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**TRANSLATION**

**LAW OF THE REPUBLIC OF INDONESIA**

**NUMBER 33 YEAR 2004**

**CONCERNING**

**FISCAL BALANCE BETWEEN THE CENTRAL GOVERNMENT**

**AND THE REGIONAL GOVERNMENTS**

**With the Blessing of God the Almighty**

**The President of the Republic of Indonesia**

Considering:

1. that the 1945 Constitution of the Republic of Indonesia calls for the granting of the broadest autonomy to the regions under the Unitary State of the Republic of Indonesia.
2. That the relationship in the field of finances, public services, exploitation of the natural and other resources between the Central Government and the regional governments and among the regional governments need to be established fairly and harmoniously.
3. That in support of regional autonomy through the provision of sources of financing based on the authority of the Central Government, Decentralization, Deconcentration and Co-administered Tasks, the sharing of revenues between the Central Government and the regional governments need to be clearly established in a financial system based on the sharing of authority, task, and responsibility among the government agencies
4. That Law No. 25 /1999 concerning Revenue Sharing between the Central Government and the regional governments is no longer in tune with the development of the situation, governmental system and the demand of regional autonomy and therefore need to be changed.
5. That based on considerations a, b, c, and d it is necessary to establish Law on Revenue Sharing between the Central Government and the regional governments.

Bearing in mind:

1. Article 1 paragraph (1), Article 15, Article 18A, Articles 20, 21, 23, Article 23C and Article 33 of the 1945 Constitution of the Republic of Indonesia.
2. Law No.17/2003 concerning State Finances (State Gazette of the Republic of Indonesia 2002 No. 47, Supplement No. 4286)
3. Law No. 1/2004 concerning State Treasury (State Gazette of the Republic of Indonesia 2004 No. 5, Supplement No. 4355)
4. Law No.15/2004 concerning Audit of the Management and Accountability of the State Finances (State Gazette of the Republic Indonesia 2004 No. 66, Supplement No.4400)
5. Law No .../ .... Concerning Regional Governments (State Gazette of the Republic of Indonesia ... No....)

With the Joint Approval of the House of Representatives  
and  
the President of the Republic of Indonesia

Has Decided

To establish:

Law Concerning Revenue Sharing Between the Central Government and the Regional Governments

## **Section I General Provisions**

### **Article 1**

For the purpose of this Law:

1. The Central Government, hereinafter called the Government, means the President of the Republic of Indonesia who holds governmental power of the Republic of Indonesia under the 1945 Constitution of the Republic of Indonesia.
2. Regional Administration means the administration by the regional governments and the Regional House of Representatives (DPRD) of governmental affairs based on the principles of the broadest autonomy and Co-administered Tasks within the Unitary

State of the Republic of Indonesia under the 1945 Constitution of the Republic of Indonesia.

3. Revenue Sharing between the Government and the Regional Governments means a fair, proportional, democratic, transparent and efficient sharing of revenues in the financing of Decentralization Deconcentration and Co-administered *Tasks* .with due regard to the potential, condition and need of the regions
4. Regional Government means the Governor, *Bupati* (District Head) or City Mayor including the regional apparatuses. as administrators of the region..
5. Autonomous Region, hereinafter called the Region, means a legal unit limited by borders, authorized to regulate and administer governmental affairs and public interests at its own initiative based on the aspirations of the people within the Unitary State of the Republic of Indonesia.
6. Regional Head means the Governor for a province, *Bupati* for a district, and Mayor for a city
7. Regional House of Representatives hereinafter called DPRD, means an institution representing the local people as part of administrators of the region..
8. Decentralization means the transfer of the authority of the Government authority to an autonomous region to regulate and administer governmental affairs in the region under the Unitary State of the Republic of Indonesia.
9. Deconcentration means the delegation of the authority of the Government to the Governor as representative of the Government.
10. Co-administered Tasks means an assignment from the Government to a region and/or village or other entities with the obligation to report and account for the implementation of the assignment to the Government
11. Regional Income means money entering the Regional Treasury.
12. Regional Expenditure means money going out of the Regional Treasury
13. Regional Revenue means the entitlements of a regional government recognized as addition to the value of its net assets in the pertinent budget year.
14. Regional Expenditure means the obligations of regional government recognized as subtraction to the value of its net assets in the pertinent budget year.
15. Financing means any revenue which needs to be repaid and/or expenditure which will be recovered, both in the current budget year and the following budget years..

