



## **Regional Asset Utilization: How Can it Affect Regional Income and Poverty?**

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### **Article Information    Abstract**

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This study examines Indonesia's regulatory framework and empirical practices regarding using regionally owned assets. By applying the two-stage least squares (2SLS) technique for the national macro model, the study also seeks to determine the effects of increased regional asset utilization on poverty reduction and regional revenue across various regions. The study employs a descriptive-analytical approach using mixed methods. Fixed effect and random effect estimation techniques were utilized for the regional models, while the two-stage least squares (2SLS) method was applied for the national macro models. The Statistical Analysis System (SAS), version 4.0, was used for this analysis. The findings demonstrate that maximizing the use of regional assets positively impacts regional original income, with a 1% increase in asset utilization leading to a 0.53% rise in regional original income. Furthermore, a 1% increase in regional income results in a 0.09% decrease in poverty. Increasing regional revenue and reducing poverty are two measurable outcomes of optimizing regional assets as a policy tool to enhance regional economic performance. Several factors contribute to Indonesia's low optimization of asset utilization, including remote geographic locations, legal disputes with third parties, numerous assets unregistered in state or regional administrations, and unclear asset allocation.

## INTRODUCTION

Indonesia entered a new era of fiscal decentralization and regional autonomy on January 1, 2001, with various dynamics shaping its implementation. Several laws were updated to better align with modern needs, including *UU No. 22 Tahun 1999*, followed by *UU No. 32 Tahun 2004* and *UU No. 23 Tahun 2014*. The ratification of *UU No. 1 Tahun 2022* concerning Financial Relations between the Central Government and Regional Governments further restored harmony between the central government, provinces, and districts/cities.

The fiscal decentralization policy has led to numerous changes over 22 years of regional autonomy (Pramandari & Kaluge, 2017). Besides shifts in political practices, the pattern of financial balance between the central and regional governments and the socioeconomic development of society has evolved (Abdillah et al., 2023; Aini et al., 2019). The central government claims several successes in implementing regional autonomy, including direct community election of regional heads, improvements in regional Gini ratio indices, reductions in regional poverty rates, and the distribution of various fiscal incentives from the central government (Larasati & Rezki, 2024). Numerous new autonomous regions have also been made to accelerate regional development (Maulana, 2019).

The expansion of parent regions led to the creation of 227 new autonomous regions (DOB) between 1999 and 2022, consisting of 12 provinces, 181 districts, and 34 cities. Indonesia now has 514 regencies and cities, 38 provinces, 416 regencies, and 98 cities as regional governments. The government implements fiscal decentralization policies in line with the regional expansions to delegate several government functions from the central government to the regions (Pentury et al., 2021; Azizah et al., 2022).

Intergovernmental fiscal relations are critical to the relationship between the central government and local governments. In the context of autonomy, tasks delegated to regional

governments must be accompanied by financial delegation (Starodubtsev, 2018). Since regional governments are granted extensive authority and responsibility for public services, revenue delegation (revenue assignment) must follow expenditure delegation (expenditure assignment). Without this, autonomy loses its significance (Nuradhawati, 2019). One impact of decentralization is the delegation of spending, making the region's ability to plan and manage its affairs dependent on the financial sector's capacity to sustain itself. However, there are ongoing challenges regarding local governments' capacity for self-financing (Widyastuti & Nusantara, 2022).

Evaluation results from the Directorate General of Regional Autonomy at the Ministry of Home Affairs indicated that 67% of regions created through expansion received unsatisfactory ratings from the central government. In comparison, only 33% of new autonomous regions were considered to meet expectations in fulfilling their functions as new regions (Ministry of Home Affairs, 2021). The ability of regional governments to meet their financial needs remains heavily 'subsidized' by the central government. This is evident from the increasing percentage of the state budget (APBN) allocated to transfers to regions and village funds (TKDD) (The Audit Board of Indonesia, 2021).

In the 2023 APBN, transfers to regions and village funds (TKDD) totaled IDR 817.71 trillion, or 26.61% of the total APBN. This marks a significant increase from the IDR 82.4 trillion allocated in 2001 (Ministry of Finance, 2023). The substantial TKDD funding reflects confidence in and adherence to regulatory policies that allow regional administrations to exercise autonomy in all areas except foreign affairs, defense, security, justice, national monetary and fiscal policy, and religion (Latif et al., 2022).

However, the goal of achieving regional fiscal independence remains far from ideal. Regional fiscal independence aims to provide autonomy and authority for regional governments to develop policies that fulfill

community services and empower local populations, ultimately improving public welfare (Abdullah, 2014; Kivlan et al., 2021; Sommaliagustina, 2019). This indicates that, instead of relying on central government transfers, regional governments are expected to manage their regional original income carefully. A local government is successful if it can utilize its regional original income to cover its expenditures (APBD) without excessive reliance on central funds (Sari et al., 2019; Wibisono et al., 2021).

The limited capacity of the national government to provide development financing for all sectors across the nation is closely linked to the autonomy granted to regions to explore potential income sources within their territories. One indication of the central government's fiscal constraints is the annual APBN debt ratio increase. As of the end of July 2023, Indonesia's debt stood at IDR 7,855.53 trillion, equivalent to 37.78% of GDP (Ministry of Finance, 2024). This growing debt signals that the federal government's ability to finance national development including providing village funds and transfers to local governments is not unlimited.

