

# Lien Rights: The Invisible Pillar Urgently Needed in Indonesia's Construction Security System Regulation

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## History of Article

Submitted : August 20, 2025

Revised : November 05, 2025

Accepted : December 05, 2025

Published : December 19, 2025

DOI : <https://doi.org/10.37253/jjr.v27i2.11939>

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## Abstract

Indonesia's construction sector faces acute payment risk, particularly for subcontractors and suppliers positioned downstream in multi-tier contractual chains. Unlike many common law jurisdictions that mitigate this risk through statutory construction lien rights, non-possessory security interests that attach to the improved asset, Indonesia lacks an equivalent construction-specific proprietary protection, leaving payment security largely dependent on contract remedies and general security devices. This article examines (i) how construction lien regimes function as project-specific security mechanisms in selected common law jurisdictions and (ii) the normative and functional gap created by their absence in Indonesia, along with feasible accommodation pathways. Employing doctrinal (normative) legal research using statutory, conceptual, and comparative approaches, the study analyzes representative lien frameworks in North Dakota, Texas, and Ontario. The analysis finds that, despite jurisdictional variations, lien regimes share a regulatory core: lien rights arise upon performance, are made transparent through notice/registration systems, operate under calibrated priority rules, and are enforceable against the project asset through structured procedures. By contrast, Indonesia's principal security instruments, Mortgage Rights (*Hak Tanggungan*) and Fiduciary Security (*Jaminan Fidusia*), are structurally ill-suited to secure progressively embedded construction value and to protect parties

lacking privity with owners. The article concludes that strengthening Indonesia's construction security framework requires a construction-specific proprietary mechanism, preferably statutory recognition of construction lien rights with carefully designed registration, time limits, and priority rules to balance contributor protection with owner and financier certainty.

**Keywords:** Construction Law, Legal Reform, Lien Rights, Security Rights

## Introduction

Lien rights constitute one of the most fundamental yet often underappreciated mechanisms for securing payment in construction transactions (Musa & Akanbi, 2022). In common law jurisdictions, statutory lien regimes, commonly referred to as mechanic's or construction liens, enable contractors, subcontractors, and suppliers to assert a direct security interest over improved property, thereby mitigating the inherent payment risks arising from fragmented contractual chains (Skalka, 2023). These regimes are justified on grounds of fairness and economic efficiency, as they prevent property owners from unjustly benefiting from construction work without ensuring payment to those who contributed labor or materials (Tiberi et al., 2004). The immediacy, publicity, and enforceability of lien rights have thus positioned them as a central pillar of construction payment security in jurisdictions such as the United States and Canada.

By contrast, civil law systems tend to approach construction payment security through traditional proprietary and contractual instruments (Osifo et al., 2025). Comparative legal scholarship demonstrates that while these mechanisms provide general security for obligations, they often fail to replicate the functional advantages of lien rights, particularly in terms of priority, procedural accessibility, and protection against insolvency risks (Wiese, 2021). Studies on priority rights and statutory security interests further reveal that legislatively conferred preferential claims are frequently justified by broader social and economic policies, including the protection of weaker creditors and the preservation of transactional fairness (Mingrui, 2006). Nonetheless, the transplantation or adaptation of such doctrines into construction-specific contexts remains uneven and theoretically contested.

This legal problem is not merely doctrinal but is reinforced by observable sectoral conditions. At the national level, official statistics indicate that construction is a major component of Indonesia's economy, contributing about 9.92% of GDP in 2023. At the subnational level, BPS-referenced reporting from North Kalimantan illustrates the vulnerability of construction enterprises, particularly small-scale firms: the number of active incorporated construction firms reportedly declined from 1,456 (2021) to 1,247 (2022) (a 14.35% decrease), with 209 firms recorded as no longer operating in 2022 (Riyanto, 2023). While these indicators do not by themselves establish non-payment as the sole causal factor, they demonstrate a fragile construction market environment in which downstream actors may be exposed to heightened payment insecurity, strengthening the case for construction-specific payment-security mechanisms that combine immediacy, publicity, and calibrated priority in the manner of lien regimes.

Within the Indonesian legal framework, the absence of an explicit lien rights doctrine creates a significant normative gap in construction law. Existing legal institutions, such as fiduciary security (*jaminan fidusia*) (Wahyu et al., 2024) and mortgage rights (*bak tanggungan*) (Taufika & Erma, 2024), are not designed to address the distinctive characteristics of construction projects, which involve multi-tiered contractual relationships and delayed payment structures. Unlike statutory lien regimes, these mechanisms lack automatic attachment, public notice systems, and effective priority rules capable of safeguarding unpaid construction stakeholders. As comparative analyses of security rights regimes suggest, the absence of publicity and immediacy substantially weakens the practical enforceability of security interests, particularly against third parties and in insolvency proceedings (Wiese, 2021).

Existing scholarship has examined lien rights primarily through doctrinal classification, operational theory, and jurisdiction-specific procedural mechanics. For example, Mitzi Wiese (2021) analyses the legal operation of liens by unpacking how third-party operation shapes doctrinal classification and preferential positioning, including its implications in insolvency contexts. Complementing this doctrinal lens, scholarship on security rights also

emphasizes the mechanics of enforceability through registration and publicity, Davorin Pichler's (2023) discussion of registry liens (mortgages) highlights that where a lien is established by entry in a public register, its effectiveness and legal certainty especially vis-à-vis third parties, depend on the informational function of registration and the public visibility of encumbrances (Pichler, 2023). While these contributions clarify how liens and security interests are conceptually constructed and made opposable through doctrinal and institutional techniques, they leave underexplored a functional-regulatory justification of construction lien rights as a construction governance instrument, namely, a regulatory architecture that operationalizes immediacy (attachment upon performance), publicity (notice/registration), and calibrated priority to manage systemic payment risk in multi-tier construction supply chains and protect downstream actors lacking contractual privity. This article therefore contributes not by reclassifying lien rights, but by repositioning them as a regulatory design for construction payment security capable of cross-systemic adaptation, including for jurisdictions such as Indonesia that currently lack an explicit construction-specific lien doctrine.

