: Cooperative is governed by Law No. 25 of 1992 on Cooperatives. Article 1 (1) Law No. 25 of 1992 define Cooperative as "business entities consisting of individuals or cooperative legal entities with activities based upon principles of cooperation and family values."
b. Private: The private includes various businesses that do not control many people's lives, based on Pancasila Economics (Lembaga Pengkajian Ekonomi Pancasila, 1980). A private is a business entity established and owned by a private party. The purpose of the business entity is to obtain maximum profit.

Business entities established by the private sector to manage Indonesia's resources must not conflict with applicable regulations in their implementation. In their business activities, they rely on the strength of capital ownership. The private is consists of the domestic and foreign elements as a supplement.

6. Indonesia's National Interests in The Banking Sector

Article 3 of Law No. 12 of 2011, as amended by Law No. 15 of 2019 on Formulation of Regulatory Legislation, stipulates that the Constitution of 1945 is the "Basic Law" in statutory regulations. Elucidation of Article 3 explains "basic law" as the absolute norm for legislation formation, which is the source of law for legislation under the 1945 Constitution.

Article 7 Law No. 12 of 2001, as amended by Law No. 15 of 2019, provides for the Hierarchy of Law. The order consists of:

a. Constitution of the Republic of Indonesia of 1945;
b. Decree of the People's Consultative Assembly;
c. Law/Government Regulation in place of law;
   Article 1 (3) Law No. 15 of 2019 stipulates that the Law is Legislation Regulated by the House of Representatives with the cooperative agreement of the President. On the other hand, Article 1 (4) stipulates that the Government Regulation in place of law is the Law and Regulations prescribed by the President in compelling urgency.

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d. Government Regulation;
e. Article 1 (5) Law No. 15 of 2019 states that Government Regulation is the President's statutory regulation to implement the law as it should. Therefore, the contents of the Government Regulation contain material to carry out the law correctly.
f. Presidential Regulation;
g. It is a statutory regulation stipulated by the President to carry out higher directions of governmental powers. This regulation is based on Article 1 (6) Law No. 15 of 2019. The contents of the Presidential Regulation contain material ordered by the law, material to implement Government Regulations or material to carry out the administration of governmental powers.
h. Province Regulation;
i. Article 1 (7) Law No. 15 of 2019 states that Province Regulation is Legislation established by the Provincial Regional House of Representatives with the joint agreement of the Governor. Material for Provincial Regional Regulations and Regency/City Regional Regulations containing content in the framework of carrying out regional autonomy and co-administration tasks and accommodating special conditions for regions and further elaboration of the higher Regulations.
j. Regency/Municipality Regulation.
k. This regulation is formed by the Regency/City Regional House of Representatives with the Regent/mayor's mutual agreement. This construal follows Article 1 (8) Law No. 15 of 2019. Therefore, the Regency/City Regulations contents are the same as the contents of Provincial Regulations.

Regarding Indonesia, national interests are stated in the Preamble of the 1945 Constitution. The 1945 Constitution of Indonesia is a fundamental state rule that is the source and basis for forming the law (Indrati, 2011). The 1945 Constitution is a constitutional foundation that describes the national objectives of Indonesia. The fourth paragraph of the Preamble of The 1945 Constitution of Indonesia states that the national goals are as follows:

a. Protecting all the people of Indonesia and all the independence and the land that has been struggled for;
b. Improving public welfare;
c. Educating the life of the people; and
d. We are participating in establishing a world order based on freedom, perpetual peace and social justice.

National interests denote the objectives to fulfil the needs of the nation/state or in connection with the things that are aspired. Concerning the fourth paragraph of the Preamble of the 1945 Constitution above, thus four fundamental national interests of the Indonesians, namely:

a. Security interests are in the form of protecting all Indonesian people and their independence and land.

a. Welfare interests correspond to improving public welfare.
b. Education interests are in the form of educating people's life.
c. Interests include establishing a world order based on freedom, perpetual peace, and social justice.

Regarding the economic sector, the related national interests are "welfare interests in improving public welfare." In achieving that national interest, the 1945 constitution

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regulates Indonesia's financial system under Article 33 of the 1945 Constitution, the primary reference for Indonesian economics. Therefore, all economic activities of Indonesia should be based on Article 33 of the 1945 Constitution, including in the banking sector.