Several management-related factors contribute to the low original income generated by regional administrations. According to studies conducted on several regional governments in Indonesia, inefficiencies, a lack of a comprehensive policy framework, conventional thinking that downplays the potential for utilizing public assets to generate regional income, a lack of data, and a shortage of human resources are some of the barriers to effective regional asset management (Tirayoh et al., 2021). Mardiasmo (2012) identified additional factors that contributed to the slow pace of government asset management reform: (1) the reform was still in its early stages; (2) human resource limitations; (3) slow processing of ownership documents; and (4) low asset utility (Mardiasmo et al., 2012).

According to the summary report from the second semester of the 2022 audit (IHPS), the Audit Board of Indonesia identified several asset

management problems in 2021. These issues included assets controlled by other parties, involving 158 cases across 149 entities, with a total value of IDR 5.65 billion. Additionally, two instances of asset purchases involved disputed statuses in two entities. Another significant issue was the unknown whereabouts of assets, with 121 cases reported across 110 entities involving assets valued at IDR 11.67 billion. Furthermore, third parties had failed to fulfill their obligations to transfer assets to regional authorities, resulting in 10 cases across 10 entities, with a total value of IDR 5.19 billion (The Audit Board of Indonesia, 2023).

Theoretically, asset optimization is an asset management process that aims to maximize an asset's potential, location, value, quantity, or volume, in addition to its legal and economic aspects. When idle capacity or underutilized assets are put to their proper use, maximizing their utilization increases profits (Anartany & Suseno, 2018). Furthermore, asset optimization helps identify and understand the asset's intended purpose, its beneficiaries, and how it can generate revenue for its management (Hidayat et al., 2021).

Several asset management stages can be completed to enhance the amount of assets held, including asset inventory, legal audits, asset assessments, asset optimization, and asset monitoring and control. If these five steps are properly executed, the government can benefit significantly by becoming more efficient and effective, generating value through more transparent, accountable, and organized asset management (Ardiani, 2018; Asman et al., 2016).

Additionally, it is crucial to consider previous research on the subject when discussing regional assets. For instance, a study conducted in Semarang by Aditia and Pertiwi (2023) found that asset management still faces several challenges, including low compliance from regional officials, inadequate asset management information systems, insufficient human resource competency, lack of decisive leadership, limited access to regional asset data, and a

shortage of supporting infrastructure and facilities. Similarly, research conducted by Sari et al. (2022) in Riau Province concluded that assets with the potential to increase regional income in Kuantan Singingi Regency include roads, irrigation, and installations due to their contributions to economic activities in the agricultural and plantation sectors. However, regional asset management is not yet optimal, as evidenced by the 2014–2020 B/C ratio value of less than 1, indicating that the project is considered uneconomical and has not made a significant contribution.

Alternatively, Salehoddin (2023) demonstrates that regional assets are significantly influenced by original income, balancing funds, and regional financing. Additionally, the findings of Syaifudin et al. (2020) show that internal control, employee competency in managing products, leadership commitment, and the implementation of regional asset management information systems impact the effectiveness of asset management performance. Several barriers were identified in research conducted in Pamekasan Regency, including the rejection of alternative schemes, an asset usage strategy limited to asset rentals, and a lack of up-to-date asset status data. Moreover, only rental activities are regulated by technical regulations, such as regent regulations (Zain S, 2021).

Given the issues and findings of the studies mentioned above, conducting this research becomes even more important and intriguing. Regarding asset management theory, few studies specifically address the effects of regional asset utilization on regional income and poverty. If any exist, these studies only focus on the effectiveness of regional asset management within a limited geographic area or specific industry sectors. In contrast, this study uses the two-stage least squares (2SLS) technique for national macro models, applying the Statistical Analysis System (SAS) software to examine the effects of increasing the utilization of regionally owned assets on regional income and poverty across various regions. Thus, this research aims to fill this gap.

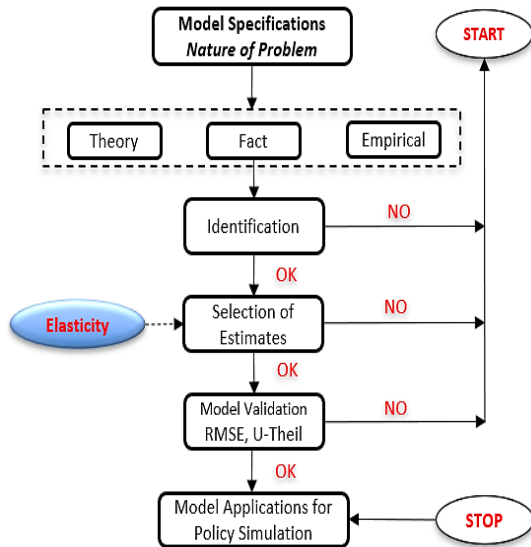
It is hoped that this study will be useful not only for regional bureaucrats but also for students, policymakers at national and regional levels, legislative members, business people, investors, researchers, politicians, and other practitioners who are interested in learning about or getting involved in 'developing regions'.