This article seeks to fill that gap by advancing a contextualized legal argument for the recognition of lien rights within Indonesia's construction security system. Its scientific contribution lies in reconceptualizing lien rights not merely as a common law anomaly, but as a functional regulatory instrument capable of enhancing payment certainty, contractual balance, and legal predictability in construction transactions. By synthesizing comparative doctrines and judicial practices from common law jurisdictions with Indonesia's existing security rights framework, the article proposes a normative model for lien rights that is compatible with civil law principles while responsive to the realities of the construction sector.

Accordingly, this study aims to examine the conceptual foundations and classifications of lien rights, assess their regulatory operation in selected common law jurisdictions, and critically evaluate the adequacy of Indonesia's current security rights regime in addressing construction payment risks. It ultimately asks whether lien rights can and should be recognized, either statutorily or

contractually, as a distinct pillar of construction security law in Indonesia, and how such recognition could be structured to ensure legal certainty, fairness, and enforceability.

Beyond its doctrinal objectives, this inquiry carries broader implications for construction governance and legal reform. The proposed recognition of construction lien rights has the potential to enhance payment certainty for subcontractors and suppliers by transforming construction performance into a transparent proprietary claim, thereby reducing reliance on defensive contracting practices and costly dispute-resolution mechanisms. Moreover, by operationalizing principles of publicity and calibrated priority in a construction-specific context, the study contributes to improving the coherence of Indonesia's property law system and provides a policy-relevant framework for allocating construction payment risk more efficiently among owners, financiers, and downstream participants.

## Research Method

This article employs normative legal research to address the normative gap arising from the absence of lien rights within Indonesia's construction security system and to formulate a prescriptive regulatory model for construction payment protection. Consistent with normative legal studies that rely on systematic examination of the legal framework to understand how a phenomenon is positioned within existing law, this study assesses how Indonesia's current security-rights regime exposes construction stakeholders to payment risks without adequate enforceability (Soesilo et al., 2025). The analysis applies a statutory approach to evaluate Indonesian legal instruments relevant to security rights in construction-related transactions, alongside a conceptual approach to clarify the legal nature and functional elements of lien rights as a construction-specific security mechanism. The statutory materials analyzed include Indonesia's Law Number 2 of 2017 on Construction Services, Law Number 4 of 1996 on Mortgage Rights over Land and Objects Related to Land (*Hak Tanggungan*), and Law Number 42 of 1999 on Fiduciary Security (*Jaminan Fidusia*), alongside relevant implementing regulations where

necessary. The comparative analysis focuses on representative construction lien regimes from North Dakota (North Dakota Century Code, including Chapter 35-27 and related provisions), Texas (Texas Property Code Chapter 53), and Ontario, Canada (Construction Act, R.S.O. 1990, c. C.30), selected to capture jurisdictional variation while preserving a shared common-law lien core. This doctrinal configuration follows the established view that legal research tests the coherence of norms and principles through the examination of laws, doctrines, and legal principles, with statute and conceptual approaches serving as the core tools for resolving legal issues (Nugraha et al., 2022). A comparative approach is then used to distill transferable regulatory attributes of lien rights from selected common law jurisdictions, enabling a structured evaluation of why Indonesia's existing mechanisms lack the immediacy, publicity, and enforceability typically associated with lien regimes.

This study adopts normative (doctrinal) legal research because the research questions are primarily concerned with regulatory design and doctrinal coherence rather than empirical measurement. The central problem is the absence of a construction-specific proprietary security mechanism in Indonesia and the resulting normative gap: whether lien-type protection can be recognized, what its legal nature should be, and how it should be structured to satisfy principles of publicity, priority, and enforceability against third parties. Addressing these questions necessarily requires (i) statutory interpretation of Indonesia's construction and security-rights legislation, (ii) conceptual clarification of lien rights as construction-specific security interests and their constituent elements (attachment, notice/registration, priority, enforcement), and (iii) comparative norm analysis of representative lien regimes (North Dakota, Texas, and Ontario) to distill a transferable regulatory core. Empirical or socio-legal methods may illuminate the prevalence of payment disputes or insolvency exposure, but they are not sufficient to resolve the doctrinal feasibility and normative architecture of rights, opposability, and priority that this article seeks to formulate.

## Results and Discussions

### The Functional Operation of Lien Rights as Construction-Specific Security Mechanisms in Common Law Jurisdictions

Lien rights occupy a distinctive position within common law systems as construction-specific security mechanisms designed to address the structural peculiarities of construction transactions. Conceptually, lien rights are commonly defined as statutory security interests that arise by operation of law upon the provision of labor, materials, or services contributing to the improvement of land or construction works (Glover, 2025). Unlike consensual security rights, lien rights do not depend on prior agreement between the parties but attach automatically once statutory conditions are satisfied, reflecting their nature as legally privileged claims grounded in public policy rather than private autonomy (Mingrui, 2006). This statutory architecture serves a regulatory function: it disciplines payment behavior *ex ante* by making non-payment capable of triggering a property-based consequence, while also protecting third parties through calibrated publicity and priority rules. Accordingly, lien rights should be read not merely as a definition of security interest, but as a construction-specific governance mechanism for managing systemic payment risk.

This view is shared by several legal scholars: 1) M. Wiese: “a lien is a legally recognised capacity to withhold to ensure that a legal claim will be met (and not a real or personal right), and it is a defence against the owner's *rei vindicatio* (Wiese, 2021)”; 2) Rajashree Kishen Kumar: “Right to lien is the right to possession of property until the dues with respect to that property are not paid off. It is a legal claim and not one that needs to be specified under the contract (Kumar, 2023).”; 3) Dale Whitman: “If someone provides labor or materials for a project of construction or improvement on real estate and is not paid for the work or materials supplied, she or he is entitled to a lien on the real property that can be foreclosed to recover the money owed (Whitman, 2021).” Taken together, these definitions converge on a common functional understanding of lien rights

as legally privileged claims that secure payment through a direct connection to property, independent of contractual consent. While they differ in doctrinal emphasis, whether as a defensive capacity, a right linked to possession, or an enforceable security interest, all three conceptions support the core functional premise of this article: that lien rights operate to transform unpaid construction performance into a property-based mechanism of payment security.