Banks have been regulated based on the assumption that there is a need to protect depositors, avoid externalities, maintain a sound financial system, avoid undue concentration of economic power, influence the sectoral allocation of credit flows, and preserve indigenous and small institutions (Cranston & Emilios, 2018). The banking sector is regulated by investment and banking law because, in general, investment activities directly relate to investment regulation (*lex generalis*), whereas specifically, the banking sector is under banking regulation (*lex specialis*). Welfare interests in improving public welfare stated in the Preamble of the 1945 Constitution are in line with one of the objectives of investment activities, as stipulated in Article 2 Law No. 25 of 2007, namely, to improve public welfare. The description of "improving public welfare" as national interests is further explained in consideration of Law No. 25 of 2007 in point d, as follows:

To deal with global economic changes and Indonesia's participation in diverse international cooperation, it is necessary to create an investment climate conducive, promoting, giving legal certainty, justice, and efficiency with due regard to the interest of the national economy.

Furthermore, national interests are also explained in several articles of Law No. 25 of 2007. For example, article 4 (1) and (2) Law, No. 25 of 2007, stipulates as follows:

"(1) Indonesia Government adopts major investment policies: (a) to encourage the creation of a conducive national business climate for investments to strengthen the competitiveness of the national economy, and (b) to expedite the increase of investments."

"(2) In the adoption of those significant policies as intended by section (1) of investments policies, the Government shall: (a) accord equitable treatment to domestic investors and foreign investors with due regard to the national interest; (b) ensure the legal certainty, business certainty, and business safety for an investor starting from the licensing process to termination of investment activities following provision of laws and regulation; (c) give opportunities to the enhancement of and give protection to micro, small and medium enterprises, and cooperatives."

Furthermore, Article 12 (3) and (5) Law No. 25 of 2007 states:

"(3) The President's Regulation requires the government to establish business sectors closed to foreign and domestic investments based on the following criteria: soundness, morals, culture, the environment, national defence and security, and other national interests."

"(5) The government creates open business sectors with requirements based on national interests' criteria, such as the protection of natural resources, the protection and enhancement of micro, small, and medium enterprises and cooperatives, the supervision of production and distribution, an increase in technology capacity, domestic capital participation, and collaboration with business entities."

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From the Articles of Law No. 25 of 2007, it is concluded that "improving public welfare" as national interests serve as the basis for creating create investment climate, giving equitable treatment to domestic investors and foreign investors and establishing business sectors closed to investments and open with requirements. The criteria of national interests are:

a. Soundness;
b. Morals;
c. Culture;
d. The environment;
e. National defence and security;
f. Natural resource protection;
g. Protection and enhancement of micro, small, and medium enterprises and cooperatives;
h. Production and distribution supervision;
i. Increased technology capacity;
j. National capital participation;
k. Cooperation with business entities, which the Indonesian government designates

These national interests apply to all investment activities in all sectors, including banking. On the other hand, Banking Law in Indonesia does not explicitly state Indonesia's national interests in Banking. However, when referring to the articles contained in Law No. 7 of 1992 as amended by Law No. 10 of 1998, Indonesia's national interests in banking are explained as follows:

a. Banks in Indonesia aim to improve the welfare of ordinary people.

Like Law No. 25 of 2007, welfare interests in improving public welfare stated in the Preamble of the 1945 Constitution are also in line with banks' objectives in Indonesia. The final aim of the bank in Indonesia is to improve the welfare of ordinary people. It is stated in Article 4 Law No. 7 of 1992, as amended by Law No. 10 of 1998, as follows:

Bank in Indonesia shall aim to support national development to improve equitable distribution, economic growth, dynamic, sustainable growth, and dynamic, sustainable national stability, aimed at improving the welfare of the ordinary people.

This national interest also relates to Article 33 (1) of the 1945 Constitution. As explained earlier, Article 33 (1) of the 1945 Constitution implies that the economy is organised as a mutual endeavour based on the family system principles. A joint effort is from all Indonesian people. Therefore, in achieving public welfare, the economy is organised as a mutual endeavour by all Indonesian people.