## RESEARCH METHODS

This study employs a mixed-method approach, utilizing a descriptive-analytic framework. According to Sugiyono (2017), descriptive analytics is a strategy used to describe or explain a research subject based on collected data or samples without conducting further analysis to draw general conclusions. Data were gathered from agency or institutional releases, scientific journals, and statutory documents. The literature and documents examined include books, journals, institutional reports, regulations, policy papers, and other sources relevant to the research topic.

For qualitative data, this study applies validation strategies developed by Creswell (2017). First, data triangulation is used to identify variations that may indicate uniqueness or inconsistencies by comparing information from one informant with other informants. Second, in the validation process known as member checking, the research report is returned to the informants to confirm the accuracy of the author's interpretation. Third, the validation process involves the author discussing the study report with other researchers and policy analysts during peer review.

The quantitative data used in this study is pooled data, combining time series and cross-sectional data from various regions. The regional data covers 18 provinces, while the time series data spans 2020 to 2022. The following figure outlines the equation specification, identification, and simulation phases.



**Figure 1.** Calculation Model  
Source: Author-processed (2024)

The parameters of the equations in this study are established based on the goals of the research as well as the constraints of the variables and data, specifically:

$$y_{it} = \alpha_0 + \alpha_1 A_{it} + \alpha_2 y_{it-1} + \varepsilon_{1it} \dots\dots\dots(1)$$

$$p_{it} = \beta_0 + \beta_1 y_{it} + \beta_2 p_{it-1} + \varepsilon_{2it} \dots\dots\dots(2)$$

Where  $y_{it}$  is PAD in province  $i$  in year  $t$ ,  $A_{it}$  is the utilization of regional assets by province  $i$  in year  $t$ ,  $p_{it}$  is the poverty rate in province  $i$  in year  $t$ ,  $y_{it-1}$  and  $p_{it-1}$  are each endogenous lag variables. While  $\varepsilon_{1it}$  and  $\varepsilon_{2it}$  are error components. Hypothesis  $\alpha_1 > 0$ ,  $\beta_1 < 0$  while  $0 < \alpha_2$ ;  $\beta_2 < 1$ .

Following the equation specification, the next step is to perform identification to estimate the parameters of each equation. Equation identification is determined by the “order condition.” The formula for identifying a structural equation model based on the order condition is as follows:

$$(K - M) > (G - 1) \dots\dots\dots(3)$$

Where  $K$  is the total number of variables in the model, including endogenous and predetermined variables,  $M$  is the number of endogenous and exogenous variables included in a single equation, and  $G$  is the total number of equations in the model. If the model shows the condition  $(K - M) > (G - 1)$ , it is called overidentified; if  $(K - M) = (G - 1)$ , it is called exactly identified; and if  $(K - M) < (G - 1)$ , it is called unidentified.

This study’s formulated model consists of two structural equations, each with two ( $M$ ) and four ( $K$ ) variables. According to the order condition criteria, every structural equation in the model is overidentified. The Ordinary Least Squares (OLS) method is biased and inconsistent because the model is a system of simultaneous equations. Rey (2000) suggests using the Two Stage Least Squares (2SLS) method for model estimation, as it can eliminate classical problems. The formula for the 2SLS estimation method is provided below:

$$\hat{\delta}_{2sls} = (\hat{Z}_j' \hat{Z}_j)^{-1} \hat{Z}_j' y$$

$$\text{where } \hat{Z}_j = (\hat{Y}_j, X_j) \dots\dots\dots(4)$$

Where  $X_j$  is the exogenous variable matrix-vector and  $\hat{Y}_j$  is the endogenous variable matrix-vector of the first-stage regression findings. See Pindyck and Rubinfeld (1991), Creel (2006), and Hansen (2004) for further information on generating the technical 2SLS estimation (Kaplan et al., 2023; Sebayang et al., 2019). Validation of the asset model is the next step. Theil’s Inequality Coefficient ( $U$ ) and Root Means Percent Square Error (RMSPE) are used to validate the model. The formula for  $U$  is:

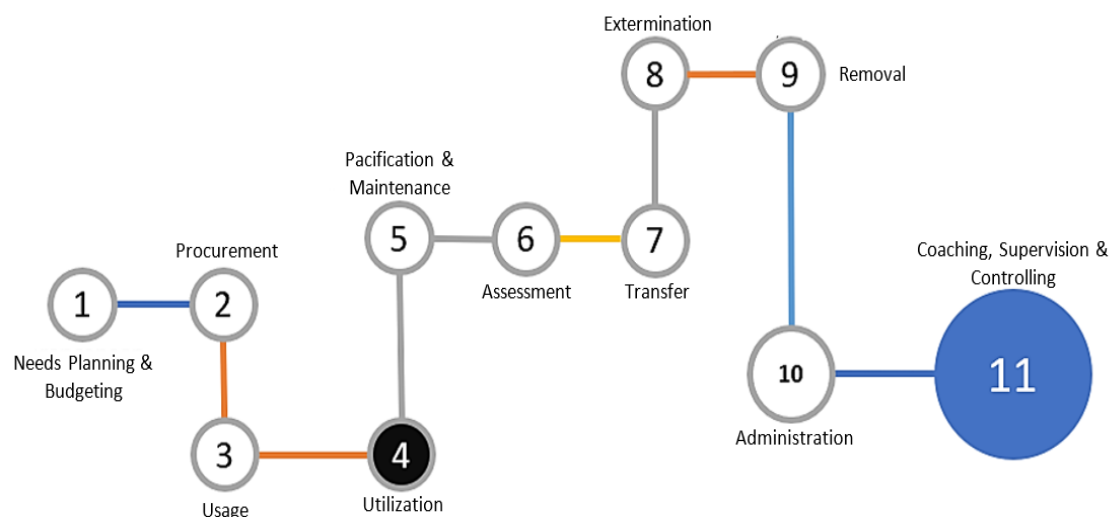
$$RMSPE = \sqrt{\frac{1}{n} \sum_{t=1}^n \left( \frac{Y_t^s - Y_t^a}{Y_t^a} \right)^2} \dots\dots\dots(5)$$

