

# [The impact of infrastructure project to the leverage of government-owned-companie...](https://assignbuster.com/the-impact-of-infrastructure-project-to-the-leverage-of-government-owned-companies-the-listed-infrastructure-company/)

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## Introduction

Nowadays, Indonesian Central Government in the acceleration of developing infrastructure. The development in the central and local government feels so faster. The one that responsible for these activities are Government-Owned-Companies (BUMN) and also the Private Companies. This mega projects that handle by them needs around 5, 000 Trillion Rupiah in 5-years1. It means that, every year our government needs 1, 000 Trillion Rupiah. But, the fact says that our government capability to financing these projects around 30% from the overall needs.

So, the Government-Owned-Companies that handle these projects should find another source of financing to cover the financing gap. And then, how’s the impact of this activity to the BUMN as the representative of this project and to the Government as the one that responsible to this project planner. Based on the President Rule No. 58/2017, state that, there are 245 strategic projects and 3 priority programs that will be run until 2019. These projects will divide into 2 parts, which one that will be handle by BUMN and the rest by the Private Company. The private company could handle the more profitable projects and not more profitable for BUMN.

The other research literature says that, the project that handled by the Government-Owned-Company will make the negative cash flows2. It means that, when the BUMN needs more money to operate the project, but the cash that provided of the company become negative. So, they need to find another way to find the source of financing. Research QuestionThis research investigated the impact of the other source of financing to the leverage of the Government-Owned-Companies in long-term. And then, how this financing could influence the Debt-To-Equity as the one type in leverage ratios. So, how’s the BUMN run in the next year with the negative cash-flow with the certain leverage ratios.

## Literature Surveys

Based on Myers (1977), the high leverage will make the shareholder loses control over the Company, because more high debt-to-equity ratios, the benefits that the bondholder will greater than the shareholder itself. So, based on this, the ownership of Government over the BUMN will decrease, if the leverage-debt-to-equity-ratio greater. The BUMN should pays the interest and bond first rather than the dividend to the shareholders-government. High leverage will make the liquidity problem and could effect to the firm’s ability to growth (Odit & Chittoo, 2008). And it means that, higher debt sometimes have negative impact to the company as a whole. And, this is not only the company but the BUMN also.

The impact of the high leverage ratio for the company in future will make the company failed to repay their debt to the bondholder, in case they issuing bonds. And it could have negative impact, more likely, their share-holder will leave them, their stock price become down, and the last is bankruptcy. This is a unique in Indonesia that calls their financing as creative financing, which one this financing could be separate into two major, such as cooperate of government with business entity (KPBU) and Public-Private Partnership (PPP). And this kinds of financing will increase some leverage ratios if their increase their current debts. And the recover about the negative cash flow that gain as the part of operating activities of infrastructure BUMN, they could cover it with the payment that already in term of payment from the business that have the project. So, based on the cash that they gain, they could continue their business operation.

So, this research will be more detailed about the infrastructure BUMN that already listed in IDX Jakarta (BEI). The measurement based on the leverage ratios, such as the debt ratio and debt to equity ratio. And also the effects of this ratio to the project financing that have been done or still on process by the BUMN. By using the leverage measurement is high, will that have the positive correlation with the amount of financing that they doing. And, this measurement will be based on the increase of assets and the increase of equity to the liabilities.

## Research Design

The leverage measurement that will be doing, based on the annual report and also the financial statement that issued by the Infrastructure BUMN every year. And also, with compare the 4 of Infrastructure companies, such as Wijaka Karya (WIKA. IJ), Waskita Karya (WSKT. IJ), PT. Pembangunan Perumahan (PTPP. IJ) and Adhi Karya (ADHI. IJ).