For the last few years, financial services (including banking) have contributed significantly to Indonesia's Gross Domestic Product (GDP). Data from Statistic Indonesia in 2018 shows that the sector's contribution to the national GDP revolves around 5 – 10%.

b. Banks are a strategic sector and affect the life of the people

Article 33 (2) of the 1945 Constitution mentioned sectors of production that are essential for the country and affect the life of the people. Banks can be categorised as strategic sectors and control the lives of many people because of several reasons, as follows:

i. Banks have a strategic role in the economy, both as intermediaries and

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supporting agents for the payment system, as stated in Elucidation Law No. 7 of 1992, as amended by Law No. 10 of 1998.

ii. Part of The Considering and Article 3 of Law No. 7 of 1992 as amended by Law No. 10 of 1998 states that banks, whose primary function is to mobilise and channel public funds, play a strategic role in supporting national development implementation to improve equitable distribution of development and its fruits, economic growth, and national stability.

iii. Banking is essential in fostering economic development and ensuring social and economic stability (Cranston & Emilios, 2018). Due to their importance in financial stability, banks are highly regulated.

c. Banks in Indonesia operate following the principle of economic democracy.

Article 33 (4) of the 1945 Constitution implies that national economics is conducted based on the democracy of economics. This position is reaffirmed in Article 2, Law No. 7 of 1992, as amended by Law No. 10 of 1998, which states:" Banks in Indonesia shall conduct their business according to economic democracy applying the prudential principle." Furthermore, Article 2 stipulates that the term "economic democracy is economic democracy based on Pancasila and the 1945 Constitution." In Democracy of Economics, production is acted by all, for all the Indonesian people. In this case, banking activities in Indonesia should be carried out majority by Indonesians for the benefit of Indonesians, for example, in terms of share ownership, management organs (directors and commissioners), and employees.

Regarding management organs (directors and commissioners) and employees, Article 10 Law No. 25 of 2007 states that any investment companies prioritise recruiting Indonesian citizens. However, investors can use foreign citizen experts on positions and expertise under law rules. In addition, foreign workers must conduct training and transfer technology to Indonesian-national workers under laws and regulations.

Therefore, national interests in the banking sector refer to the 1945 Constitution, Law No. 25 of 2007 and Law No. 7 of 1992 as amended by Law No. 10 of 1998. It is drawn as follows in Figure 1.

Figure 1: National Interest in Indonesia's Banking Sector



7. State-Owned Banks in Indonesia's Banking Sector

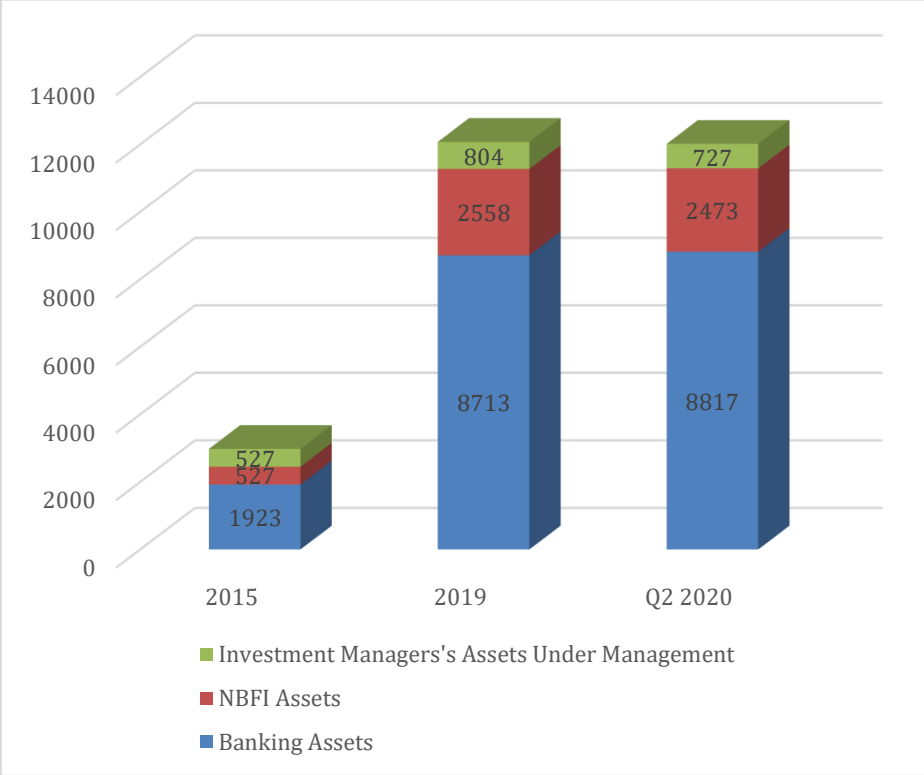
Over the last decade, the role of state-owned commercial banks has shrunk significantly. During the late 1980s and early 1990s, State-owned Banks accounted for more than half

