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State Loss Settlement Policies in the Bank Indonesia Liquidity Assistance Case

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ABSTRACT

Despite extensive policy and legal responses to the Bank Indonesia Liquidity Assistance (BLBI) program, existing scholarship has predominantly concentrated on macroeconomic stabilization measures, institutional accountability, and post-crisis regulatory reform. However, these studies have paid limited attention to the mechanisms of fund misappropriation at the implementation level and to the normative gaps in supervisory and legal frameworks that enabled state financial losses. This study examines legal and structural causes of ineffective BLBI loss recovery, evaluates comparative crisis resolution frameworks, and formulates an ideal legal model ensuring certainty, asset recovery, and public interest protection. The research adopts a normative legal methodology employing legislative, conceptual, and case-based approaches. The findings demonstrate that, first, the BLBI dispute exposes systemic deficiencies in Indonesia's law enforcement system, particularly weaknesses in substantive legal norms, institutional capacity, and legal culture, which collectively prolonged dispute resolution and imposed a substantial fiscal burden on the state. Second, comparative analysis shows that countries such as Thailand and South Korea effectively managed banking liquidity through independent, coherent, and responsive legal frameworks, while Indonesia continues to encounter structural constraints that impede effective BLBI settlement. Third, effective recovery of state losses requires the reconstruction of an integrated legal framework that prioritizes legal certainty, asset-focused enforcement, institutional independence, legal culture reform, and clearly defined national procedures, supported by robust inter-agency coordination and international cooperation to prevent the recurrence of structural impediments.

Introduction

The Asian financial crisis of 1997-1998 was one of the most significant events in the economic history of Asian countries. This global financial crisis began in Thailand and then quickly spread to neighboring countries, including Indonesia.[1] n Indonesia, this crisis began with the depreciation of the Rupiah against the US

[1] Aida Ardini, 'Legal Construction For The Obligors Of The Bank Of Indonesia Liquidity Assistance Funds (Blbi) In Returning State Assets That Guarantee Legal Certainty And Justice', *Journal of World Science*, 1.8 (2022), 592–603 https://doi.org/10.36418/jws.v1i8.80

Dollar (USD).[2] This was followed by the government's tightening of liquidity and the emergence of a public confidence crisis in the national banking system. This condition is further exacerbated by the large private debt burden that must be borne and the increasing perception of investment risk in the eyes of foreign investors, leading to a significant outflow of capital from Indonesia. The prolonged economic crisis also weakened national banking stability and caused several banks to experience quite serious liquidity disruptions.[3]

The financial crisis of 1997 caused extensive economic damage across the Asian region. In response to the turmoil, affected countries implemented a series of economic recovery measures and banking sector reforms aimed at restoring stability.[4] Toward the end of 1997 and the beginning of 1998, the International Monetary Fund (IMF) allocated approximately USD 36 billion to support reform programmers in the three countries most severely affected, Indonesia, Korea, and Thailand.[5] This financial assistance formed part of a broader international support package amounting to nearly USD 100 billion.[6] Amid severe distress in the banking sector, the Indonesian government, through Bank Indonesia, adopted several measures to restore confidence and prevent the banking crisis from deepening. One of the key interventions was the provision of liquidity support to troubled banks through the Bank Indonesia Liquidity Assistance (BLBI) programmer. The objective of this policy was to prevent massive withdrawals by depositors and avert a systemic collapse of the national banking sector. During this period, Bank Indonesia disbursed approximately IDR 144.53 trillion in liquidity support to 48 recipient banks experiencing insolvency and acute financial distress.[7]

However, in its implementation, significant irregularities emerged due to misuse of funds by bankers and other irresponsible parties. According to the audit report issued by the Audit Board of Indonesia on 22 July 2000, irregularities were identified in the use of BLBI funds amounting to IDR 54.5 trillion out of the IDR

[2] Tulus Tambunan, 'Micro, Small and Medium Enterprises in Times of Crisis: Evidence from Indonesia', *Journal of the International Council for Small Business*, 2.4 (2021), 278–302 https://doi.org/10.1080/26437015.2021.1934754

[3] Agus Pandoman, 'Transformation of Additional Bank Indonesia'scapital Adequacy Ratio (Car) into State Collecting Rights Blbi', *International Journal of Social Science and Human Research*, 7.04 (2024), 2235–40 https://doi.org/10.47191/ijsshr/v7-i04-05

[4] Hanqi Wang, 'Thailand During the Asian Financial Crisis : Retrospection and Introspection', *Proceedings of ICFTBA 2024 Workshop: Finance's Role in the Just Transition*, 2024, 123–29 https://doi.org/10.54254/2754-1169/141/2024.GA18775

[5] Jeremiah Terdoo Iornenge, 'Evaluating The Role of International Financial Institutions In Maintaining Financial Stability', *IOSR Journal of Economics and Finance*, 15.5 (2024), 23–32 https://doi.org/10.9790/5933-1505032332

[6] C Randall Henning, 'International Regime Complexity in Sovereign Crisis Finance: A Comparison of Regional Architectures', *Review of International Political Economy*, 30.6 (2023), 2069–93 https://doi.org/10.1080/09692290.2023.2243957

[7] Ardini.

106 trillion disbursed by the government to ten frozen-operation banks and thirty-two frozen-activity banks.[8] Furthermore, the final audit report issued by BPK on 5 August 2000 indicated state losses amounting to IDR 138.4 trillion and IDR 144.5 trillion related to BLBI funds provided to bank owners. The report also revealed misappropriation of BLBI funds totaling IDR 84.4 trillion by 48 recipient banks, comprising five Bank Take Over (BTO) institutions, fifteen banks in liquidation (BDL), ten frozen-operation banks (BBO), and eighteen frozen-activity banks (BBKU). Only approximately IDR 34.7 trillion, or 25 percent of the total, was reported as properly accounted for.[9]

The issues surrounding the BLBI policy encompass a wide range of irregularities in the disbursement, utilization, and settlement mechanisms of the funds in Indonesia, accompanied by indications of corruption.[10] *First*, the government tended to pursue settlement through out-of-court mechanisms, a strategy that generated new complications in resolving BLBI cases beyond the substantive legal issues of the policy itself. This extra-judicial settlement approach was widely considered slow and protracted, particularly in cases involving BLBI obligors or debtors who lacked good faith in fulfilling their obligations.[11] *Second*, concerns also arose regarding the handling of a corruption case related to the issuance of the "Certificate of Settlement" for BLBI obligors who were also controlling shareholders of *Bank Dagang Nasional Indonesia*, involving the former Head of the Indonesian Bank Restructuring Agency (IBRA), *Syafruddin Arsyad Tumenggung* (SAT).[12] *Third*, the government has been criticized limited effectiveness and lack of firmness in applying the available legal instruments within Indonesia's legal system to address BLBI-related problems.[13] These

[8] Moch. Doddy Ariefianto and others, 'Banks' Liquidity Management Dynamics: Evidence from Indonesia', *International Journal of Emerging Markets*, 17.9 (2021), 2321–49 https://doi.org/10.1108/IJOEM-06-2020-0715

[9] Aldo Evander and Jeane Neltje, 'The Urgency of Resolving the Bank of Indonesia's Liquidity Assistance Case Based on Law Number 10 of 1998 Concerning Banking Related to the Supreme Court Decision Number 1555 K/Pid.Sus/2019', *Proceedings of the 3rd Tarumanagara International Conference on the Applications of Social Sciences and Humanities (TICASH 2021)*, 655.10 (2022), 204–11 https://doi.org/10.2991/assehr.k.220404.032

[10] Muchlas Rastra and others, 'Optimizing Restorative Justice as an Alternative to Overcoming Corporate Crime in Indonesia', *Journal of Judicial Review*, 27.1 (2025), 203–28 https://doi.org/https://doi.org/10.37253/jjr.v27i1.10388

[11] Jiwon Suh, 'Human Rights and Corruption in Settling the Accounts of the Past: Transitional Justice Experiences from the Philippines, South Korea, and Indonesia', *Bijdragen Tot de Taal-, Land- En Volkenkunde / Journal of the Humanities and Social Sciences of Southeast Asia*, 179.1 (2023), 61–89 https://doi.org/https://doi.org/10.1163/22134379-bja10049