In doctrinal terms, construction liens are predominantly classified as statutory non-possessory security rights, distinct both from possessory liens that require physical control over an asset and from conventional consensual securities such as mortgages or charges (McBride & Adler, 2022). This legal nature differentiates lien rights fundamentally from contractual remedies. Contractual claims generate only personal rights enforceable against specific obligors, while lien rights create proprietary claims enforceable against the improved property itself. As a result, lien rights transcend privity limitations that typically restrict contractual enforcement in multi-tier construction arrangements. In practice, this becomes critical when subcontractors or suppliers are unpaid but have no direct contract with the property owner, so their contractual claim lies only against the main contractor. If that contractor becomes insolvent, downstream parties are often left as unsecured creditors with limited recovery prospects; lien rights mitigate this exposure by allowing eligible contributors to assert a claim against the improved property, subject to statutory notice, timing, and priority requirements. This distinction is particularly significant in construction projects, where subcontractors and suppliers often operate several contractual levels removed from property owners. Whereas conventional security rights require negotiation and registration before value is transferred, lien rights arise *ex post facto*, responding to value creation rather than credit provision. This reversal of logic, securing payment after performance rather than before, constitutes one of the defining characteristics of lien rights within common law property and construction law (Tiberi et al., 2004).

The policy rationales underpinning lien rights are closely tied to the economic and relational structure of construction projects. Construction activities typically involve fragmented contractual chains, delayed payment

schedules, and significant information asymmetries, all of which expose downstream participants to heightened non-payment risk. Lien regimes respond to this vulnerability by reallocating payment risk toward the asset that directly internalizes the value created by construction performance. Normatively, this allocation is justified not only on fairness grounds, because it prevents owners from enjoying value-added improvements without ensuring payment to those who generated that value, but also on economic and institutional efficiency grounds.

By converting unpaid contributions into a standardized, property-based claim, lien regimes reduce transaction costs associated with private risk management, stabilize expectations across multi-tier supply chains, and mitigate insolvency spillovers that would otherwise be borne by the weakest creditors. At the same time, lien protection can generate countervailing concerns, including increased financing risk, lender caution, and owner uncertainty due to the possibility of encumbrances arising from parties with no direct contractual relationship with the owner. Lien statutes typically justify and manage these trade-offs through calibrated safeguards such as notice or registration requirements, strict time limits, and priority rules that balance contributor protection with predictability for owners and financiers. In this sense, lien rights function as instruments of corrective justice aimed at preventing unjust enrichment while also serving a governance role in structuring efficient and transparent payment risk allocation within construction markets (Mingrui, 2006).

Beyond the normative justifications above, lien rights also serve broader regulatory objectives related to market efficiency and risk allocation. The availability of lien protection reduces the need for subcontractors and suppliers to engage in costly private risk-management strategies, such as demanding advance payments or refusing credit altogether. By stabilizing expectations of payment, lien regimes lower transaction costs and promote participation in construction markets (Marbun et al., 2024). Empirical and doctrinal analyses within common law jurisdictions suggest that lien rights contribute to more predictable cash flows and improved access to credit across construction supply

chains, thereby supporting overall market stability (Takele & Jaleta, 2023). From a regulatory standpoint, lien rights thus operate not merely as remedial tools but as structural mechanisms that shape behavior *ex ante*.

Operationally, lien rights are activated through statutory mechanisms that link entitlement to construction performance (Bosneanu, 2022). In most common law jurisdictions, lien attachment is triggered by the commencement or completion of work contributing to property improvement. This attachment does not require judicial intervention at the initial stage, underscoring the immediacy of lien protection. However, enforceability is typically conditioned upon compliance with procedural requirements such as notice filing, registration, or service within prescribed time limits. These procedural elements function as safeguards against abuse while ensuring that lien claims are integrated into the broader property system through publicity mechanisms (Irman Pasaribu et al., 2024).

Registration and public notice systems play a central role in the functional operation of lien regimes. By recording lien claims in public registries, these systems provide transparency to third parties, including lenders, purchasers, and other creditors. Publicity serves a dual function: it preserves lienholders' priority claims while enabling third parties to assess encumbrances before engaging in transactions. In this respect, lien registration systems reconcile the preferential treatment afforded to construction contributors with the demands of legal certainty and transactional security. The effectiveness of lien regimes is therefore closely tied to the clarity, accessibility, and enforceability of registration frameworks (Khubyari, Mohammad, et al., 2024).

Enforcement pathways further distinguish lien rights from ordinary contractual remedies. When payment defaults persist, lienholders are typically entitled to pursue judicial enforcement mechanisms that allow recovery directly from the project asset. These mechanisms may include court-ordered sale, foreclosure-like proceedings, or other asset-based remedies authorized by statute. The availability of such remedies transforms lien rights into potent enforcement tools, capable of compelling payment even in insolvency scenarios where unsecured contractual claims would otherwise fail. This enforcement capacity

underscores the proprietary character of lien rights and explains their centrality within construction law governance (Tiberi et al., 2004).

Priority and third-party effectiveness constitute another defining feature of lien regimes. Statutory lien rights frequently enjoy preferential ranking over mortgages and other security interests, particularly where priority relates back to the commencement of construction activities rather than the date of registration. This priority structure reflects legislative choices to protect construction contributors as a vulnerable creditor class whose inputs directly enhance property value. By subordinating certain consensual security interests, lien regimes redistribute risk within the property financing ecosystem in favor of labor-based contributors (Sauber-Christopherson, 2021).

The role of timing is especially significant in determining lien priority. Many common law systems adopt a relation-back doctrine under which lien priority is anchored to the date construction commenced, even if registration occurs later (Osagioduwa Osifo et al., 2025). This approach prioritizes substantive contribution over formal registration chronology. At the same time, strict procedural deadlines impose discipline on lienholders, ensuring that claims are asserted promptly and transparently. Publicity mechanisms therefore moderate the potentially disruptive effects of lien priority by providing advance warning to third parties, enabling informed risk assessment and contractual adjustment (Rianto et al., 2024).