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of total banking system loans and deposits in emerging economies. A decade later, in Indonesia, a reversal occurred due to temporary bank nationalisations during the 1998-1999 crisis. Nonetheless, the government is committed to selling its stake in nationalised banks (Hawkins & Dubrayko, 2001). Meanwhile, it also happened in Greek (in the 1998-1999 crisis), where the economic power was concentrated in the hands of the state-owned banks. Moreover, the presence of foreign bank branches creates competition, which has compelled state banks to modernise (Kotsiris, 1998).

As a strategic sector, as in the report released by the OJK, until Quarter II 2020, the banking sector dominates the financial market based on short-term sources of funds. Meanwhile, although the Capital Market continues to grow, it is still not optimal for long-term financing. Non-Banking Financial Institution (NBFI) is still relatively small, although it keeps growing. Figure 2 shows financial services sector structure.

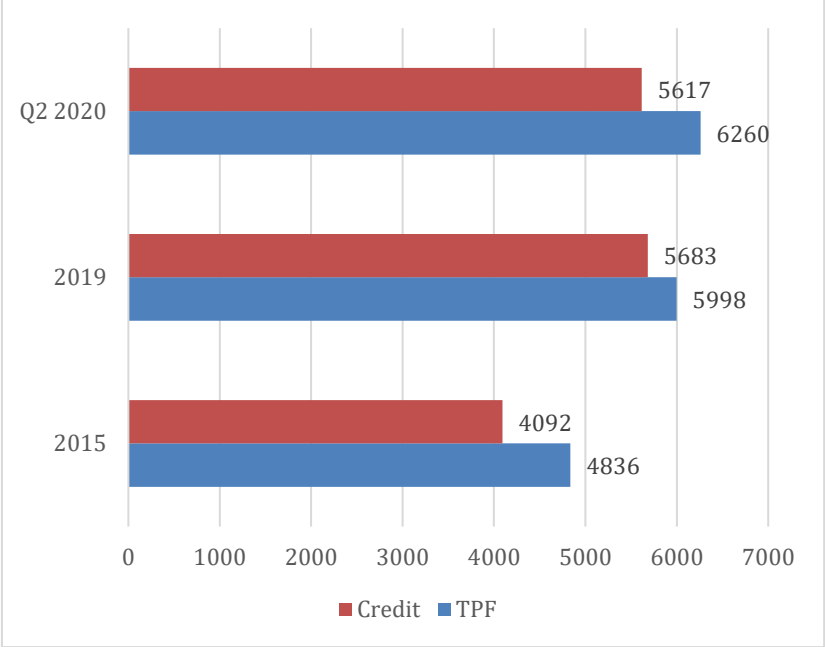
Figure 2: Indonesia's Financial Services Sector Structure (IDR Trillion)



Furthermore, based on OJK data as Figure 3 shows, Third-Party Funding (TPF) and credit distribution are increasing. TPF has grown by 24,02% since 2015, and credit disbursement has increased by 38,89%. According to Article 1 (5) Law, No. 7 of 1992 as amended by Law No. 10 of 1998, TPF (deposits) are funds entrusted to the bank by the public in the form of Demand Deposits, Time Deposits, Certificates of Deposits, Savings, and other similar forms based on an agreement. The bank obtains these funds from three sources, namely, first-party funds originating from the owner and bank profits; second party funds received through the money market; and third-party funds originating from public deposits in the form of demand deposits, savings accounts, time deposits, certificates of deposit, and guarantee deposits. Of the three sources of bank funds, third-party funds make a considerable contribution. Third-party funds are the most critical source of funds for bank operations. These funds can be placed in income-generating items, one of which is credit.