[12] Diana R W Napitupulu, 'Benefeciary of Resolution Bank by Indonesia Deposit Insurance Corporation (LPS)', *Jurnal Hukum Dan Peradilan*, 11.1 (2022), 134–50 https://doi.org/https://doi.org/10.25216/jhp.11.1.2022.134-150

[13] Alma Lucia Garcia Hernández, Simon Bolwig and Ulrich Elmer Hansen, 'When Policy Mixes Meet Firm Diversification: Sugar-Industry Investment in Bagasse Cogeneration in Mexico (2007–

instruments include the Law No. 31 of 1999 as amended by Law No. 20 of 2001 on the Eradication of Corruption, Law No. 8 of 2010 on the Prevention and Eradication of Money Laundering, Law No. 7 of 2006 ratifying the UN Convention Against Corruption, Law No. 37 of 2004 on Bankruptcy and Suspension of Debt Payment Obligations, and Government Regulation No. 17 of 2000 concerning Petitions for Bankruptcy in the Public Interest through the Commercial Court. *Fourth*, the government has also been viewed as insufficiently proactive in implementing international cooperation mechanisms with other jurisdictions to pursue BLBI obligors or debtors who demonstrate bad faith and refuse to cooperate in fulfilling their legal and financial responsibilities.[14]

Successive Indonesian governments have undertaken various policy measures to resolve issues arising from the Bank Indonesia Liquidity Assistance (BLBI) program; however, these efforts have proceeded slowly, remained fragmented, and failed to produce a conclusive settlement. The absence of a definitive resolution has generated significant fiscal consequences, as unresolved state losses have imposed a substantial and persistent burden on the State Budget (APBN). This continuing fiscal pressure has contributed to recurring annual budget deficits, which, in turn, have reinforced the government's increasing dependence on external financing to sustain fiscal stability.[15] These concerns intensify following the Supreme Court's cassation ruling No. 1555 K/Pid.Sus/2019, which has attracted substantial criticism for its atypical, inconsistent, and controversial reasoning. The decision departed markedly from the conclusions reached by both the District Court and the High Court, thereby raising serious questions regarding judicial consistency and coherence. Further irregularities emerge from the dissenting opinions submitted by three Supreme Court justices, who affirmed that the former Head of the Indonesian Bank Restructuring Agency had fulfilled the elements of the charged offense. Nevertheless, the presiding justice concluded that Syafruddin Arsyad Tumenggung had not committed a criminal act, while another panel member characterized the dispute as civil in nature, and a third justice classified it within the administrative law domain. This divergence in legal characterization within a single judicial panel illustrates profound fragmentation in judicial reasoning. Such inconsistency not only weakens legal certainty but also underscores the unresolved and legally complex character of the BLBI settlement

2020)', *Energy Research & Social Science*, 79 (2021), 102171 https://doi.org/https://doi.org/10.1016/j.erss.2021.102171

[14] Kathrin Berensmann, 'How Could a New Universal Code of Conduct Prevent and Resolve Sovereign Debt Crises ? Proposals for Design and Implementation', *Journal of Economic Surveys*, 37.3 (2022), 747–88 https://doi.org/10.1111/joes.12509

[15] Evander and Neltje.

process, reinforcing concerns regarding the effectiveness of existing mechanisms for resolving state financial losses.[16]

In contrast to Indonesia, Thailand and South Korea succeeded in implementing effective liquidity-assistance and banking-sector resolution measures following the 1997–1998 Asian financial crisis. Thailand undertook comprehensive financial-sector restructuring, which became a central component of its post-crisis economic recovery program. In the initial phase, policy efforts focused on the liquidation of finance companies, government intervention in the weakest banks, and the recapitalization of the banking system. By 1998, the reform agenda accelerated, emphasizing the privatization of intervened banks, the disposal of assets owned by finance companies, and extensive corporate debt restructuring.[17] Similarly, South Korea adopted a robust restructuring framework to restore financial stability. The Korean strategy sought to stabilize the financial system rapidly through liquidity support, time-bound blanket guarantees, and the closure of non-viable institutions. The reforms also targeted the resolution of non-performing loans, the recapitalization of undercapitalized banks, and the strengthening of institutional frameworks by aligning prudential regulations and supervisory standards with international best practices. Both countries succeeded in reviving their economies not only by restructuring their financial sectors but also by recalibrating their economic-legal policy frameworks. These measures enabled Thailand and South Korea to achieve a more effective and timely recovery from the crisis.[18]

Therefore, resolving the BLBI issue requires firmer, more measurable, and consistently implemented policy actions to prevent the problem from persisting and further burdening the state budget. Strengthening settlement mechanisms, ensuring consistent enforcement of legal provisions, and establishing clear political commitment are essential for Indonesia to break free from fiscal dependence and emulate the successful post-crisis liquidity resolutions achieved by other countries.[19] In addition, greater transparency is needed at every stage of the BLBI resolution process to provide the public with clarity regarding policy

[16] Louis Fernando Simanjuntak, Elis Rusmiati and Budi Arta Atmaja, 'Dissenting Opinion of Corruption Court Judges as a Form of Freedom and Legal Reform in Indonesia', *Corruptio*, 04.2 (2023), 117–26 https://doi.org/https://doi.org/10.25041/corruptio.v4i2.3050

[17] Bruce Gilley, Sirisak Laochankham and Bruce Gilley, 'Can Fiscal Recentralization Strengthen Local Government ? The Case of Thailand Can Fiscal Recentralization Strengthen Local Government ? The Case of Thailand', *International Journal of Public Administration*, 47.4 (2024), 257–68 https://doi.org/10.1080/01900692.2022.2111580

[18] Osman Taylan, Abdulaziz S Alkabaa and Mustafa Tahsin Yılmaz, 'Impact of COVID-19 on G20 Countries: Analysis of Economic Recession Using Data Mining Approaches', *Financial Innovation*, 8.1 (2022), 81 https://doi.org/10.1186/s40854-022-00385-y

[19] Ilias Alami and Jack Taggart, 'A Partial Conversion: How the "Unholy Trinity" of Global Economic Governance Adapts to State Capitalism', *European Journal of International Relations*, 30.4 (2024), 867–93 https://doi.org/10.1177/13540661241226472

direction and to ensure that the process remains free from political or vested-interest interference that may hinder progress. Institutional reforms are also indispensable, as resolving a case of the magnitude of BLBI requires strong inter-agency coordination, harmonized procedures, and the willingness to take legal action against parties proven to have caused state losses. With comprehensive and sustained measures, the government can resolve the BLBI issue more effectively and restore public confidence in the governance of state finances.[20]

Several previous studies have examined various aspects of the resolution of the Bank Indonesia Liquidity Assistance (BLBI) case, including policy responses, economic approaches, and the legal implications arising therefrom. However, these studies generally remain partial in nature and have not provided a comprehensive explanation of the root causes underlying the prolonged and unresolved handling of the BLBI case to date. For instance, Aida Ardini (2022) reveals that the BLBI problem has yet to reach a clear resolution; nevertheless, her study focuses solely on one legal dimension, namely criminal law. In contrast, the present study expands the legal analysis to three dimensions: civil law, criminal law, and state administrative law.[21] Furthermore, the study conducted by Ilham Nur Pratama (2023) concentrates on the recovery of state losses resulting from corruption in general and does not specifically address the BLBI case. By comparison, this research adopts the BLBI case as a concrete case study to examine issues related to the recovery of state losses in the post-BLBI context.[22] Meanwhile, the research by Aldo Evander and Jeane Neltje (2021) demonstrates that uncertainty in the resolution of the BLBI case has adversely affected the future of investment in Indonesia, as prolonged and time-consuming settlement processes have undermined investor confidence in the country's investment climate. The urgency of resolving the BLBI case under Law Number 10 of 1998 on Banking, particularly in relation to Supreme Court Decision Number 1555 K/Pid.Sus/2019, has been pursued through the Master Settlement and Acquisition Agreement (MSAA) mechanism incorporating Release and Discharge and the MRNIA clauses. In practice, however, these mechanisms have led to various deviations committed by obligors and BLBI-recipient banks. The study primarily analyzes the implications of the court decision and does not propose concrete recommendations for the recovery of state assets or losses.[23]

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[20] Samuel B. Biitir, Michael Poku-Boansi and John T. Bugri, 'The Dynamics of Land-Based Financing in Ghana: An Institutional Perspective for Implementation', *Journal of Urban Affairs*, 2024, 1–20 https://doi.org/10.1080/07352166.2024.2404586

[21] Ardini.