In practice, common law jurisdictions formalize lien rights through detailed construction lien statutes that share a recurring functional architecture. Across jurisdictions, lien entitlements are broadly extended to those who contribute labor, materials, or specified construction-related services; the right typically arises upon performance; and its effectiveness against third parties is managed through notice or registration requirements, strict time limits, and calibrated priority and enforcement procedures. In North Dakota for example, lien protection for subcontractors is expressly recognized in North Dakota Century Code Chapter 35. In North Dakota Century Code § 35-24-04, titled “Subcontractor’s lien” (Sauber-Christopherson, 2021) it is provided that: “Any person who shall, under contract, perform any labor or furnish any material or

services as a subcontractor under an original contractor or for or to an original contractor or a subcontractor under an original contractor is entitled to a lien upon all the property upon which the lien of an original contractor may attach to the same extent as an original contractor, and the lien provided for in this section shall further extend and attach to all materials and fixtures owned by such original contractor or subcontractor to or for whom the labor is performed or material or services furnished and used or employed, or furnished to be used or employed in the drilling or operating of such oil or gas wells, or in the construction of such pipeline.” The North Dakota framework exemplifies how statutory lien regimes operationalize protection for downstream contributors by translating construction performance into an enforceable proprietary entitlement through clearly defined procedures.

Beyond subcontractor-specific provisions, North Dakota adopts a comprehensive and standalone statutory regime for construction liens under Chapter 35-27 of the North Dakota Century Code, which expressly governs liens arising from construction and real property improvements. This chapter establishes a general construction lien framework applicable to persons who, under contract with an owner or through the contractual chain of contractors and subcontractors, contribute labor, materials, or services to the improvement of real estate. The statutory design emphasizes broad entitlement while anchoring lien rights to value-enhancing construction activities, thereby ensuring that those who contribute to improvements are afforded security over the improved property itself. By situating construction liens within a dedicated chapter, North Dakota clearly distinguishes construction-related security interests from other lien categories, reinforcing the functional specificity of construction liens within its property law system.

Chapter 35-27 of the North Dakota Century Code further elaborates the operational mechanics of construction liens, including attachment, notice, priority, and valuation. Lien rights generally arise upon the first visible provision of labor or materials to the improvement, subject to notice requirements intended to protect owners and third parties acting in good faith. The chapter also calibrates lien priority in relation to mortgages and other encumbrances,

notably addressing construction financing mortgages through specific priority rules that balance creditor protection with the needs of project financing. In addition, the statute limits the amount of a lien to either the agreed contract price or the reasonable value of the labor and materials furnished, and it permits owners to withhold or redirect payments to discharge lien claims. Taken together, these provisions demonstrate that North Dakota's construction lien regime is not merely remedial but structurally integrated into its property and construction law framework, combining entitlement, procedural safeguards, and priority rules into a coherent statutory system for securing construction payment obligations.

Texas provides a similarly structured statutory framework under Chapter 53 of the Texas Property Code. Based on Texas Property Code Section 53.021 titled "Persons Entitled to Lien" it is provided that: "A person has a lien if the person, under a contract with the owner or the owner's agent, trustee, receiver, contractor, or subcontractor: (1) labors or furnishes labor or materials for construction or repair of an improvement; (2) specially fabricates material, even if the material is not delivered; (3) is a licensed architect, engineer, or surveyor providing services to prepare a design, drawing, plan, plat, survey, or specification; (4) provides labor, plant material, or other supplies for the installation of landscaping for an improvement, including the construction of a retention pond, retaining wall, berm, irrigation system, fountain, or other similar installation; or (5) performs labor as part of, or furnishes labor or materials for, the demolition of an improvement on real property." Texas Property Code Section 53.022 titled "Property to Which Lien Extends" provides that: "(a) The lien extends to the improvements and to each lot of land necessarily connected. (b) The lien does not extend to abutting sidewalks, streets, and utilities that are public property. (c) A lien against land in a city, town, or village extends to each lot on which the improvement is situated or on which the labor was performed. (d) A lien against land not in a city, town, or village extends to not more than 50 acres on which the improvement is situated or on which the labor was performed". The statute further regulates the quantum of a subcontractor's claim. Under Texas Property Code Section 53.024 about Limitation on

Subcontractor's Lien regulated that: "The amount of a lien claimed by a subcontractor may not exceed: (1) an amount equal to the proportion of the total subcontract price that the sum of the labor performed, materials furnished, materials specially fabricated, reasonable overhead costs incurred, and proportionate profit margin bears to the total subcontract price; minus (2) the sum of previous payments received by the claimant on the subcontract."

In Ontario, Canada, the statutory regime governing construction liens is primarily contained in Part III (sections 14–21) of the Construction Act, R.S.O. 1990, c. C.30 (Ont.). In Section 14 Construction Act, R.S.O. 1990, c. C.30 (Ontario) regulated that: " (1) . A person who supplies services or materials to an improvement for an owner, contractor or subcontractor, has a lien upon the interest of the owner in the premises improved for the price of those services or materials. (2) No person is entitled to a lien for any interest on the amount owed to the person in respect of the services or materials that have been supplied by the person, but nothing in this subsection affects any right that the person may otherwise have to recover that interest. (3). For greater certainty, subsection (1) applies to services or materials supplied by an architect as defined in the Architects Act and any employees of the architect. (4). If an owner retains a holdback in respect of the supply of a design, plan, drawing or specification for the making of a planned improvement that is not commenced, subsection (1) is deemed to apply with respect to the supply of the design, plan, drawing or specification, unless the owner proves that the value of the owner's interest in land has not been enhanced. In Section 15 Construction Act, R.S.O. 1990, c. C.30 (Ontario) diatur: "A person's lien arises and takes effect when the person first supplies services or materials to the improvement". Ontario Construction Act also imposes a substantive limitation on the lien's monetary value. Under Section 17 (1) Construction Act, R.S.O. 1990, c. C.30 (Ontario), it is provided that: "The lien of a person is limited to the amount owing to the person in relation to the improvement and, subject to Part IV (holdbacks), it is further limited to the least amount owed in relation to the improvement by a payer to the contractor or to any subcontractor whose contract or subcontract was in

whole or in part performed by the supply of services or materials giving rise to the lien.”

To clarify the comparative operation of construction lien regimes in selected common law jurisdictions, the following table summarizes the core statutory features of construction lien regulation in North Dakota, Texas, and Ontario, focusing on entitlement, attachment, scope of encumbered property, and limitations on lien value.