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Figure 3: Development of Indonesia's Banking Sector for 2015-2019 and Quarter 2 of 2020 (IDR Trillion)



Based on data released by the OJK that in 2018, there were 30 of Indonesia's national private banks whose shares are dominated by foreign investors. At the same time, the total number of all national private banks is 63 banks. Thus, more than 50% of Indonesian national private banks are still owned by domestic investors. The number of banks in Indonesia is in the following Table 1 below:

Table 1: Conventional Commercial Bank in Indonesia Based on Ownership

Conventional Commercial Bank	The Year of 2018
State-Owned Bank	4
Regional Bank	26
Private National Bank	63
Foreign Bank	9
Total	102

Although the data in Table 1 above shows that foreigners control 30 per cent of national private banks, according to an interview with the OJK, State-owned Banks still have a strategic role in the Indonesian banking sector. This position is in line with Pancasila Economics, which requires Indonesia's participation in national development. Pancasila economics aspires to a self-sufficient economy from foreign economies or powers. Therefore, foreign investment is intended to be supportive and transitory rather than a pillar of the economy (Purnamasari & Mohd. Ali, 2019). Financial service liberalisation measures in selected Asian countries conclude that more broad-based liberalisation should be promoted. However, it is understandable that a government would want to provide specific protection to its domestic financial services sector in its early stages of development (Wang, 2007). As previously explained, Article 3 of Law No. 7 of 1992, as amended by Law No. 10 of 1998, states that the primary functions of the bank are to mobilise and channel public funds.

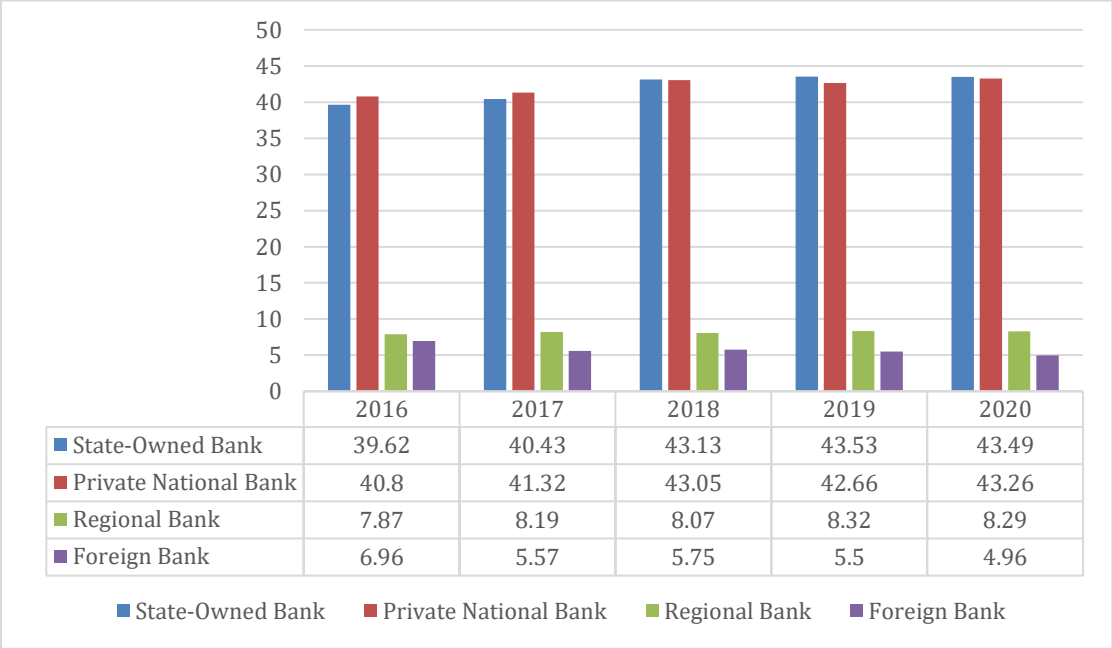
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The size of the bank's assets and primary functions of the banks reveal the strategic role of the State-Owned Bank. This position will be explained as follows

7.1. Assets

Based on data obtained from the Financial Services Authority (*Otoritas Jasa Keuangan* - OJK), during the last five years, namely 2016-2020, State-Owned banks have controlled total assets in Indonesia since 2018, as Figure 4 shows in the chart below:

Figure 4: Development of Conventional Commercial Bank Assets by Ownership 2016-2020 (%)



	2016	2017	2018	2019	2020
State-Owned Bank	39.62	40.43	43.13	43.53	43.49
Private National Bank	40.8	41.32	43.05	42.66	43.26
Regional Bank	7.87	8.19	8.07	8.32	8.29
Foreign Bank	6.96	5.57	5.75	5.5	4.96

From the Figure 4 above, it is described that in 2016, banking assets grew by 4,08% (qtq) or 9,74% (yoy), an increase compared to growth in the quarter and the previous year, respectively 1,62% (qtq) and 9,21% (yoy). Quarterly asset growth mainly occurred in the State-Owned Banks (7,18%), driven by high credit growth in the bank group.