[22] Ilham Nur Pratama, 'Legal Comparison of Deferred Prosecution Agreement (DPA) Methods in the USA, UK and Indonesia for Recovering State Financial Losses Due to Corruption Crimes', *Corruptio*, 4.2 (2023), 73–80 https://doi.org/10.25041/corruptio.v4i2.2853

[23] Evander and Neltje.

Furthermore, the study by Ariel A. Smith and Sharon M. Nunn (2021) reveals that the establishment of the Indonesian Bank Restructuring Agency (IBRA) and the Asset Management Unit/Credit Management Unit (AMU/AMC), as institutional responses to the monetary crisis that struck Indonesia, did not operate effectively. These institutions were hindered by political interference, transfer-related problems, inadequate documentation, and limitations in legal authority, all of which significantly constrained their operational effectiveness. However, this study does not explain how current policy responses have been designed or implemented to recover state assets arising from the losses caused by these institutional shortcomings.[24] In addition, the research conducted by Agus Pandoman (2025) demonstrates that BLBI, which initially functioned as a monetary policy instrument, subsequently transformed into a fiscal policy, thereby altering the legal status of BLBI collection rights into government assets in the form of state receivables. Historically, however, the cost of resolving BLBI, largely financed through government bonds (Surat Utang Negara/SUN), has exceeded expectations. Fiscal policies related to the settlement of collection rights (*cessie*) have proven to be more costly than the total value of the collection rights themselves. Moreover, the maturity of government bonds issued under the CMN facility has generated a sustained fiscal burden on the state, a burden that has persisted across at least five presidential administrations and is projected to continue into subsequent administrations.[25]

This study addresses the existing gap by proposing a policy reform for the legal handling of state economic losses in the BLBI case, which has caused substantial harm to both the public and the state.[26] The urgency of this research lies in three major threats arising from the case, *first*, a systemic failure in state asset recovery that has directly contributed to long-term fiscal burdens and undermined national economic stability; *second*, the erosion of public trust in the legal system and state institutions due to ineffective law enforcement and the protracted resolution of the case; and *third*, strong political intervention and economic interests in the law enforcement process, which have weakened the independence of legal institutions and generated legal uncertainty.[27] Considering these concerns, this research introduces scholarly novelty through three main contributions. *First*, it analyzes the effectiveness of mechanisms for recovering state losses in the BLBI case.

[24] Ariel Smith, 'Indonesia : IBRA ' s Asset Management Unit / Asset Management of Credits Indonesia : IBRA ' s Asset Management Unit / Asset Management of Credits 1', *The Journal of Financial Crises Volume*, 3.2 (2021), 381–409. https://doi.org/10.53955/jsderi.v2i3.48

[25] Pandoman.

[26] Ahmad Dwi Nuryanto, Reza Octavia Kusumaningtyas and Bukhadyrov Habibullo, 'The Imperative of Social Justice on the Insolvency and Workers' Wage', *Journal of Sustainable Development and Regulatory Issues (JSDERI)*, 2.3 (2024), 209–32 https://doi.org/10.53955/jsderi.v2i3.48

[27] Abdul Kadir Jaelani, Anila Rabbani and Muhammad Jihadul Hayat, 'Land Reform Policy in Determining Abandoned Land for Halal Tourism Destination Management Based on Fiqh Siyasah', *El-Mashlahah*, 14.1 (2024), 211–38 https://doi.org/10.23971/el-mashlahah.v14i1.8051

Second, it provides a critical and comparative analysis of Indonesia's banking crisis resolution policies in comparison with practices in other countries, with the aim of identifying structural weaknesses and legal principles that may be adopted. *Third*, it formulates an ideal legal framework model oriented toward state asset recovery (an asset recovery–oriented approach) as the primary objective of law enforcement in large-scale state financial loss cases. Accordingly, this study is directed to address three principal research questions, *first*, what legal and structural factors have caused the ineffectiveness of state loss recovery in the BLBI case; *second*, how comparative policies and mechanisms for banking crisis resolution in other countries can serve as references for improving the national legal framework; and *third*, what ideal model of legal and institutional policy can ensure legal certainty, effective recovery of state assets, and the protection of public interests in the future.[28]

Research Method

The research uses a normative juridical method. This approach is employed to examine the application and implementation of positive legal provisions particularly statutory regulations governing the Bank Indonesia Liquidity Assistance (BLBI) as they operate in factual legal events.[29] he normative legal method in this study seeks to determine whether the existing regulatory framework has been sufficiently efficient and effective in resolving BLBI-related disputes, thereby allowing the legal events in concreto to be critically assessed through their practical application. In addition, this study utilizes a conceptual approach, which involves analyzing legal doctrines and theoretical perspectives to reassess the elements of state economic losses arising from the BLBI case, including allegations of corruption. A case approach is also employed to identify relevant judicial practices and jurisprudence that illustrate how courts have addressed issues surrounding BLBI. The data sources consist of primary legal materials, including national legislation, relevant international conventions or regulations, and secondary legal materials such as scholarly journal articles, books, and previous research that support the analysis.[30]

[28] Khusniati Rofi'ah, Martha Eri Safira and Muhammad Ikhlas Rosele, 'The Effectiveness of Accelerating Halal Product Certification: Regulations and Companions', *Journal of Human Rights, Culture and Legal System*, 4.2 (2024), 449–76 https://doi.org/10.53955/jhcls.v4i2.203

[29] Ni Komang Sutrisni and others, 'The Compliance of Governance on Family Data Protection Regulation', *Journal of Human Rights, Culture and Legal System*, 4.3 (2024), 706–41 https://doi.org/https://doi.org/10.53955/jhcls.v4i3.293

[30] Abdul Kamil Razak, Aloysius Wisnubroto and Tajudeen Sanni, 'Legal Reform in the Enforcement of Illegal Fishing Crimes', *Journal of Justice Dialectical*, 3.2 (2025), 155–75 https://doi.org/10.70720/jjd.v3i2.97

Results and Discussion

The State Loss Settlement in the Bank Indonesia Liquidity Assistance Case

The dispute surrounding BLBI funds gave rise to two competing legal obligations: the obligation to close insolvent banks in accordance with statutory regulations, and the parallel obligation to safeguard the national banking system, which had been severely weakened by the monetary crisis. The latter was deemed essential to restore and maintain public confidence in Indonesia's banking sector and the stability of the national payment system.[31] The legal basis for the disbursement and recovery of BLBI funds can be viewed from several legal perspectives. From the civil-law perspective, the provision of BLBI liquidity assistance by Bank Indonesia constituted an implementation of various regulations, including: Regulation No. 13 of 1968 on the Central Bank; Law No. 7 of 1992 as amended by Law No. 10 of 1998 on Banking; the Indonesian Civil Code; Presidential Decree No. 26 on the Government Guarantee for Payment Obligations of Commercial Banks; the Presidential Instructions and Decisions issued during the Limited Cabinet Meeting on Economics, Finance, and Development Oversight on 3 September 1997; and the Minister of Finance Decree No. 26/KMK.017/1998 dated 28 January 1998 on the Requirements and Procedures for Implementing the Government Guarantee for Payment Obligations of Commercial Banks.[32]

The legal dispute over the non-performing and uncollectible BLBI receivables originated from the government's efforts to mitigate the impact of the 1998 monetary crisis in Indonesia. Over time, the issue evolved into an exceptionally large default case after the transfer of collection rights from Bank Indonesia to the government. From the original claim value of IDR 145 trillion, the total cost of resolution eventually exceeded the value of the receivables themselves.[33] The accumulated costs of resolving BLBI obligations, combined with broader banking-sector restructuring expenses, amounted to approximately IDR 1,000 trillion, all of which have been continually charged to the State Budget (APBN) over successive fiscal years. The unresolved nature of this issue, which has persisted through five presidential administrations, underscores the need for a more responsive legal framework.[34] The limitations of both repressive and responsive legal theories become evident considering the 2019 Supreme Court decision in the case of the former Head of the Indonesian Bank Restructuring Agency (IBRA), Syafruddin A.