**TABLE 1.** Comparative Table of Construction Lien Regulation

Jurisdiction	Statutory basis	Entitled parties	Attachment / accrual	Scope of lien	Valuation / limitations	Distinct regulatory features
North Dakota (USA)	North Dakota Century Code (NDCC) § 35-24-04 (Subcontractor’s lien); NDCC Chapter 35-27 (Construction lien)	Subcontractors and other persons who, under contract with the owner or through the contractor-subcontractor chain, supply labor, materials, or services contributing to real property improvements.	Lien rights generally arise upon the first visible provision of labor or materials to the improvement, subject to notice requirements protecting owners and good-faith third parties.	Attaches to property to which an original contractor’s lien may attach and extends to certain materials and fixtures owned by the relevant contractor or subcontractor, including oil and gas wells and pipeline construction;	Limited to the agreed contract price or the reasonable value of labor and materials furnished; owners may withhold or redirect payments to discharge lien claims.	A dual structure combining a subcontractor-specific lien provision with a comprehensive construction lien chapter integrating entitlement, procedure, priority, and valuation rules.

				anchored to the improved property.		
Texas (USA)	Texas Property Code Chapter 53; §§ 53.021, 53.022, 53.024	Persons contracting with the owner (or its agent) or with contractors/subcontractors who furnish labor or materials, specially fabricate materials, provide licensed design services, perform landscaping work, or carry out demolition activities.	Entitlement accrues upon the furnishing of qualifying labor, materials, or services for an improvement under the relevant contractual relationship.	Extends to improvements and necessarily connected lots; excludes public sidewalks, streets, and utilities; urban land covers each relevant lot, while non-urban land is limited to a maximum of 50 acres.	Subcontractor's lien capped by the proportionate value of work and materials relative to the total subcontract price, less prior payments received.	Notable for broad eligibility (including design professionals and demolition work) and detailed statutory rules on landscape and formula-based valuation limits.
Ontario (Canada)	Construction Act, R.S.O. 1990, c. C.30 (Ont.), Part III (ss. 14–21)	Any person supplying services or materials to an improvement for an owner, contractor, or subcontractor; expressly includes architects and their employees.	A lien arises and takes effect when the person first supplies services or materials to the	Attaches to the owner's interest in the premises improved for the price of services or materials; includes a special	Lien value excludes interest and is limited to the amount owing to the claimant; subject to holdback rules and further	Emphasizes early attachment combined with strict monetary caps through holdbacks and a payment-chain ceiling to balance payment security and

			improvement.	deeming rule for design outputs where a planned improvement is not commenced, subject to proof of no land value enhancement.	capped by the least amount owed within the payment chain.	owner protection.
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**Sources:** Author’s Analysis

The comparative overview in Table above shows that, despite jurisdictional variation, construction lien statutes share a common regulatory core: broad entitlement for those who contribute labor or materials to an improvement, early attachment upon performance, and calibrated limits on the lien’s monetary value. However, these substantive elements only become practically effective within a broader institutional architecture that governs priority, public notice, and procedural discipline. Accordingly, the design choice that most directly shapes the real-world strength of lien rights is the temporal logic through which priority is determined and made opposable to third parties.

Taken together, the foregoing statutory examples from the United States (North Dakota and Texas) and Canada (Ontario) reveal both convergence and divergence in the design and operation of lien regimes. Although the statutory frameworks vary in scope, terminology, and procedural architecture, they share a common regulatory logic: lien rights operate as construction-specific security interests aimed at securing payment for those who contribute labor, materials, or services to an improvement. Within this shared logic, judicial decisions play a critical role in shaping the practical operation of lien regimes by clarifying eligibility thresholds, policing compliance with procedural requirements, and calibrating proportionality in enforcement. For instance, in Texas, the Supreme

Court's decision in *Page v. Marton Roofing, Inc.* illustrates how courts police statutory timing and perfection requirements in lien-related claims, reinforcing the practical importance of procedural compliance within the Chapter 53 framework (Tracey, 2022). In Ontario, the Court of Appeal in *BCIMC Construction Fund Corporation v. 33 Yorkville Residences Inc.* (2023 ONCA 1) adopted a contextual and purposive approach in construing priority under the Construction Act, emphasizing the statute's risk-allocation structure rather than an interpretation that mechanically expands lien priority beyond holdback deficiency (Statham, 2023). Courts have therefore tended to emphasize purposive interpretation to balance creditor protection against fairness concerns for owners and third parties (Odekunle, 2025a).

Despite jurisdictional variation, a shared regulatory core can be identified across common law lien regimes. This core consists of automatic attachment upon performance, public notice through registration, enforceable priority, and judicial oversight. These elements collectively distinguish lien rights from other security mechanisms and explain their resilience across legal systems. The adaptability of lien regimes is evidenced by ongoing statutory reforms and judicial reinterpretations that respond to evolving construction practices without abandoning the foundational logic of lien protection (Ranney, 2007).

From a functional governance perspective, lien rights exhibit significant strengths as construction security mechanisms. Their immediacy ensures rapid protection for unpaid contributors, while publicity mechanisms promote transparency and legal certainty. Enforceable priority enhances recovery prospects and mitigates insolvency risk. Together, these features address systemic payment vulnerabilities inherent in construction projects. Criticisms commonly directed at lien regimes, such as procedural complexity, administrative burden, or interference with financing, are not inherent defects but outcomes of regulatory calibration choices. Comparative experience demonstrates that such challenges can be mitigated through clear statutory drafting, streamlined registration processes, and consistent judicial interpretation rather than through abandonment of lien protection (Khubyari, Tabatabai, et al., 2024).

In sum, lien rights operate as construction-specific security mechanisms that integrate proprietary protection, regulatory policy, and procedural safeguards within common law systems (Lammey, 2023). Their conceptual foundations, operational mechanics, and functional outcomes reveal a coherent regulatory response to the unique risks of construction transactions (Odekunle, 2025b). By securing payment through property-based claims rather than contractual enforcement alone, lien rights sustain contractual balance, promote fairness, and enhance market stability. These characteristics explain why lien rights continue to function as a central pillar of construction payment security in common law jurisdictions and why they offer valuable normative insights for jurisdictions seeking to reform construction security regulation.