Judging from the portion, the Private National Bank -Foreign Exchange controlled banking assets by 39,71%, followed by the State-Owned Bank group with 39,62%. Meanwhile, the Regional Banks' and Foreign Banks' assets still share less than 10% of the total assets of commercial banks. Furthermore, in 2017, conventional commercial bank assets grew by 9,77% (yoy) compared to 2016 by 9,74% (yoy). This increase is in line with the rise in the Third-Party Fund and additional capital injection by the owner. In addition, lending also grew better than the previous year in terms of the asset component. Based on bank groupings, the increase in assets was mainly driven by State-Owned Banks, which had a share of 40,43% and were supported by the high growth of 12,00% (yoy).

Regarding data from OJK, in 2018, commercial bank assets grew by 9,18% (yoy), slowing down compared to the previous year. 9,64% (yoy). The slowdown is in line with slower growth in deposits and capital. In December 2018, the State-Owned Bank controlled assets of 43,13%, ahead of the Private National Bank, which controlled 43,05%. The control of State-Owned Banks in assets continued in 2019. Conventional Commercial Banks' assets grew by 5,95% (yoy), slowing down from 9,18% (yoy) in the previous year.

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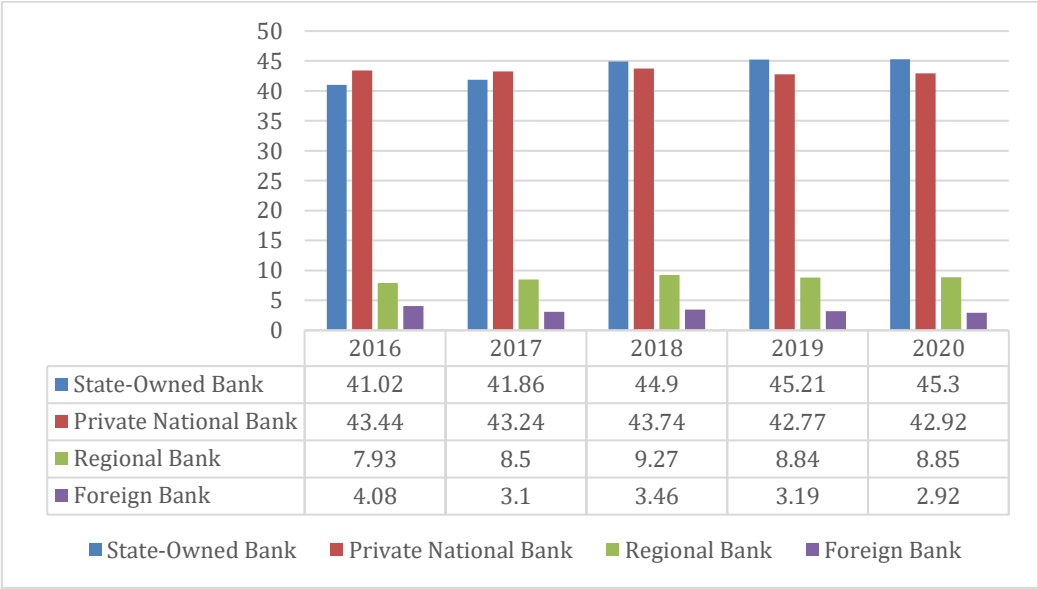
The growth of these assets was supported by the growth of the Third-Party Fund and several components of capital, including capital reserves and additional paid-in capital. Based on bank groups, the slowdown in asset growth mainly occurred in Stare-Owned Banks and Private National Banks, groups of banks with large asset portions.

Furthermore, in 2020, the growth in assets of the State-Owned Bank group, which was the most considerable portion (43.49 per cent), was recorded to be slightly lower (6,84%, year on year) than the previous year at 6,91% (yoy).

7.2. Third-Party Funding (TPF)

As explained in the previous section, the primary function of a bank is to mobilise funds from the public. Figure 5 shows Proportion of TPF Conventional Commercial Bank of Ownership**.** In 2016, the source of bank funds was still dominated by TPF, with a portion reaching 89,58%. Based on bank groups, most of the TPF were controlled by Private National Banks at 43.44%, followed by State-Owned Banks at 41,02%.