$$U = \frac{\sqrt{\frac{1}{n} \sum_{t=1}^n (Y_t^s - Y_t^a)^2}}{\sqrt{\frac{1}{n} \sum_{t=1}^n (Y_t^s)^2} + \sqrt{\frac{1}{n} \sum_{t=1}^n (Y_t^a)^2}} \dots\dots\dots(6)$$

Where  $Y_t^s$  is the value of the basic simulation result of the observation variable,  $Y_t^a$  is the actual value of the observation variable and  $n$  is the number of observations. The RMSPE statistic measures how far the values of the endogenous variables from the estimation results deviate from the flow of their actual values in relative terms (percentage) or how close the estimated value follows the development of its actual value.

U-Theil's statistic is useful for determining the ability of the model to perform model simulation analysis. The RMPSE statistical values are useful for determining the valid model used for forecasting. The smaller the RMSPE and

U-Theil's values, the better the model estimation. The Theil coefficient value (U) ranges between 1 and 0. If  $U = 0$ , then the model estimation is perfect; if  $U = 1$ , then the model estimation is naïve.



**Figure 2.** Cycle in the Management of State/Regional Assets in Indonesia.

Source: Government Regulation Number 27 of 2014 Article 3 Paragraph 2

## RESULTS AND DISCUSSION

Regional governments' assets, defined in regulations as Regional Property Goods (BMD), are a critical capital resource for maximizing local revenue potential. The Republic of Indonesia's Government Regulation Number 28 of 2020, concerning amendments to Government Regulation Number 27 of 2014 on managing State/Regional Property, defines BMD as 'all goods purchased or acquired through the Regional Revenue and Expenditure Budget or from other legitimate sources.'

According to these requirements, 'utilization' is the fourth stage of the BMD management process. The requirements for

utilizing BMD include using assets that are not being employed to conduct the responsibilities and tasks of ministries, agencies, or regional work units, as well as maximizing state or regional property without changing its ownership status.

The asset utilization criteria aim to optimize state or regional property without altering ownership status or to utilize assets not used for the tasks and functions of ministries, institutions, or regional work units. Numerous methods for utilizing regionally owned assets in Indonesia under the asset utilization scheme borrow ideas from the spectrum theory of public and private partnerships (Savas, 2000).

**Table 1.** Spectrum of Public and Private Partnerships

Government Department	Public Authority	Service Contract	Operations & Maintenance Contract	Cooper- ative	Lease Build Operate (LBO)	Build Transfer Operate (BTO)	Build Operate Transfer (BOT)	Wrap Around Addition	Buy Build Operate (BBO)	Build Own Operate (BOO)
Fully Governments					Fully Corporate					

Source: Savas (2022)

According to the graph, moving further to the left represents a greater role of the government in asset utilization, while moving to the right reflects a stronger role of business entities. The various privatization models illustrate this spectrum of government and private involvement. The traditional method, where government departments provide infrastructure-based services, marks the highest level of government control.

The public authority model introduces commercialization through managerial and financial autonomy and corporatization, where ownership and management are separated under a legal company structure. In a service contract, specific infrastructure services are outsourced to private companies. The operations and maintenance contract lease model allows private partners to operate and maintain publicly owned facilities under a contract with the government, which retains ownership. A cooperative model involves non-profit, voluntary associations managing these services.

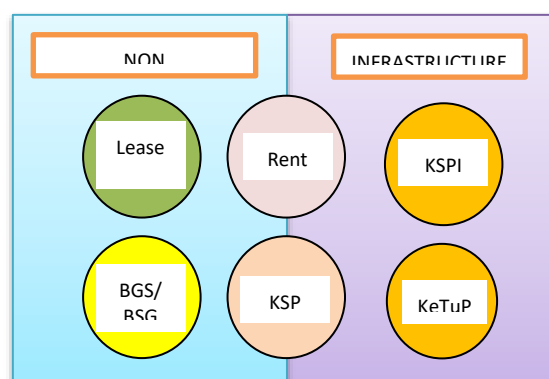
The Lease Build Operate (LBO) model grants private companies long-term leases to develop and operate facilities using their funds, with repayment and profit recovery occurring over the rental period while also paying rental fees. In the Build-Transfer-Operate (BTO) model, a private developer finances and constructs a facility, assumes financial risks, and then transfers ownership to the government upon completion.