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[31] Sangaralingam Ramesh, 'The Asian Financial Crisis and Reformasi (1997–2004)', in *The Political Economy of Indonesia's Economic Development, Volume II* (Cham: Springer Nature Switzerland, 2025), pp. 29–66 https://doi.org/10.1007/978-3-032-03140-2_2

[32] Lastuti Abubakar and Tri Handayani, 'The Environmental Fund Management Model in Indonesia: Some Lessons in Legal Regulation and Practice', *Environmental Policy and Law*, 53.2–3 (2023), 205–17 https://doi.org/10.3233/EPL-230013

[33] Dr Agus Pandoman, 'Global Financial Infrastructure Mediated By the Establishment of Islamic Central Banks', *International Journal of Social Sciences*, 04.05 (2024), 15–29 https://doi.org/10.55640/ijss-04-05-03

[34] Rastra and others.

Temenggung. The ruling demonstrated that repressive legal enforcement, particularly through criminal prosecution, proved ineffective in recovering state losses associated with BLBI irregularities. This outcome further reinforces the necessity of adopting a responsive legal approach capable of addressing complex financial misconduct and ensuring more effective mechanisms for public loss recovery.[35]

In 2021, the Government of Indonesia renewed its efforts to resolve outstanding BLBI receivables by establishing a dedicated Task Force. This initiative is formalized under Presidential Decree No. 6 of 2021 on the Task Force for the Settlement of State Claims Arising from the Bank Indonesia Liquidity Assistance.[36] The establishment of this Task Force aims to facilitate the recovery of state assets, including outstanding BLBI receivables and related property assets, which collectively contributed to state losses amounting to approximately IDR 110.4 trillion. The BLBI Task Force was created with the mandate to undertake the handling, settlement, and recovery of state rights originating from BLBI funds in an effective, efficient, and equitable manner.[37] Its authority extends to the use of legal and non-legal measures, both domestically and internationally, targeted at debtors, obligors, corporate owners, their heirs, and other affiliated parties. Despite these renewed efforts, the Task Force has yet to fully mitigate the state's financial losses stemming from the BLBI failure. This ongoing challenge is closely linked to the broader issues of legal system effectiveness and the performance of law enforcement institutions.[38]

According to Lawrence M. Friedman, the effectiveness of a legal system is determined by three key elements: legal substance, legal structure, and legal culture.[39] In the context of the BLBI case, a critical examination of these aspects is essential to understand the root problems and to formulate appropriate corrective measures that can prevent similar failures in the future.[40] First, From the perspective of legal substance, the handling of the BLBI case reveals fundamental

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[35] Ary Hermawan, 'The Taliban Are Coming! How Intra-Oligarchic Conflict Proliferates Computational Propaganda in Indonesia', *Critical Asian Studies*, 56.4 (2024), 652–77 https://doi.org/10.1080/14672715.2024.2397632

[36] Petrus De Rozari and Elfrida Ratnawati, 'Legal Protection for Third Parties Acquiring Rights in the Management of State Receivables', *Media Iuris*, 8.1 (2025), 137–68 https://doi.org/10.20473/mi.v8i1.65756

[37] Y. Anni Aryani and others, 'Women Director Characteristics and Earnings Quality: Evidence from Banking Industry in Indonesia', *Cogent Business & Management*, 11.1 (2024) https://doi.org/10.1080/23311975.2024.2304371

[38] Smith.

[39] Mustafa 'Afifi Ab. Halim and Shabrina Zata Amni, 'Legal System in the Perspectives of H.L.A Hart and Lawrence M. Friedman', *Peradaban Journal of Law and Society*, 2.1 (2023), 51–61 https://doi.org/10.59001/pjls.v2i1.83

[40] David Ramos-Muñoz, '"Twilight Troubles". Early Intervention, Resolution Preparation and Triggers, and the Urgent Need to Reform Them', *European Business Organization Law Review*, 26.1 (2025), 133–55 https://doi.org/10.1007/s40804-025-00342-z

weaknesses in Indonesia's regulatory framework and legal system during the crisis period. The existing regulations lacked clarity regarding the legal status of BLBI funds, whether they constituted emergency assistance that did not require repayment or loans that were legally binding and had to be returned.[41] This ambiguity created room for differing interpretations, thereby complicating law enforcement efforts and the process of establishing elements of corruption.[42] Moreover, legal settlement against BLBI recipients were often hindered by alleged political interference, given the involvement of prominent figures and high-ranking officials. Many cases progressed slowly and resulted in light sentences or even acquittals, providing little deterrent effect and further undermining the credibility of the justice system. These conditions demonstrate that weaknesses in regulation and uncertainty in legal interpretation were major factors contributing to the ineffective law enforcement in the BLBI case.[43]

Second, from the perspective of legal structure, one of the central problems in the BLBI case lies in weak institutional oversight of both the disbursement and the use of the funds.[44] Many recipient banks diverted the liquidity support for purposes inconsistent with its original intent, such as covering operational losses, issuing unsecured loans to affiliated companies, or even financing the personal interests of bank owners. A substantial portion of the BLBI funds was never returned to the state, resulting in massive losses to public finances. The non-performing loans that emerged from these practices further deteriorated the banking sector, preventing the economic crisis from stabilizing.[45] In addition, the legal handling of the case was marked by prolonged and inconsistent processes. Investigations and judicial proceedings often took years, with some cases only reaching resolution after more than a decade. This indicates significant weaknesses within the judicial system that contributed to delays and heightened legal uncertainty. Such procedural shortcomings can be attributed to limited coordination among law-enforcement institutions, inadequate resources, and

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[41] Zainal Arifin, Emi Puasa Handayani and Naufal Ghani Bayhaqi, 'Development of a Compensation Mechanism and Legal Reporting Framework for Consumers', *Indonesia Law Reform Journal*, 4.3 (2024), 275–88 https://doi.org/10.22219/ilrej.v4i3.36234

[42] Ahmad Khoirul Umam, 'Understanding the Influence of Vested Interests on Politics of Anti-Corruption in Indonesia', *Asian Journal of Political Science*, 29.3 (2021), 255–73 https://doi.org/10.1080/02185377.2021.1979061

[43] Manotar Tampubolon, 'Decoding Legal Ambiguity: The Interplay between Law and Legal Semiotics in Modern Jurisprudence', *International Journal for the Semiotics of Law - Revue Internationale de Sémiotique Juridique*, 2025 https://doi.org/10.1007/s11196-025-10271-2

[44] October Yohanes Sitompul and Fitri Yanni Dewi Siregar, 'Analysis of Unlawful Acts Regarding Claims and the Unlawful Installation of Confiscation Sign (Study of Decision Number 966/Pdt.G/2024/PN Medan)', *Priviet Social Sciences Journal*, 5.9 (2025), 330–40 https://doi.org/10.55942/pssj.v5i9.668

[45] Jiajun Xu and others, 'What Are Public Development Banks and Development Financing Institutions ? ——Qualification Criteria, Stylized Facts and Development Trends', *China Economic Quarterly International*, 1.4 (2021), 271–94 https://doi.org/10.1016/j.ceqi.2021.10.001

insufficient institutional capacity to manage large-scale and complex cases like BLBI.[46]

Third, from the perspective of legal culture, several cultural dynamics hindered the effectiveness of resolving the BLBI case, particularly the persistent influence of political power over law-enforcement processes.[47] Political intervention became one of the central factors undermining the effectiveness of legal proceedings. When law enforcement fails to operate independently due to political interference, judicial processes become vulnerable to bias and lack of impartiality.[48] In many instances, the handling of the BLBI case was impeded by political pressure exerted by actors with vested interests. Such interference not only disrupted the judicial process but also influenced the decisions of law-enforcement authorities. Consequently, public trust in the integrity, neutrality, and objectivity of the legal system continued to erode.[49]