Figure 5: Proportion of TPF Conventional Commercial Bank of Ownership 2016-2020 (%)



	2016	2017	2018	2019	2020
State-Owned Bank	41.02	41.86	44.9	45.21	45.3
Private National Bank	43.44	43.24	43.74	42.77	42.92
Regional Bank	7.93	8.5	9.27	8.84	8.85
Foreign Bank	4.08	3.1	3.46	3.19	2.92

Furthermore, the TPF continued to play an essential role in the source of bank funding in 2017. The TPF provided up to 89,33% of bank funds. According to the bank group, Private National Banks dominate the TPF with 42,01%, followed by State-Owned Banks with 41,86%.

In 2018, the TPF was still the primary source of bank funding, reaching 86,61% of bank funds. However, based on the bank group, in contrast to 2016 and 2017, in 2018, most of the TPF was in State-Owned Banks at 44,90%, followed by Private National Banks-Foreign Exchange at 42,86%.

In 2019, the TPF became the primary source of bank funding again, reaching 87,29% of total bank funds. Based on bank groups, most of the TPF were in State-Owned Banks at 45,21%, followed by Private National Banks at 41,79%. Furthermore, based on the Indonesian Banking Statistics for 2020, TPF reached 89,76% of total bank funds. Referring

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to bank groups, most of the TPF was in the State-Owned Bank group at 45,30%, followed by Private National Banks at 42,92%.

7.3. Credit

Apart from mobilising public funds, Article 3 of Law No. 7 of 1992, as amended by Law No. 10 of 1998, states that the other primary function of the bank is channelling public funds, especially in forms of credit.

There are regulations related to credit. Firstly, Article 8 Decree of the People's Consultative Assembly of Indonesia No. VXVI/MPR/1998 on Economic Policy in the Context of Economic Democracy that Banking and financial institutions must, within the limits of principle and business management, open the most extensive, fairest, and transparent opportunities for small, medium, and cooperative entrepreneurs. Furthermore, this is reaffirmed in Article 4 (2) point c Law No. 25 of 2007 that the Indonesian government adopts significant policies by giving opportunities to enhance and protect MSME and cooperatives. More specifically, Bank Indonesia (BI) regulates Bank Indonesia (BI) Regulation No. 14/22/PBI/2012 as amended with the PBI No. 17/12/PBI/2015 dated 25 June 2015 on The Extension of Credit or Financing by Commercial Banks and Technical Assistance in the Development of Micro, Small, and Medium Enterprises (MSME) Segment.

The regulation states that Commercial Banks are required to provide MSME Credit or Financing and are determined to be at least 20% which is calculated based on the ratio of MSME Credit or Financing to total Loans or Financing. Accordingly, the achievement of the MSME Credit or Financing ratio was carried out in stages, from 2013 to 2018, wherein in 2016: the ratio of MSME Credit or Financing to the total Credit or Financing was at least 10%; in 2017: the ratio of MSME Credit or Financing to total Credit or Financing is at least 15%, and since 2018: the ratio of MSME Credit or Financing to the total Credit or Financing is at least 20%.

Data from Bank Indonesia, on the 2018 Quarter III MSME Credit Progress Report, most MSME credits were carried out by State-Owned Banks 51,7%, National Private Banks (Foreign Exchange) 30,7%, National Private Banks (Non-Foreign Exchange) 4,5%, Regional Development Bank 7,3%, Rural Bank 5,1%, Joint Venture Bank 0,6%, and Foreign Bank 0,1%.

CIMB, Maybank, Danamon and Permata Bank provide a more significant portion of consumer credit than MSME. Still, except for Permata, these banks' ratio to MSME has complied with the target set by the Regulator. This outcome is because these statistics relate to these banks' business scale in distributing commercial and corporate loans that can cut down the MSME credit ratio. This situation contrasts with Bank Rakyat Indonesia (BRI), a State-Owned Bank whose business focuses on the MSME sector.