The Build-Operate-Transfer (BOT) model is similar, with private developers receiving concessions to finance, build, and operate facilities, collecting user fees for a set period before transferring ownership to the public sector. A wraparound addition allows a private developer to finance and construct an addition to a public facility and operate it until the investments and profits are recouped.

The Buy-Build-Operate (BBO) model involves a private partner acquiring and upgrading an existing public facility and then operating it under an indefinite franchise agreement. Finally, in the Build-Own-Operate (BOO) model, a private developer finances,

builds, owns, and operates a facility under a perpetual franchise, subject to regulatory constraints, which incentivizes long-term capital investment.

The eleven concepts listed above were then incorporated into regulations to create six types of State/Regional Property utilization: (1) rent, (2) borrow and use, (3) cooperative use (KSP), (4) Build for Transfer (BGS) or Build Handover (BSG), (5) Infrastructure Provision Cooperation (KSPI), and (6) Limited Cooperation for Infrastructure Financing (KeSTuPI) (based on Article 27 Government Regulation Number 28 of 2020). These six utilization methods can be grouped into infrastructure and non-infrastructure.



**Figure 3.** Methods for Utilizing Regional Assets in Indonesia

Source: Processed by the Author (2024)

Regional government regulations allow government-owned assets through six distinct mechanisms, provided these assets are not being utilized for their primary functions and to prevent unauthorized use by third parties. However, in practice, many regional governments have not fully taken advantage of these opportunities for asset utilization despite the clear regulatory framework in place. The underutilization of these mechanisms often stems from challenges in implementing certain methods or a lack of capacity to explore alternative options.

Research indicates that “leasing” is the most popular and widely implemented method for asset utilization. The reasons behind this preference are largely practical. Leasing offers a straightforward solution with minimal administrative complexity, requiring few



procedural steps and less time for execution. Regional governments can generate income from underutilized assets without complex arrangements or long-term planning. The simplicity of leasing makes it an attractive option for many regional authorities, especially those with limited resources or technical expertise in asset management.

On the other hand, the Infrastructure Provision Cooperation (KSPI) method is noted to be far more complex. This method requires extensive coordination, legal documentation, and administrative processes, which can be time-consuming and resource-intensive. The preparation phase alone often demands significant planning and financial commitment, deterring local governments from pursuing this approach. The KSPI method also typically involves collaboration with external parties, adding further layers of negotiation and oversight, making it a less appealing option for many regions.

Meanwhile, the Limited Cooperation for Infrastructure Financing or “KeTuPi” method – introduced in 2020– remains largely unexplored. The primary reason for its underutilization appears to be a lack of detailed guidelines and practical examples for its implementation. Many regional governments are unsure how to effectively apply this new method, leading to hesitation in adopting it as part of their asset management strategies. Without clear operational frameworks, the potential of the KeTuPi method remains untapped, and its broader benefits are yet to be realized.

The limited application of more complex methods like KSPI and KeTuPi highlights a broader issue in regional asset management: the need for capacity-building and stronger guidance

from the central government. Local governments require regulatory clarity, technical support, and financial incentives to unlock the full potential of regional assets to implement more sophisticated asset utilization mechanisms. Without these, simpler methods like leasing will continue to dominate, limiting the scope of innovation and optimization in regional asset management.

Regional governments must go beyond leasing to explore more strategic methods like KSPI and KeTuPi to maximize the economic potential of their assets. This will require addressing the administrative and financial barriers currently limiting their use. Enhanced training, clearer regulatory frameworks, and increased collaboration between government bodies and private investors could help regional governments diversify their asset utilization strategies, leading to more significant economic returns and improved public services.

These empirical practices highlight that while regulatory frameworks are in place, regional governments face significant challenges in maximizing the utilization of their assets. The complexity of certain methods, lack of experience or familiarity with newer mechanisms, and administrative burdens often lead to a reliance on simpler solutions like leasing rather than exploring more innovative or potentially lucrative options. Addressing these barriers may require the central government to provide further support through detailed guidelines, capacity-building initiatives, and financial incentives to encourage the broader use of available asset utilization mechanisms. By doing so, regional governments can unlock the full economic potential of their assets, contributing to increased local revenues and better resource management.

**Table 2.** Details of National, Provincial, and Regency/City Regional Income Composition 2021-2023 (in Trillions of Rupiah).