## **The Absence of Lien Rights in Indonesia's Construction Security Framework: Normative Gaps and Prospective Accommodation**

Despite the centrality of construction activities to Indonesia's economic development, the Indonesian legal system lacks a construction-specific security mechanism comparable to lien rights as developed in common law jurisdictions. This gap is institutionally salient because construction is a major economic sector, contributing about 9.92% of Indonesia's GDP in 2023, and available indicators also suggest vulnerability among construction enterprises, particularly smaller firms positioned downstream in payment chains. For instance, BPS-referenced reporting from North Kalimantan shows that the number of active incorporated construction firms declined from 1,456 (2021) to 1,247 (2022), with 209 firms reportedly no longer operating in 2022. While these indicators do not, by themselves, isolate non-payment as the sole causal factor, they underscore a fragile market environment in which payment insecurity can produce material systemic effects. As demonstrated in the preceding discussion, lien regimes operate as statutory, non-possessory security interests that attach automatically upon performance, enjoy calibrated priority, and are enforceable against the improved asset itself (Grubb, 2024). These features collectively distinguish lien

rights from ordinary contractual remedies and render them particularly effective in securing payment for construction contributors (Hamledari & Fischer, 2021). In contrast, Indonesia's existing framework for construction payment security relies predominantly on contractual arrangements and general-purpose proprietary securities, which do not adequately respond to the structural risks inherent in construction projects (Yanuar et al., 2024).

Indonesian construction law places primary emphasis on contractual obligations and administrative compliance rather than on proprietary protection for downstream participants such as subcontractors and suppliers (Sidik, 2023). This design choice can be read as reflecting a regulatory preference for preserving certainty in property and financing arrangements: lawmakers may be cautious about introducing performance-triggered proprietary encumbrances that could fragment land title, complicate land-market publicity, or increase uncertainty for owners and financiers. It also aligns with a governance approach that manages construction risk primarily through *ex ante* contracting and administrative oversight, rather than through *ex post* proprietary claims. This orientation is reflected in Law Number 2 of 2017 on Construction Services, which positions the Construction Contract (*Kontrak Kerja Konstruksi*) as the central legal instrument governing the relationship between project parties (Waisapi, 2024). Article 46(1) of the Law Number 2 of 2017 on Construction Services expressly requires that the legal relationship between the project owner and the service provider be embodied in a construction contract, while Article 47(1)(f) Law Number 2 of 2017 on Construction Services regulates payment obligations and related guarantees as contractual clauses (Astari et al., 2025).

In the event of payment disputes, the statutory framework directs parties toward contract-based dispute resolution mechanisms (Priyambodo, 2021). Article 88 of Law Number 2 of 2017 on Construction Services prioritizes amicable settlement and, where consensus cannot be achieved, provides for mediation, conciliation, arbitration, or dispute boards as the principal enforcement pathways. Additional risk mitigation is achieved through performance guarantees and administrative sanctions, as contemplated under Article 47(1)(o) Law Number 2 of 2017 on Construction Services and the

administrative sanctions regime set out in Chapter XII of the Law Number 2 of 2017 on Construction Services (Agustina & Purnomo, 2023).

While these mechanisms offer a degree of contractual risk management, they remain fundamentally personal in nature and dependent on the solvency and compliance of the contractual counterparty. The Construction Services Law does not recognize any proprietary security interest that attaches directly to the construction project or improved asset to secure payment for subcontractors, suppliers, or labor providers. As a result, downstream participants remain structurally exposed in situations of insolvency, project suspension, or cascading non-payment, notwithstanding their direct contribution to the creation of value in construction projects (Clayton, 2024).

The absence of lien rights in Indonesia reflects a deeper normative gap within its construction security system. Existing security instruments, most notably *Hak Tanggungan* (Mortgage Rights) under Law Number 4 of 1996 on Mortgage Rights over Land and Objects Related to Land (Dores et al., 2025) and Fiduciary Security (*Jaminan Fidusia*) as governed by Law Number 42 of 1999 on Fiduciary Security (Permatasari et al., 2025), are conceptually ill-suited to protect construction contributors whose claims arise incrementally through performance rather than through discrete credit transactions. By examining these instruments through a functional lens, this discussion demonstrates why they cannot serve as effective substitutes for lien rights and explores possible avenues for normative accommodation within the Indonesian construction legal system.

Indonesian Construction projects are characterized by long payment chains, sequential performance, and asymmetrical bargaining power (Wibowo et al., 2024). Payment obligations typically flow from the owner to the main contractor and then cascade down to subcontractors and suppliers. In such arrangements, downstream participants often lack direct contractual privity with the project owner and are therefore dependent on the solvency and good faith of upstream parties. This structural vulnerability is compounded by delayed certification processes, retention mechanisms, and change orders that may postpone or dilute payment entitlements.

In Indonesia, payment security in construction is primarily addressed through contractual provisions, including advance payment guarantees, performance bonds, and penalty clauses (Latilo et al., 2024). While these instruments serve important risk-management functions, they remain fundamentally personal in nature. Their enforceability depends on the solvency of the obligor or guarantor and does not grant claimants any proprietary interest in the project asset. Consequently, when a contractor becomes insolvent or abandons a project, subcontractors and suppliers are relegated to the status of unsecured creditors, competing *pari passu* with other claimants in bankruptcy proceedings.

Lien rights, by contrast, reallocate this risk by transforming unpaid construction contributions into proprietary claims against the improved property. This transformation is normatively significant. It recognizes that construction contributors are not merely contractual creditors but value creators whose labor and materials have enhanced the asset itself. By granting them a security interest that attaches to the improved property, lien regimes internalize construction payment risk within the asset-financing structure rather than externalizing it onto vulnerable participants.

The absence of such a mechanism in Indonesia means that construction risk remains disproportionately borne by those least able to absorb it. This imbalance undermines not only individual fairness but also systemic efficiency, as payment insecurity increases transaction costs, discourages participation by small and medium enterprises, and incentivizes defensive contracting practices.