The effectiveness of law enforcement in resolving the BLBI case remains far from optimal. This condition underscores the urgent need for comprehensive reforms within Indonesia's legal and judicial systems to ensure that law-enforcement processes operate more effectively, transparently, and independently.[50] Strengthening institutional capacity and improving coordination among law-enforcement agencies are essential, accompanied by rigorous oversight mechanisms designed to prevent and limit political interference at any stage of the legal process. Such reforms are crucial for building a legal system capable of handling large and complex cases like BLBI in a fair, professional, and efficient manner. Through a rigorous analytical approach supported by relevant literature, it is expected that more precise and applicable solutions can be

[46] Fauzan Akbar and Ahmad Ibrahim Badry, 'Beyond Criminal Approach: A Critical Analysis of Civil-Based Asset Recovery System as an Alternative Solution for Corruption Cases in Indonesia', *Pena Justisia: Media Komunikasi Dan Kajian Hukum*, 22.1 (2024), 977–1004. https://doi.org/10.31941/pj.v24i1.5599

[47] Vanessa Meterko and Glinda Cooper, 'Cognitive Biases in Criminal Case Evaluation: A Review of the Research', *Journal of Police and Criminal Psychology*, 37.1 (2022), 101–22 https://doi.org/10.1007/s11896-020-09425-8

[48] Stacy Miller and others, 'Integrating Truth Bias and Elaboration Likelihood to Understand How Political Polarisation Impacts Disinformation Engagement on Social Media', *Information Systems Journal*, 34.3 (2024), 642–79 https://doi.org/10.1111/isj.12418

[49] Aylin Aydin-Cakir, 'The Varying Effect of Court-Curbing: Evidence from Hungary and Poland', *Journal of European Public Policy*, 31.5 (2024), 1179–1205 https://doi.org/10.1080/13501763.2023.2171089

[50] Jia Liu, Yasir Shahab and Hafiz Hoque, 'Government Response Measures and Public Trust during the COVID-19 Pandemic: Evidence from Around the World', *British Journal of Management*, 33.2 (2022), 571–602 https://doi.org/10.1111/1467-8551.12577

formulated to enhance the overall effectiveness of law enforcement, particularly in addressing corruption and economic crimes in Indonesia.[51]

Legal Policy for Liquidity Assistance Settlement in Several Countries

In the history of modern finance, banking crises have recurred across numerous regions and nations. A study by the IMF (1997) indicates that within the past fifteen years, approximately 30 countries have been compelled to implement systemic banking restructuring programs. This international experience demonstrates that banking restructuring is not a straightforward process; it necessitates a multi-year duration and frequently intersects with social and political interests.[52] This complexity is understandable, as systemic banking crises generate widespread economic shocks, ranging from a decline in public confidence and financial market volatility to the debilitation of real sector performance.[53] Consequently, the design of resolution policies must be both comprehensive and coordinated. Broadly speaking, the banking crisis resolution strategies employed by various nations, including Thailand and South Korea, can be examined through several key aspects.[54]

First, the implementation of a blanket guaranteed scheme. In the international context, a blanket guarantee is defined as an emergency instrument providing payment assurance for the liabilities of distressed banks and their creditors.[55] The deployment of this instrument is typically temporary, remaining in effect until the systemic banking crisis recovers and the fiscal burden borne by the Government—managed through supervisory authorities or institutions specifically established or designated to execute restructuring can be reduced or terminated.[56] Thailand implemented a comprehensive guarantee scheme for depositors and creditors, which proved to be a sufficiently successful component in stabilizing the overall financial system, alongside high interest rate penalties or other forms of non-

[51] Rina Arum Prastyanti and Ridhima Sharma, 'Establishing Consumer Trust Through Data Protection Law as a Competitive Advantage in Indonesia and India', *Journal of Human Rights, Culture and Legal System*, 4.2 (2024), 354–90 https://doi.org/10.53955/jhcls.v4i2.200

[52] Thi Van Dung Do, Thi Thanh Nhan Nguyen and Huy Hung Pham, 'Auditors' Role in Valuation Practices during Corporate Restructuring in Vietnam: A Qualitative Insight', *Multidisciplinary Science Journal*, 7.9 (2025), 2025453 https://doi.org/10.31893/multiscience.2025453

[53] Didier Wernli and others, 'Understanding and Governing Global Systemic Crises in the 21st Century: A Complexity Perspective', *Global Policy*, 14.2 (2023), 207–28 https://doi.org/10.1111/1758-5899.13192

[54] Emad Alchikh Saleh, 'The Effects of Economic and Financial Crises on FDI: A Literature Review', *Journal of Business Research*, 161 (2023), 113830 https://doi.org/10.1016/j.jbusres.2023.113830

[55] Nataliya Kovaleva and Oksana Petrova, 'Financial Resolution of Banks in Distress: International Evidence', in *Systemic Financial Risk* (Cham: Springer Nature Switzerland, 2024), pp. 297–311 https://doi.org/10.1007/978-3-031-54809-3_11

[56] M. Kerem Coban and Fulya Apaydin, 'Navigating Financial Cycles: Economic Growth, Bureaucratic Autonomy, and Regulatory Governance in Emerging Markets', *Regulation & Governance*, 19.1 (2025), 126–45 https://doi.org/10.1111/rego.12621

monetary sanctions.[57] Meanwhile, South Korea also implemented a blanket guarantee as part of its 1997–1998 crisis resolution package. The Korean Government provided full guarantees on deposits and external banking liabilities, including international interbank obligations, to prevent capital flight and maintain foreign investor confidence.[58]

Second, financial sector restructuring. As previously elucidated, restructuring a bank's financial position is insufficient unless accompanied by an overhaul of the external environment in which the bank operates a process known as operational restructuring.[59] At this stage, financial sector reorganization strategies are directed toward addressing fundamental systemic weaknesses, including accounting standards, the structure of the banking industry, and the legal framework serving as the foundation for banking operations. Reforms in these aspects are critical, as they will significantly impact the future efficacy and performance of the banking industry. In international practice, operational restructuring measures typically encompass efforts to establish a banking system capable of enforcing market discipline through healthy competition and the implementation of clear exit policies for insolvent banks. These reforms aim to cultivate a banking industry that is more efficient, transparent, and resilient to external shocks.[60] From the perspective of banking authorities, this restructuring also necessitates enhancements to the quality of the regulatory framework and the effectiveness of supervision. This includes strengthening prudential standards, ensuring minimum capital adequacy, and bolstering the capacity of supervisory institutions to conduct early intervention. Consequently, financial sector restructuring focuses not merely on resolving short-term banking financial distress but also on establishing a more robust foundation for long-term financial system stability.[61]

Financial sector restructuring was also undertaken by Thailand and South Korea. In Thailand, financial sector restructuring constituted a primary focal point within the nation's overall post-crisis recovery program. During the initial phase,

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[57] Prasit Kaewpitoon, 'The Role Of Financial Stability In Supporting Sustainable Economic Development: Policy Solutions And Strategic Directions For Strengthening Thailand's Financial System', *Public Administration and Law Review*, 2025, 37–46 https://doi.org/10.36690/2674-5216-2025-2-37-46

[58] Juan Flores Zendejas, 'When It Rains, It Pours: Mexico's Bank Nationalisation and the Debt Crisis of 1982', *Revista de Historia Económica / Journal of Iberian and Latin American Economic History*, 42.1 (2024), 33–58 https://doi.org/10.1017/S0212610923000174

[59] Yunpeng Sun and others, 'How Does Green Economic Recovery Impact Social and Financial Performance?', *Economic Change and Restructuring*, 56.2 (2023), 859–78 https://doi.org/10.1007/s10644-022-09453-w

[60] Kawa Wali, Kees van Paridon and Bnar Karim Darwish, 'Strengthening Banking Sector Governance: Challenges and Solutions', *Future Business Journal*, 9.1 (2023), 95 https://doi.org/10.1186/s43093-023-00279-0