No	Component	2021		2022		2023	
		Rp	%	Rp	%	Rp	%
1	Original Regional Revenue	297,00	25,42	330,63	27,78	360,34	29,64
2	Transfer Fund	836,00	71,56	844,77	70,98	844,46	69,47
3	Other Legitimate Incomes	35,30	3,02	14,72	1,24	10,72	0,88

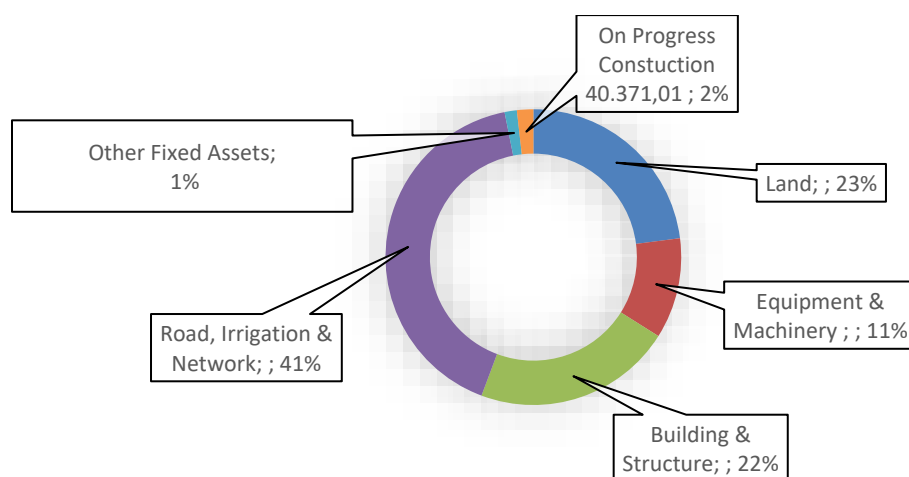


No	Component	2021		2022		2023	
	Total Regional Income (Province+Regency+City)	1.168	100	1.190	100	1.216	1.216
	Province	Rp	%	Rp	%	Rp	%
1	Original Regional Revenue	166,00	46,43	191,13	54,55	201,70	57,28
2	Transfer Fund	189,00	52,87	155,32	44,33	146,29	41,54
3	Other Legitimate Incomes	2,50	0,70	3,95	1,13	4,15	1,18
	Total Regional Income at the Provincial Level	358	100	350	100	352	100
	Regency/Municipality	Rp	%	Rp	%	Rp	%
1	Original Regional Revenue	130,50	16,11	139,50	16,61	158,64	18,37
2	Transfer Fund	646,60	79,84	689,45	82,10	698,17	80,86
3	Other Legitimate Incomes	32,80	4,05	10,77	1,28	6,57	0,76
	Total Regency/City-Level Regional Income	810	100	840	100	863	100

Source: Central Bureau of Statistics, 2024 (Processed)

The preceding table demonstrates how heavily Indonesian province, district, and city budgets still rely on transfer funds. The percentage of transfer funds to regional budgets over the last two years, as observed nationally, was between 69,47 and 70,98%. The remaining portion comprises original revenue, which ranges from 27.78 to 29.64%, and other legal income, which amounts to 0,88 to 1,24%. The valuation of the value of assets owned by regional entities contrasts with the original income condition, which remains negligible.

Regional governments also have a large number of regional assets. According to the research team's calculations based on Ministry of Home Affairs data, the value of fixed assets owned by districts/cities in Indonesia's 34 provinces in 2019 was +/- IDR 2.200 trillion. Land, equipment and machinery, buildings and structures, roads/irrigation/networks, other fixed assets, and ongoing construction are all considered assets owned by the regency or city. The types of regional assets owned by districts and cities are dominated by roads, irrigation and networks, land, buildings, and structures, as the following graph illustrates:



**Figure 4.** Data on Valuation of Regionally Owned Assets (Regencies/Cities in All Provinces in Indonesia) in 2019 (in billions of rupiah)

Source: Ministry of Home Affairs, 2021 (Processed)

There is currently no reliable information on IDR 2.200 trillion in fixed assets owned by Indonesian provinces, regencies, and city governments that can be used to generate local

original revenue. Table 3 shows actual realization of regional government income sources in 2019-2021.

**Table 3.** Realization of Regional Government Income Sources 2019-2021 (in trillion rupiah)

No.	Sumber	2023		2022		2021	
		IDR	%	IDR	%	IDR	%
1	Regional Tax	252,9	70,19	238,7	72,20	199,3	67,15
2	Regional Retribution	12,9	3,58	8,5	2,57	8,4	2,83
3	Results of Separated Regional Wealth Management	14,4	4,00	10,9	3,30	9,4	3,17
4	Others Legitimate Income	80,1	22,23	72,5	21,93	79,7	26,85
	Total Regional Revenue	360,3	100	330,6	100	296,8	100

Source: Central Bureau of Statistics, 2024 (Processed)

The results of using regionally owned assets are included in the regional source of original income, "other legitimate income." Within the regional budget, the "other legitimate income" account includes the following: (a) profits from the sale of non-separated regional assets; (b) profits from the use or use of non-separated regional assets; (c) giro services; (d) interest income; (e) compensation claims; (f) profits from the fluctuation in the rupiah exchange rate compared to foreign currencies; and (g) commissions, discounts, or other forms resulting from the region's sales and/or procurement of goods and/or services.

As stated in the previous subchapter, the utilization cycle is a part of the fourth stage of the eleven current cycles in the regional assets management cycle. Regulations stipulating that idle state or regional assets can be used as long as ownership status is not changed make the utilization cycle fascinating and crucial to investigate further.