Two existing security instruments are commonly considered as potential functional analogues to lien rights in Indonesia: Mortgage Rights (*Hak Tanggungan*) and Fiduciary Security (*jaminan fidusia*). Among these, one possible candidate for functional comparison with lien rights is Mortgage Rights (*Hak Tanggungan*), Indonesia's primary security interest over immovable property (Masturi et al., 2025). Based on article 1 (1) Law Number 4 of 1996 on Mortgage Rights over Land and Objects Related to Land, Mortgage Rights (*Hak Tanggungan*) is the guarantee right encumbered upon land rights as referred to in Law Number 5 of 1960 on Basic Agrarian Principles, with or without other

objects constituting an integral part of the land, for the settlement of certain debts, which give priority to certain creditors over other creditors. So basically, Mortgage Rights (*Hak Tanggungan*) in Indonesia is a registered, accessory right that grants the mortgagee priority and enforcement powers over land and fixtures (Syamsiah & Nurviana, 2022). At first glance, its proprietary character and publicity function may appear analogous to construction liens. However, closer examination reveals fundamental conceptual incompatibilities.

First, Mortgage Rights (*Hak Tanggungan*) in Indonesia presupposes a consensual credit relationship between the debtor and the secured creditor. It must be expressly agreed upon and registered prior to or contemporaneously with the extension of kredit (Elyza.Z et al., 2025). This requirement is reflected in Law Number 4 of 1996 on Mortgage Rights over Land and Objects Related to Land, for instead Article 10: “(1) The granting of Mortgage is preceded by a promise to provide Mortgage as a security for the settlement of certain debts, which are set forth in and are an integral part of the relevant debt agreement or other agreements which give rise to said debt. (2) The granting of Mortgage shall be conducted by making Mortgage Deed by PPAT in accordance with the prevailing laws and regulations. (3) If the Mortgage object is in the form of land right from the conversion of old right which has fulfilled the requirements to be registered but the registration has not been carried out, the granting of Mortgage shall be carried out simultaneously with the application for registration of the relevant land right.” Construction lien rights, by contrast, arise *ex lege* upon performance, without the need for prior agreement with the property owner. This distinction is crucial. Construction contributions occur incrementally and often involve parties who lack the bargaining power or opportunity to negotiate proprietary security in advance.

Second, Mortgage Rights (*Hak Tanggungan*) in Indonesia is typically granted to financial institutions as part of project financing arrangements (Setiawan et al., 2025). Its function is to secure capital investment rather than performance-based contributions. Allowing construction contributors to rely on Mortgage Rights (*Hak Tanggungan*) would require owners or lenders to

voluntarily subordinate their security interests or to create multiple layered mortgages, an outcome that is both impractical and normatively undesirable.

Third, the registration requirements of Mortgage Rights (*Hak Tanggungan*) are ill-suited to the dynamic nature of construction work. Based on article 13 Law Number 4 of 1996 on Mortgage Rights (*Hak Tanggungan*) over Land and Objects Related to Land, The granting of Mortgage Rights (*Hak Tanggungan*) must be registered at the Land Office (Anggrahini & Kuswanto, 2024). It means, each new contributor would require a separate security agreement and registration, creating prohibitive administrative burdens. Construction lien regimes avoid this problem by adopting standardized statutory attachment and notice mechanisms that operate independently of individualized negotiations. For these reasons, Mortgage Rights (*Hak Tanggungan*) cannot function as a meaningful substitute for lien rights. Its design reflects a credit-financing paradigm rather than a performance-protection paradigm, rendering it structurally incompatible with the needs of construction contributors.

Fiduciary Security (*Jaminan Fidusia*) is another instrument sometimes considered as a functional analogue to lien rights, given that it allows the debtor to retain possession of movable assets while granting a security interest to the creditor. In practice, fiduciary security is widely used in Indonesia to secure receivables, equipment, and inventory. However, its applicability as a construction payment-security device is inherently limited.

First, the Indonesian statutory concept of fiduciary security is designed for identifiable movable assets and/or receivables that remain legally separable. This is reflected in the definitional provisions of Law Number 42 of 1999 on Fiduciary Security, Article 1(2), as further operationalized by Government Regulation of the Republic of Indonesia No. 21 of 2015, Article 1(1), which governs registration procedures for fiduciary security (Hartoyo & Anggoro, 2022). Construction inputs, by contrast, are typically incorporated into an improvement upon installation and thereby lose their character as distinct movable property. Once incorporated, the materials are absorbed into the owner's property, leaving no separable asset that can be encumbered through fiduciary security.

Second, Fiduciary Security (*Jaminan Fidusia*) requires clear identification of the secured asset and presupposes that the asset is owned by the debtor at the time the security is created. This requirement is expressly reflected in Article 6(c) of Law Number 42 of 1999 on Fiduciary Security, which mandates that the Fiduciary Security Deed contain a detailed description of the object of security, and its elucidation further clarifies that such description must identify the secured asset and specify proof of ownership. In addition, fiduciary security is inherently consensual and registration-based: it must be constituted by a notarial deed (Article 5(1) of Law Number 42 of 1999 on Fiduciary Security), the secured object must be registered (Article 11(1) of Law Number 42 of 1999 on Fiduciary Security), and the security right only comes into existence upon registration in the Fiduciary Registry (Article 14(3) of Law Number 42 of 1999 on Fiduciary Security) (Noor et al., 2024).

These formal requirements are difficult to reconcile with construction transactions, where materials and components are progressively integrated into the project and ownership typically shifts through incorporation into the structure. Once incorporated, construction inputs lose their character as distinct movable assets capable of separate identification or registration. Accordingly, fiduciary security cannot effectively secure payment for construction value that has already been irreversibly embedded in another party's property, underscoring its structural incompatibility with the functional logic of construction lien rights.

Third, fiduciary security is consensual and registration-based (Jamil, 2021). It does not accommodate the *ex lege* attachment upon performance that defines lien rights. Attempting to adapt Fiduciary Security (*Jaminan Fidusia*) for construction payment protection would therefore face structural obstacles similar to those associated with Mortgage Rights (*Hak Tanggungan*), including the need for prior consent and individualized registration. These characteristics make fiduciary security impractical for protecting multiple downstream construction contributors whose claims arise progressively through performance. For these reasons, fiduciary security cannot address the core problem that lien rights are designed to solve: securing payment for construction value that has already been incorporated into the project asset

To underscore why lien rights are better aligned with construction payment risk than mortgage rights (*Hak Tanggungan*) and Fiduciary Security (*Jaminan Fidusia*), the following table outlines the core features of lien regimes and highlights the corresponding limitations of Indonesia's existing security instruments.