[61] Viacheslav M. Shavshukov and Natalia A. Zhuravleva, 'National and International Financial Market Regulation and Supervision Systems: Challenges and Solutions', *Journal of Risk and Financial Management*, 16.6 (2023), 289 https://doi.org/10.3390/jrfm16060289

policy was oriented toward emergency measures, including the liquidation of numerous insolvent finance companies, government intervention in the weakest banks, and recapitalization programs designed to restore the resilience of the banking system.[62] These measures aimed to halt crisis contagion and restore market confidence. Entering 1998, the Thai government accelerated its reform agenda by emphasizing medium- and long-term structural realignment. The policy focus shifted toward the privatization of previously intervened banks, the sale and management of assets from liquidated finance companies, and the acceleration of corporate debt restructuring, the magnitude of which was substantial following the crisis. This combination of policies not only strengthened the foundations of Thailand's financial system but also paved the way for real sector recovery by restoring more stable and efficient financing mechanisms.[63]

Meanwhile, in South Korea, financial sector restructuring was directed toward rapidly restoring systemic stability through a combination of liquidity support, the implementation of a time-bound blanket guarantee, and the closure of non-viable financial institutions.[64] Concurrently, the government executed an aggressive program for resolving non-performing loans (NPLs), including the transfer of distressed assets to the Korea Asset Management Corporation (KAMCO). These efforts were complemented by bank recapitalization measures designed to restore capital bases and reinstate the banking sector's capacity to extend credit. Furthermore, South Korea's restructuring emphasized the strengthening of the institutional framework, particularly through the alignment of prudential regulations, reporting standards, and supervisory mechanisms with international best practices. These regulatory reforms aimed to enforce market discipline, enhance transparency, and ensure that the post-crisis financial system possessed greater resilience against future risks.[65]

Third, the reformulation of financial law policies. Regarding the legal enforcement policies implemented by the Thai Government to address the high volume of non-performing loans (NPLs) and accelerate corporate and banking

[62] Wanxue Lu, 'The Financial Sector Reform and the Change in the Ownership Structure of the Commercial Banks', in *SpringerBriefs in Economics* (Singapore: Springer Singapore, 2024), pp. 21–50 https://doi.org/10.1007/978-981-97-3771-0_2

[63] Chengjin Zhu and Shiya Yang, 'Peaceful Rise to Power: The Role of Interstate Leadership', *Transforming Government: People, Process and Policy*, 2025, 1–26 https://doi.org/10.1108/TG-05-2025-0149

[64] Eunkyung Yi and others, 'Optimisation of International Financial Institutions: A Comparative Analysis of Ukraine and South Korea's Roles in Enhancing Global Economic Stability', *World Development Perspectives*, 38 (2025), 100674 https://doi.org/10.1016/j.wdp.2025.100674

[65] Hana Jaradat and Mohammad Salem Oudat, 'Enhancing Clarity and Transparency in Islamic Financial Practices: The Role of Regulatory Influence', *Journal of Financial Reporting and Accounting*, 2025 https://doi.org/10.1108/JFRA-07-2024-0479

debt restructuring processes,[66] the government adopted a series of strategic measures focused on strengthening the legal and institutional framework. These initiatives encompassed: (a) Reform of the Bankruptcy Act, aimed at expanding debt resolution mechanisms and facilitating corporate reorganization processes, thereby providing creditors and debtors with more effective legal avenues for dispute resolution; (b) Improvement of foreclosure procedures to expedite collateral execution processes, mitigate legal uncertainty, and enhance certainty for financial institutions regarding asset recovery; and (c) The review and regulation of foreign investment restrictions, both within the financial sector and other corporate sectors, to foster an investment climate that balances the need for foreign capital with the protection of domestic economic stability. Strengthening these three legal aspects not only accelerated the resolution of distressed assets but also bolstered investor confidence and fortified the governance foundation of Thailand's post-crisis financial sector.[67]

Conversely, regarding the legal enforcement policies implemented by the South Korean Government to address non-performing loans and accelerate corporate debt resolution and banking restructuring, the government employed a diverse range of integrated legal instruments and resolution mechanisms. These measures included: (a) The implementation of out-of-court workout agreements for numerous corporations, operating in parallel with court-supervised bankruptcy proceedings within the framework of the Corporate Restructuring Promotion Act (CRPA). Under this mechanism, corporate restructuring was executed based on capital structure improvement plans reviewed and approved by creditor banks. This approach was selected to expedite the negotiation process and alleviate the burden on the judicial system; (b) The execution of commitments within restructuring plans through various corporate instruments, including the issuance of new equity to strengthen capital structures, the implementation of spin-offs to separate unprofitable business units, asset divestiture as a source of restructuring financing, and the formation of strategic alliances with foreign investors to enhance access to capital and technology.[68] Through this combination of out-of-court settlement mechanisms, legal interventions, and corporate-level structural reforms, South Korea successfully established a restructuring process that was more rapid, cooperative, and provided legal certainty for both creditors and

[66] Sapto Hermawan and Zenia Aziz Khoirunisa, 'The Emergence of Green Banking: A Sustainable Financing Strategy for Protecting Against Deforestation in ASEAN', *The Journal of Environment & Development*, 33.1 (2024), 96–124 https://doi.org/10.1177/10704965231211591

[67] Ilya Kokorin, 'The Rise of "Group Solution" in Insolvency Law and Bank Resolution', *European Business Organization Law Review*, 22.4 (2021), 781–811 https://doi.org/10.1007/s40804-021-00220-4

[68] Prof. Dr. Mbonigaba Celestin, 'The Impact Of Corporate Bankruptcy Laws On Financial Restructuring And Business Continuity Strategies', *SSRN Electronic Journal*, 2025 https://doi.org/10.2139/ssrn.5188095

debtors. This reform constituted a key factor in the successful recovery of the Korean financial sector post-crisis.[69]

Indonesia can leverage these insights as a foundation for formulating a more comprehensive policy regarding the resolution of state losses. The experiences of Thailand and South Korea demonstrate that banking stabilization is insufficient if reliant solely on financial intervention; it must be complemented by the strengthening of legal frameworks, the enforcement of market discipline, and targeted institutional restructuring.[70] By adopting these practices such as the implementation of more calibrated guarantee schemes, sustainable operational banking restructuring, and effective debt resolution mechanisms (both judicial and non-judicial) Indonesia possesses the potential to bolster the resilience of the national financial system and minimize the risk of future crises. The integration of these three aspects may also enhance public and investor confidence in banking sector stability, while simultaneously fostering a financial ecosystem that is more transparent, accountable, and sustainable.[71] A comparison of these three nations is presented below.

Table 1. Policy on the Implementation of Laws for the Settlement of Liquidation Assistance Carried Out by Thailand, South Korean, and Indonesia

No	Country		Bailout Resolution Strategy
1	Thailand	1.	Financial sector restructuring remained a key policy area throughout Thailand's program. During the initial phase, the program concentrated on the liquidation of finance companies, government intervention in the weakest banks, and the recapitalization of the banking system. In 1998, reform efforts were accelerated, focusing on the privatization of intervened banks, the disposal of assets from finance companies, and corporate debt restructuring.
		2.	Legal Enforcement Policies Implemented by the Thai Government: To address non-performing loans and accelerate corporate debt resolution and banking restructuring, the government enacted strategic measures to strengthen the institutional framework, including: (a) Reform of the Bankruptcy Act, (b) Foreclosure Procedures, and (c) Foreign Investment Restrictions.
2	Korea Selatan	1.	South Korea's restructuring aimed to rapidly restore financial system stability through liquidity support, a time-bound blanket guarantee, and the closure of non-viable institutions. Restructuring efforts were also directed toward resolving non-performing loans (NPLs), recapitalizing banks, and strengthening the institutional framework by aligning prudential regulations and supervision with international best practices.
		2.	Legal Enforcement Policies Implemented by the South Korean Government: To address non-performing loans and accelerate corporate debt resolution and banking restructuring through: (a) Out-of-court workout agreements for

[69] Stjepan Srhoj and others, 'The Impact of Delay: Evidence from Formal out-of-Court Restructuring', *Journal of Corporate Finance*, 78 (2023), 102319 https://doi.org/10.1016/j.jcorpfin.2022.102319

[70] Azhar Mohamad and others, 'On IMF Debt and Capital Control: Evidence from Malaysia, Thailand, Indonesia, the Philippines and South Korea', *Journal of Financial Regulation and Compliance*, 29.2 (2021), 143–62 https://doi.org/10.1108/JFRC-08-2019-0108