To give neglected state assets more value, the Ministry of Finance, working through the State Asset Management Institute (LMAN), which manages state assets so they have economic value, has achieved several significant advances. The management of state-owned assets under LMAN was valued at IDR 30 trillion as of January 2020. These assets included two oil refineries, the Arun and Badak refineries, as well as a total of 234 assets, which included 151 apartments, 58 shophouses, 8 buildings, 8

parcels of vacant land, 6 condominiums, 3 residences, and 1 golf course in Cirebon.

LMAN, a work unit in the form of a Public Service Agency at the Ministry of Finance that was only established in 2016, is still relatively small in assessing the value of managing state-owned assets. However, it has significantly contributed to utility and ability to provide additional income to the state. Positive through cumulative PNBK receipts of IDR 2.7 trillion and providing real business opportunities for utilizing state/regional assets when managed professionally.

So far, state and regional property has been used for government operations, public and social services, and commercial purposes, with many remaining unutilized. According to research conducted using interview methods with sources from LMAN and the Ministry of Home Affairs, the reasons for the underutilization of many state and regional assets are not recorded in state and regional administrative books. These assets are still in dispute or have legal issues with other parties, or they are located in remote or difficult-to-access areas, making it difficult for the government to make efforts to use the assets in question. This condition is typically found outside Java, where there are still many forests and isolated island areas, and the reason for the asset's designation is still unclear. In these cases, the government has not yet developed a plan to use or allocate the

state's or region's assets, so they were left abandoned.

According to the results of the research data analysis, there are a few reasons why state and regional assets have not been fully utilized. These reasons include the scarcity and poor quality of human resources responsible for managing these resources, the small number of appraisers in regional governments, and the placement of these resources in less advantageous locations. The findings of this study validate previous research, such as the study of Aditia and Pertiwi (2023) in Semarang.

Meanwhile, the work unit of the Directorate of Regional-Owned Enterprises, Regional Public Service, and Regional-Owned Assets under the Ministry of Home Affairs performs tasks that are restricted to advising regional governments by facilitating and popularizing regional asset management as prescribed by regulations. According to Minister of Home Affairs Regulation Number 19 of 2016, as the property user, the regional government has the authority to manage, use, and inventory regional assets. This is stated in Article 12, paragraph (3) of the regulation.

According to the Ministry of Home Affairs and LMAN, regional governments –both at the provincial and regency/city levels– have been quite obedient in complying with regional asset utilization regulations and are pretty good at implementing them. Interestingly, the findings of this interview analysis are that local governments are hesitant to use regionally owned assets because they require a lengthy administrative process, numerous supporting documents, and a multi-year utilization period.

This uncertainty arose from concerns that publishing the assets utilization document would result in future legal issues. So, regional leaders believe it will be safer and less risky in the future to use existing regional assets, such as “business as usual,” assets that are neglected or used for OPD operations. Even if there is a use, it is chosen that does not necessitate excessive effort in terms of preparation, implementation, and accountability, such as the use of the rental method because it is carried out without a tender,

the rent is directly deposited into the regional treasury, and the rental partner can be an individual rather than a company.

This explanation supports the conclusions of earlier studies like the one conducted in Riau by Sari et al. (2022). This analysis concludes that regional asset management officials' limited capacity for managing and utilizing regional assets is evident in quantity and proficiency in applying regional asset utilization techniques. A compelling argument for achieving a breakthrough in utilizing regional assets is worried about potential legal ramifications.

The researcher team performed calculation simulations to determine the potential for using regionally owned assets to increase regional revenues, which in the analysis above have high valuation values. Calculation simulations were conducted to determine the potential impact of increasing the utilization of regional assets at this time. Generally, this estimation uses regional revenues and poverty data as the dependent variables, which are thought to be influenced by the increased use of regional assets.

Using the formula derived from running modeling results, the effect of optimizing the use of regionally owned assets on regional income is estimated as follows:

$$Y = 450.841 + 463.9983 A + 0.333271 Y_{t-1} \quad (7)$$

(0.0001)                      (0.0001)

[0.53] .....

Where Y is regional income (PAD), A is utilization of regional asset, P is poverty level, (...) is chance of significance, and [...] formulation elasticity.

The estimation results show that regional asset utilization has a positive and statistically significant influence at the 99% confidence level. Every 1% increase in asset utilization will increase local original income by 0.53% (inelastic). Using the formula for running model results, the impact of increasing regional income from the outcomes of optimizing the use of regionally owned assets on poverty levels in the province is estimated as follows:

$$P = 6.874475 - 0.00017 Y + 0.480043 P_{t-1} \\ (0.0487) \quad (0.0001) \\ [-0.09] \dots\dots\dots(8)$$

The estimation results demonstrate that, at the 95% confidence level, poverty is negatively impacted by an increase in local original income that results from making the best use of regional assets. The poverty line will drop by 0.09% for every 1% increase in regional income (inelastic).

After estimating the expected hypothesis, the next step is to validate the model. The validation results are presented in the table below:

**Table 4.** Validation Result Model

Variable	N	RMS % Error	Theil-U	Label
PAD	71	1.7022	0.0231	Local Revenue
POV	71	2.1249	0.0165	Poverty Level (%)

Source: Data Processed, 2024

Pindyck and Rubinfeld (1991) define a variable model as having a Theil-U value of less than or equal to 0.2. The model validation findings reveal that both equations have an RMSPE value of less than 5%, and the U-Theil value for all equations is less than 0.2. These validation findings show that the defined model is suitable for estimation so that the structural model may be used for policy simulation analysis (Kaplan et al., 2023).