**TABLE 2.** Reasons Construction Lien Rights Are Better Aligned with Construction Payment Risk

Core Feature of Lien Rights	Functional Relevance in Construction Projects	Limitations of Existing Indonesian Security Instruments
<i>Ex lege</i> attachment upon performance	Automatically converts progressive construction performance into security, reducing exposure to cascading non-payment.	<i>Hak Tanggungan</i> and fiduciary security are consensual and require prior agreement and registration.
Security linked to the improvement	Protects value once embedded in the project asset, regardless of contractual privity.	Fiduciary security requires identifiable movable assets and loses relevance upon incorporation.
Protection for downstream contributors	Extends security to subcontractors and suppliers lacking direct contractual relationships.	Existing instruments presuppose bilateral secured-credit relationships.
Public notice and opposability	Promotes transparency and enables third-party risk assessment.	Relies on individualized documentation and consent.
Priority calibrated to value creation	Recognizes construction contributors as a vulnerable creditor class enhancing property value.	Priority structures mainly protect financing creditors.
Procedural discipline	Deadlines ensure timely claims and market predictability.	Formality emphasized at creation rather than performance-triggered protection.
Effective asset-based enforcement	Allows recovery directly from the project asset, even in insolvency.	Contractual remedies remain personal and unsecured.
Low transaction-cost standardization	Uniform statutory framework avoids bespoke renegotiations.	Individualized deeds and registrations required.

Source: Author's Analysis

Taken together, the features summarized above show that the absence of lien-type protection in Indonesia produces consequences that extend beyond doctrinal design and into the normative objectives of construction governance. The lack of a construction-specific proprietary security mechanism in Indonesia has broader normative implications. From a fairness perspective, it permits asset owners and financiers to externalize construction risk onto downstream participants, even though they are the ultimate beneficiaries of the value created. From an efficiency perspective, it undermines trust within the construction market and incentivizes inefficient risk allocation through excessive guarantees and price markups.

Furthermore, the absence of lien rights weakens the coherence of Indonesia's property law system. Indonesian law recognizes the principle of publicity (*asas publisitas*) and priority (*asas prioritas*) as fundamental to proprietary rights. Yet construction contributors, whose claims are closely connected to specific property, are denied access to these principles. Their claims remain personal and opaque to third parties, even though they relate directly to the enhancement of a publicly registered asset.

Common law lien regimes demonstrate that it is possible to reconcile proprietary protection with third-party certainty through calibrated notice and registration mechanisms. By requiring timely filing and imposing strict procedural deadlines, lien statutes ensure that lien rights are transparent and predictable, mitigating adverse effects on land markets and project financing. Indonesia's failure to adopt a comparable mechanism thus reflects not doctrinal impossibility but normative omission. Against this backdrop, the foregoing analysis suggests that if Indonesia is to strengthen its construction security system, it must move beyond reliance on general-purpose security instruments. Two principal models of normative accommodation may be considered.

The first is the introduction of a statutory construction lien regime as a sector-specific security interest. Such a regime would grant lien rights to construction contributors upon performance, subject to registration and time limits. Priority could be calibrated to balance the interests of contributors, owners, and financiers, for example by subordinating liens to pre-existing

mortgages while granting priority over subsequent encumbrances. Enforcement could be integrated into existing judicial foreclosure mechanisms.

The second model involves functional adaptation within existing legal categories, such as recognizing a statutory retention of title or performance-based security right linked to construction contracts. While this approach may appear less disruptive, it risks diluting the core advantages of lien rights unless it includes genuine proprietary attachment and enforceability against the asset. In evaluating these options, it is essential to emphasize that lien rights are not merely remedial tools but structural components of construction governance. Their purpose is not to penalize owners but to stabilize payment flows and reduce systemic risk. Properly designed, lien regimes can coexist with project financing arrangements and even enhance credit certainty by clarifying risk allocation *ex ante*.

## Conclusion

Regarding the first research problem, this study concludes that lien rights in common law jurisdictions operate as construction-specific proprietary security mechanisms that convert performance into legally protected value. The comparative analysis demonstrates that, notwithstanding jurisdictional differences, lien regimes share a coherent functional structure consisting of *ex lege* attachment upon construction performance, public notice through registration, calibrated priority rules, and asset-based enforcement against the improved property. These elements collectively address the incremental, multi-tiered, and performance-driven nature of construction transactions, ensuring that labor and material contributors are not relegated to unsecured creditor status. The findings confirm that lien rights are neither incidental nor remedial in character, but rather constitute a deliberate legal architecture designed to stabilize construction payment flows while preserving third-party certainty. Accordingly, the first research objective, clarifying the functional operation of lien rights as construction-specific security mechanisms, has been achieved.

This study also finds that the absence of lien rights within Indonesia's construction security framework reflects a normative gap rather than a doctrinal

limitation. Indonesia's reliance on general-purpose security instruments such as *Mortgage Rights (Hak Tanggungan)* and Fiduciary Security (*Jaminan Fidusia*) fails to accommodate the distinctive risk profile of construction activities, which involve progressive performance, embedded value, and fragmented contractual chains. These instruments are structurally oriented toward consensual credit relationships and identifiable assets, rendering them ineffective in securing payment for value already incorporated into a construction project. The analysis further demonstrates that Indonesian law possesses the conceptual foundations necessary to accommodate construction-specific proprietary protection, and that the omission of lien-type mechanisms results from regulatory design choices rather than legal impossibility. Consequently, the second research objective, identifying the normative deficiency of Indonesia's current framework and assessing prospective accommodation models, has been met, supporting the conclusion that meaningful reform requires the introduction of a performance-based proprietary security mechanism tailored to construction practice.

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## Acknowledgments

None.

## Declaration of Generative AI Use

The author(s) declare that no generative AI or AI-assisted technologies were used in the preparation or writing of this manuscript. All content was produced entirely by the author(s) without any automated assistance.

## **Competing Interest**

We declare that there are no competing interests among the authors regarding this research article.

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