[71] Megha Jaiwani and Santosh Gopalkrishnan, 'Global Resurgence: Private Asset Reconstruction Companies as Legal Catalysts for Financial Stability in India and Beyond', *International Journal of Law and Management*, 67.6 (2025), 677–96 https://doi.org/10.1108/IJLMA-02-2024-0046

			various companies, as well as court-supervised bankruptcy proceedings within the framework of capital structure improvement plans reviewed by banks; and (b) The execution of commitments based on these plans; equity issuance, spin-offs, asset divestiture, and strategic alliances with foreign investors constituted the majority of these improvements.
3	Indonesia	1.	Banking sector reform, accompanied by corporate restructuring, an effective bankruptcy system, deregulation, privatization, and improved governance, also constituted the core of the program. Nevertheless, overall progress under the program did not reach a decisive stage. Delays hindered the implementation of bank and corporate restructuring measures; for instance, persistent governance weaknesses in key institutions were exposed by the Bank Bali scandal. Furthermore, in conjunction with other factors (IMF, 1998), the BLBI case was heavily politically charged, and regrettably, a significant portion of corruption proceeds was deposited offshore.
		2.	Legal Enforcement Policies Implemented by the Indonesian Government: To address non-performing loans and accelerate corporate debt resolution and banking restructuring, the government pursued civil law mechanisms. Perpetrators of the BLBI fund misappropriation, which, according to a 2000 audit by the Supreme Audit Agency, potentially caused state losses amounting to Rp 138.4 trillion were poised to evade punishment. BLBI funds were utilized for the benefit of controlling shareholders (self-enrichment); consequently, an assessment revealed that the actions of these obligors inflicted financial losses upon the state, exacerbating the deterioration of the national economic condition and ultimately disrupting national stability.

Source: International Monetary Fund (IMF) 1998

Based on the comparison table above, it is evident that Thailand, South Korea, and Indonesia adopted distinct policy approaches in resolving the banking and liquidity crises they faced. Thailand and South Korea tended to pursue resolution measures that were rapid, structured, and oriented toward fundamental institutional reform.[72] In contrast to these two nations, Indonesia faced greater challenges in enforcing BLBI resolution policies. Banking sector reform, which constituted part of the economic recovery program, did not fully yield significant results. Delays in restructuring implementation, weak financial institution governance, and political intervention served as serious impediments. The Bank Bali scandal and the misuse of BLBI funds by bank owners for self-enrichment demonstrated that the primary issue was not merely technical but also pertained to the integrity of the legal and political systems. Furthermore, the legal approach pursued primarily through civil mechanisms enabled many obligors to evade criminal prosecution, despite the magnitude of state losses reaching substantial figures.[73]

Consequently, this comparison demonstrates that the success of Thailand and South Korea in managing banking liquidity was underpinned by a legal framework that was robust, independent, and responsive to the needs of economic recovery. Conversely, Indonesia remained confronted with structural issues within the legal and governance sectors, thereby causing the BLBI resolution mechanism to function sub-optimally. This analysis underscores the necessity of reconstructing an ideal legal framework for

[72] Kee Hoon Chung, 'Towards Rule-Based Institutions and Economic Growth in Asia? Evidence from the Asian Financial Crisis 1997–1998', *Asian Journal of Comparative Politics*, 6.3 (2021), 274–92 https://doi.org/10.1177/2057891120962575

[73] M. Chatib Basri and Reza Y. Siregar, 'Legacy of Early Crisis and Incomplete Institutional Reforms on the Financial Sector in Indonesia', in *Macro-Financial Stability Policy in a Globalised World: Lessons from International Experience* (WORLD SCIENTIFIC, 2023), pp. 410–30 https://doi.org/10.1142/9789811259432_0020

Indonesia to ensure that the settlement of state losses in the BLBI case can be executed more effectively, accountably, and free from political intervention.[74]

Legal Framework for the Settlement of State Losses in the Bank Indonesia Liquidity Assistance Case

The resolution of state losses in the BLBI case necessitates an ideal legal framework capable of not only providing legal certainty and justice but also ensuring effectiveness within the state asset recovery process.[75] The complexity of the BLBI case encompasses economic, legal, and political dimensions, extending to public financial governance. This demonstrates that the existing legal framework has proven insufficiently adequate to address large-scale, cross-sectoral state financial cases.[76] Consequently, the formulation of an ideal regulatory model for handling state losses is fundamental to ensuring that the resolution of past BLBI cases does not re-encounter similar structural impediments. Several policy models warrant highlighting as recommendations proposed by the author in this study.[77]

First, the strengthening of legal certainty and regulatory harmonization. An ideal legal framework must bridge regulatory gaps that have historically resulted in overlapping authorities and interpretational discrepancies.[78] In the context of BLBI, normative conflicts between the Central Bank Act, the Banking Act, government guarantee regulations, and the 1997–1998 emergency crisis policies exposed the weakness of regulatory harmonization during the crisis period. Ideally, the resolution of state losses necessitates: (a) regulations that explicitly define ex-ante and ex-post responsibilities among Bank Indonesia, the government, and asset management institutions; (b) specific provisions regarding extraordinary measures during crises that are devoid of ambiguity; and (c) comprehensive rules concerning the management and safeguarding of distressed

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[74] Dhanny Dhanny and Berri Brilliant Albar, 'A Comparative Study: The Banking Reforms in Indonesia, Thailand, the US, and the UK, and How It Affected the Banking Performance and the Economic', *AMAR (Andalas Management Review)*, 7.1 (2023), 91–104 https://doi.org/10.25077/amar.7.1.91-104.2023

[75] Olusola Joshua Olujobi, 'Combating Insolvency and Business Recovery Problems in the Oil Industry: Proposal for Improvement in Nigeria's Insolvency and Bankruptcy Legal Framework', *Heliyon*, 7.2 (2021), e06123 https://doi.org/10.1016/j.heliyon.2021.e06123

[76] Ridwan Arifin and others, 'A Discourse of Justice and Legal Certainty in Stolen Assets Recovery in Indonesia: Analysis of Radbruch's Formula and Friedman's Theory', *Volksgeist: Jurnal Ilmu Hukum Dan Konstitusi*, 2023, 159–81 https://doi.org/10.24090/volksgeist.v6i2.9596

[77] Achmad Yani and others, 'Challenges to the Application of the Role of Judges in Mediation of Recovering State Financial Losses in Indonesia', *International Journal of Academic Research in Accounting, Finance and Management Sciences*, 13.3 (2023) https://doi.org/10.6007/IJARAFMS/v13-i3/19366

[78] Alba Ribera Martínez, 'An Inverse Analysis of the Digital Markets Act: Applying the Ne Bis in Idem Principle to Enforcement', *European Competition Journal*, 19.1 (2023), 86–115 https://doi.org/10.1080/17441056.2022.2156729

assets. This harmonization is crucial to ensure the prevention of recurring jurisdictional disputes that impede state asset recovery.[79]

Second, the strengthening of effective and responsive law enforcement mechanisms. The BLBI case illustrates two sub-optimal law enforcement models: a repressive (criminal) approach that proved ineffective, and an administrative-civil approach that lacked support from adequate legal instruments.[80] An ideal legal framework must integrate a responsive approach prioritizing the recovery of state losses over mere retribution. Ideally, this policy necessitates: (a) civil and administrative-based asset recovery mechanisms utilizing more adaptive standards of proof; (b) the reinforcement of civil forfeiture and non-conviction-based forfeiture regarding the assets of obligors and debtors; and (c) clear authority for state collection agencies to execute cross-border asset tracing, seizure, freezing, and auctioning. Consequently, law enforcement is focused directly and measurably on the recovery of state losses.[81]

Third, independent, coordinated, and sustainable institutionalization. The establishment of the BLBI Task Force in 2021 represented a progressive measure, yet it remains temporary in nature. Ideally, resolving state losses in large-scale cases such as the BLBI necessitates a permanent institution possessing a distinct mandate, independence, and insulation from short-term political interests.[82] An ideal institutional framework encompasses: the establishment of an independent National Asset Recovery Agency vested with cross-ministerial authority;[83] an integrated electronic coordination mechanism among the Attorney General's Office, the Supreme Audit Agency (BPK), the Ministry of Finance, the National Police, the Financial Services Authority (OJK), the Financial Transaction Reports and Analysis Center (PPATK),[84] and intelligence agencies; and mandatory