Optimizing asset utilization as a tool for policy can have a quantitative impact on a region's economic performance, as evidenced by a rise in regional income and poverty reduction. Assuming a 10% increase in the use of regional assets will positively impact original regional income, which will rise by 8.79% and reduce poverty by 1.44%.

**Table 5.** Simulation of Regional Asset Utilization

	Baseline	Simulation Value	% Δ
PAD	5,719	6,222	8.79
POV	11.39	11.22	-1.44

Source: Data Processed, 2024

The simulation results indicate that a 10% increase in the use of regional assets leads to an 8.79% rise in regional income and a 1.44% reduction in poverty levels. These outcomes align with previous research by Salehoddin (2023) or Sari et al. (2022), highlighting assets' significant role in boosting regional income and stimulating economic activity, thereby impacting poverty reduction. The findings underscore the critical importance of strategic asset management in regional planning and development. Effective asset management can catalyze sustainable economic growth and enhanced social welfare, particularly in regions striving to improve living standards and reduce economic disparities.

Policymakers have a unique opportunity to utilize regional assets to foster long-term economic resilience. Regions can promote inclusive growth by increasing efficient and equitable management of these assets. This involves addressing access gaps, ensuring benefits reach diverse societal segments, and incorporating transparency in governance. Such an approach can enhance the assets' ability to stimulate economic activity, attract investment, and create jobs, which are essential for reducing poverty and ensuring sustainable growth. Improved asset management strategies will enable regions to better respond to current challenges and future economic shifts, ultimately leading to greater socioeconomic stability and prosperity.

Based on the simulation results, if calculated using several provincial and regional income data in 2023, there will be an increase in regional income, as shown in the table below:

**Table 6.** The Simulation of Comparison of the Provincial Regional Income in 2023  
(Status Quo Vs. Regional Asset Optimization)

Development Zone/ Area	Province (Selected Randomly)	Realization of Regional Income (in Billions of IDR)	
		Status Quo	After Optimizing
Sumatera Zone	Aceh	5.461,15	5.941,19
	North Sumatera	13.491,38	14.677,27
	Riau	9.597,85	10.441,50
Java Zone	Banten	19.817,79	21.559,77
	West Java	49.412,28	53.755,62
	East Jawa	45.154,14	49.123,19
Bali-Nusra Zone	Bali	15.731,26	17.114,04
	West Nusa Tenggara	4.373,05	4.757,44
	East Nusa Tenggara	2.960,21	3.220,41
Kalimantan Zone	West Kalimantan	5.485,68	5.967,87
	South Kalimantan	7.312,04	7.954,77
	East Kalimantan	12.505,83	13.605,09
Sulawesi Zone	North Sulawesi	2.594,12	2.822,14
	Central Sulawesi	3.404,87	3.704,16
	South Sulawesi	10.281,95	11.185,73
Maluku-Papua Zone	Maluku	1.246,26	1.355,81
	Papua	1.787,21	1.944,31
	West Papua	625,96	680,98
Total		211.243,03	229.811,29

Source: Data Processed, 2024

## CONCLUSION

The problem of the underutilization of regionally owned assets stems from several factors, including the fact that many regionally owned assets remain unrecorded in state/regional administrative books, that these regional assets remain the subject of legal disputes or other disputes involving joint ownership, that the regional assets are located in remote or difficult-to-reach geographic areas, making it challenging for the government to make efforts to utilize the assets in question, and that the reasons for the unclear designation are those for which the state/region's recorded assets are known, but that none of the government's plans for use or designation have been established. Other issues include the scarcity and quality of human resources overseeing regional assets, a lack of appraisers employed by regional governments, and concerns about the legal consequences of making poor decisions when using regional assets.

The results of the calculations and simulations show that optimizing the use of

regional assets has a beneficial impact on regional income, with every 1% increase in the use of regional assets increasing regional income by 0,53%, and a negative effect on poverty, with every 1% increase in regional income reducing the prevalence of poverty by 0,09%. Quantitatively, optimizing the use of regional assets as a policy instrument can impact regional economic performance, increasing regional income and poverty reduction.

Based on the conclusions above, several recommendations can be made regarding using regional assets to achieve regional fiscal independence. First, regulatory privileges for utilizing regionally owned assets should be balanced with efforts to socialize the central government's asset utilization policies, train human resources for asset managers, and update data on regionally owned assets with development potential. Additionally, regional governments should create a road map for utilizing idle regional assets with potential for development and establish communication with other stakeholders to align the vision and mission of asset utilization, particularly with the

involvement of community leaders and local communities.

Another consideration is establishing a regional entity similar to the State Asset Management Institute (LMAN), which could serve as an asset manager for regional asset management. Finally, regional asset management regulations should be elevated to a higher statutory level, as optimizing asset utilization can significantly reduce poverty rates and increase Regional Original Income. This would give local governments greater autonomy and accountability, allowing them to maximize the value of their assets.

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