Regarding the MSME sector, the Government of Indonesia stipulates the People's Business Credit Program – *Kredit Usaha Rakyat* (KUR), a priority program supporting lending/ financing to the MSME sector. KUR is credit/financing for working capital and investment to individual / individual debtors, business entities and business groups that are productive and feasible but do not have additional collateral or additional collateral is not enough. The MSMEs and Cooperatives expected to access KUR are those engaged in productive business sectors: agriculture, fisheries and maritime affairs, industry, forestry,

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and savings and loan financial services. KUR distribution can be done directly, meaning that MSMEs and Cooperatives can now access KUR at Branch Offices or Sub-Branch Offices of Implementing Banks. Furthermore, to bring services closer to micro-businesses, KUR distribution can also be done indirectly, meaning micro-businesses can access KUR through Micro Finance Institutions and KSP / USP Cooperatives or through other program linkage activities in collaboration with Implementing Banks.

By Decree of Coordinating Minister for Economic Affairs No. 188 of 2015 on Determination for Channelling KUR and Guarantee Companies of KUR, State-Owned Banks still dominate the provision of credit to the public. On the other hand, private banks with the majority share owned by the foreign investor, i.e., Maybank, Permata Bank and OCBC NISP, are appointed as banks for channelling KUR to the MSME sector. Table 2 shows the total credit and debtors from the State-Owned Banks and national private banks that were established for directing KUR per February 2021:

Table 2: KUR'S Channelling (February 2021)

No	Banks	The Total of KUR's Channelling	
		Rp	Debtors
1	PT. Bank Rakyat Indonesia (Persero)	26.486.785.232.525	937.543
2	PT. Bank Mandiri (Persero)	5.876.853.606.000	60.791
3	PT. Bank Negara Indonesia (Persero)	4.054.194.887.235	43.205
4	PT. Bank Tabungan Negara (Persero)	15.151.100.000	55
5	PT. Bank Central Asia	28.209.464.075	228
6	PT. Bank Bukopin	-	-
7	PT. Bank MaybankIndonesia	5.050.000.000	11
8	PT. Bank Sinarmas	95.246.073.000	336
9	PT. Bank Permata	1.810.000.000	8
10	PT. BTPN	-	-
11	PT. OCBC NISP	-	-
12	PT. Bank Artha Graha International	-	-
13	PT. BRI Sharia	438.547.985.005	7.088
14	PT. BRI Agroniaga	8.002.162.000	47
15	PT. Bank CTBC Indonesia	-	-
16	PT. Bank National Nobu	5.153.000.000	138
17	PT. Bank Mandiri Taspen	1.064.000.000	26
18	PT. BNI Syariah	304.459.045.000	1.919
19	PT. Bank Syariah Mandiri	-	-

In its development per February 2021, apart from Maybank, Permata and OCBC NISP, there is an additional number of private banks that are majority shares owned by foreign investors, which organise KUR, namely CTBC Indonesia and National Nobu.

8. Conclusions

Indonesian economics is based on Article 33 of the 1945 Constitution to achieve that national interest. Therefore, article 33 of the 1945 Constitution is the primary reference for Indonesian economics. If related to Article 33 of the 1945 Constitution, the national interest in banking consists of:

a. The objective of national banking is to improve the well-being of the Indonesian people. The banking sector contributes to Indonesia's economic development.

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b. National banking is an essential branch of production for the country and controls many people's lives. This position is under the main banking activities, receiving public funds and channelling them back to the community. Until Quarter II 2020, the banking sector dominates the financial market in Indonesia.
c. National banking is a business run by the people of Indonesia. Therefore, national banking should be run based on the democracy of economics. Indonesians carried out most banking activities, such as share ownership, management organs (directors and commissioners), and employees. Foreign investors are only supporters and temporary.

Concerning State-Owned Bank they play a strategic role in Indonesia's banking sector as economic actors. This role is evident from the size of the assets controlled by State-Owned Banks, which frequently control a sizable portion of Indonesian banks' total assets. Furthermore, this dominance is visible in the primary function of banking, namely mobilising public funds and channelling them back to the public, particularly in the form of credit. This condition supports the framework of considering national interests in the banking sector, mainly based on the Pancasila and Article 33 of the 1945 Constitution and prioritises all citizens of Indonesia as economic actors. Foreign elements, on the other hand, are only complementary and temporary. Therefore, the State-owned Banks within the Indonesian context are highly pertinent for Indonesia's route in achieving sustainability, especially under SDG 8 and SDG 16.

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Conflict of Interests

The authors reported no conflicts of interest for this work and declare that there is no potential conflict of interest with respect to the research, authorship, or publication of this article.

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