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[79] Anna Sakellaraki, 'EU Asset Recovery and Confiscation Regime – Quo Vadis ? A First Assessment of the Commission's Proposal to Further Harmonise the EU Asset Recovery and Confiscation Laws. A Step in the Right Direction?', *New Journal of European Criminal Law*, 13.4 (2022), 478–501 https://doi.org/10.1177/20322844221139577

[80] Junet Hariyo Setiawan and Solikhin Solikhin, 'The Urgency of Enacting Asset Forfeiture Legislation in the Recovery of State Finances From Corruption', *SSRN Electronic Journal*, 2025 https://doi.org/10.2139/ssrn.5367190

[81] Ari Wibowo, 'Barriers and Solutions to Cross-Border Asset Recovery', *Journal of Money Laundering Control*, 26.4 (2023), 739–50 https://doi.org/10.1108/JMLC-01-2022-0022

[82] Oriyomi Badmus and others, 'Integrating AI-Powered Knowledge Graphs and NLP for Intelligent Interpretation, Summarization, and Cross-Border Financial Reporting Harmonization', *World Journal of Advanced Research and Reviews*, 27.1 (2025), 042–062 https://doi.org/10.30574/wjarr.2025.27.1.2517

[83] Furkan Ahmad and others, 'From Global Mapping to Local Action: Green Finance, Regulatory Frameworks, and Policy Transformation for Sustainable Energy Transition in Qatar and Türkiye', *Sustainable Development*, 2025 https://doi.org/10.1002/sd.70373

[84] Aga Kurniawan and KMS Herman, 'Strengthening the Authority of Financial Institutions in Preventing Money Laundering and Terrorism Financing in Indonesia to Improve the Effectiveness

transparent audits coupled with periodic public reporting to ensure accountability. Under this scheme, the resolution of mega-corruption cases would not be contingent upon administrative transitions or political preferences.[85]

Fourth, the reform of legal culture and the reinforcement of law enforcement integrity. The BLBI case demonstrates that the primary impediments are not merely regulatory but also stem from the prevailing legal culture. Political intervention, economic oligarchic interests, and the weak integrity of law enforcement institutions have diminished the efficacy of case resolution.[86] An ideal legal culture framework must promote: the protection of the independence of prosecutors, judges, and investigators from political pressure; specific ethical and disciplinary mechanisms for high-value state financial cases; and the enhancement of economic law literacy among law enforcement apparatus through continuing education. The transformation of legal culture serves as the primary foundation ensuring that the legal framework remains not merely normative but operates with genuine effectiveness.[87]

Fifth, procedural certainty and instruments for state asset resolution. The resolution of the BLBI case necessitates a standardized and comprehensive national procedural standard regarding the protocols for state asset recovery, ensuring that case handling is no longer conducted in a fragmented or ad hoc manner.[88] An ideal legal framework must provide integrated guidelines encompassing the stages of collection, safeguarding, and final recovery of state assets.[89] First, rapid and effective bankruptcy procedures and debt resolution mechanisms are required to address uncooperative obligors. These procedures are crucial to ensure that the state possesses decisive legal instruments to sanction debtors who obstruct the asset recovery process, while simultaneously circumventing delaying tactics that have historically prolonged the BLBI

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of the National Financial Supervisory System', *Asian Journal of Social and Humanities*, 3.10 (2025), 1760–70 https://doi.org/10.59888/ajosh.v3i10.563

[85] Md Khokan Bepari, Shamsun Nahar and Abu Taher Mollik, 'Perceived Effects of Key Audit Matters Reporting on Audit Efforts, Audit Fees, Audit Quality, and Audit Report Transparency: Stakeholders' Perspectives', *Qualitative Research in Accounting & Management*, 21.2 (2024), 192–218 https://doi.org/10.1108/QRAM-06-2022-0098

[86] Suud Sarim Karimullah, 'The Role of Law Enforcement Officials: The Dilemma Between Professionalism and Political Interests', *Jurnal Hukum Dan Peradilan*, 13.2 (2024), 365 https://doi.org/10.25216/jhp.13.2.2024.365-392

[87] Kristine Artello and Jay S. Albanese, 'Culture of Corruption: Prosecutions, Persistence, and Desistence', *Public Integrity*, 24.2 (2022), 142–61 https://doi.org/10.1080/10999922.2021.1881300

[88] Ridwan Arifin, Sigit Riyanto and Akbar Kurnia Putra, 'Collaborative Efforts in ASEAN for Global Asset Recovery Frameworks to Combat Corruption in the Digital Era', *Legality : Jurnal Ilmiah Hukum*, 31.2 (2023), 329–43 https://doi.org/10.22219/ljih.v31i2.29381

[89] Hossein Hassani and Steve MacFeely, 'Driving Excellence in Official Statistics: Unleashing the Potential of Comprehensive Digital Data Governance', *Big Data and Cognitive Computing*, 7.3 (2023), 134 https://doi.org/10.3390/bdcc7030134

resolution.[90] Second, the legal framework must mandate standards for state asset valuation conducted in a professional, objective, and accountable manner. Historically, ambiguity in asset assessment has led to valuation discrepancies and created opportunities for manipulation. Uniform valuation standards will ensure that every state asset, whether land, buildings, shares, or financial assets is appraised based on justifiable and accountable methods.[91] Third, regulations governing negotiation instruments, debt restructuring, and asset swap mechanisms must be established and designed to prevent detriment to the state. These instruments must be clearly regulated to provide flexibility in the settlement of receivables, while ensuring that every form of resolution adheres to the principles of accountability and the protection of the state's fiscal interests.[92]

Moreover, the optimal recovery of state losses in the BLBI case is unattainable without robust international cooperation. An ideal legal framework must encompass the reinforcement of mutual legal assistance (MLA) instruments, asset tracing, and extradition treaties to track assets concealed offshore and to prosecute perpetrators residing in foreign jurisdictions.[93] By establishing clear, measurable, and consistently implementable national procedural standards, the resolution of the BLBI case will be insulated from the ad hoc practices that have historically been detrimental to the state. These standards serve as a crucial foundation for ensuring legal certainty, the effectiveness of asset recovery, and the long-term protection of state financial interests.[94]

Conclusion

Based on the foregoing analysis, it can be concluded as follows. First, the BLBI dispute reflects a systemic failure in law enforcement arising from weaknesses in legal substance, institutional structure, and legal culture, which has resulted in protracted resolution processes and imposed a substantial financial burden on the state, indicating that the legal system has not functioned effectively in enforcing the law. Second, the success of Thailand and South Korea in managing banking

[90] Mario Ihutan Jeremia and others, 'Urgency, Mechanism, and Efficiency: An Economic Law Framework of Credit Dispute Resolution', *Nurani Hukum*, 8.1 (2025), 1 https://doi.org/10.51825/nhk.v8i1.31466

[91] Stephen Kim Park, 'Legal Strategy Disrupted: Managing Climate Change and Regulatory Transformation', *American Business Law Journal*, 58.4 (2021), 711–49 https://doi.org/10.1111/ablj.12194

[92] Randy Priem, 'Enhanced Transparency on Single-Name Credit Default Swaps: A Comparison Between the United States and the European Union', *Economic Notes*, 54.1 (2025) https://doi.org/10.1111/ecno.70007

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liquidity was supported by a strong, independent, and responsive legal framework aligned with the needs of economic recovery; in contrast, Indonesia continues to face structural problems in the legal and governance sectors, causing the BLBI resolution mechanism to operate sub-optimally. Third, the settlement of state losses in the BLBI case requires the reconstruction of an ideal, comprehensive, and integrated legal framework, encompassing the strengthening of legal certainty, asset-recovery-oriented enforcement mechanisms, independent and sustainable institutions, reform of legal culture, and clear and accountable national procedural standards. This framework must be supported by effective inter-agency coordination and robust international cooperation to ensure optimal asset recovery, safeguard the process from political intervention, and prevent the recurrence of structural obstacles in the handling of large-scale state financial cases in the future.

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