16. State Revenue and Expenditure Budget, hereinafter called APBN, means the annual financial plan of the State as approved by the House of Representatives (DPR).
17. Regional Revenue and Expenditure Budget, hereinafter called APBD, means the annual financial plan of a region as jointly approved by the Regional Government and DPRD and established in a Regional Regulation (Perda).
18. Regional Own Revenue, hereinafter called PAD, means locally-raised revenue of a region collected based on a Perda in implementation of Decentralization.
19. Balancing Fund means a fund sourced from APBN allocated to a region to finance the need of the region in implementation of Decentralization
20. Revenue Sharing Fund (DBH) means a fund sourced from APBN allocated to a region at a percentage to finance the need of the region in implementation of Decentralization.
21. General Allocation Fund, hereinafter called DAU, means a fund sourced from APBN allocated to bring equality in the financial capacity among the regions to finance the need of the regions in implementation of Decentralization.
22. Fiscal Gap means a gap calculated based on the difference between the fiscal need and the fiscal capacity of a region.
23. Special Allocation Fund, hereinafter called DAK, means a fund sourced from revenue in APBN allocated to a certain region with the aim of helping funding special activities of the region in accordance with national priorities.
24. Regional Loan means a transaction to enable a region to receive money or benefits of monetary value from a third party with the obligation on the part of the region to repay the loan.
25. Regional Bond means a regional loan offered in a public offering on the capital market.
26. Deconcentration Fund means a fund originating from APBN administered by the Governor as representative of the Government, including all revenues and expenditures in implementation of Deconcentration, but not including funds allocated for Central Government agencies in the region.
27. Co-administered Tasks Fund means a fund originating from APBN administered by the regional government, including all revenues and expenditures in implementation of Co-administered Tasks.
28. Grant mean a regional revenue originating from a foreign government, foreign agency/institution, international agency/institution, the Government, domestic

agency/institution or individuals, in the form of foreign currencies, Rupiah or goods and/or services, including experts and training, which need not be repaid.

29. Emergency Fund means a fund originating from APBN allocated to a region suffering from a national disaster, extraordinary event, and/or solvency crisis.
30. Regional Government Work Program, hereinafter called RKPD, means the annual work program of a province, *kabupaten* and *kota*.
31. Work Program of Regional Apparatus Work Unit, hereinafter called Renja SKPD, means a document on the annual work program of the SKPD.
32. Work Program and Budget of the SKPD, hereinafter called RKA SKPD, means the work program and budget of the SKPD in elaboration of the RKPD and the strategic plan of the SKPD in a budget year and the necessary budget in its implementation.
33. Budget User means an official in charge of use of the budget of a State ministry/institution/SKPD.
34. Goods User means an official in charge of use of State- or /Region-owned goods..

## **Section II**

### **Principles of Revenue Sharing Policy**

#### **Article 2**

- (1) Revenue Sharing between the Government and the Regional Government is a subsystem of the State finances as a consequence of the sharing of task between the Government and the regional government
- (2) Sources of state finances are made available to the regional government in the implementation of Decentralization based on the transfer of task by the Central Government to the regional government with due regard to fiscal stability and fiscal balance.
- (3) Revenue Sharing between the Government and the regional government is a comprehensive system in the funding of Decentralization, Deconcentration and Co-administered Tasks

#### **Article 3**

- (1) PAD aims at providing authority to the regional government to finance regional autonomy in accordance with the potential of the region as a manifestation of Deconcentration.

- (2) Balancing Fund aims at closing the fiscal gap between the Government and the regional government and among the regional governments.
- (3) Regional Loan aims at securing sources of funding regional government affairs.
- (4) Other Incomes aims at providing an opportunity to the region to secure incomes other than those referred to in paragraphs (1), (2), and (3).

### **Section III**

#### **Basis for Regional Government Funding**

#### **Article 4**

- (1) Administration of regional government affairs in implementation of Decentralization shall be funded by APBD.
- (2) Administration of regional government affairs by the Governor in implementation of Deconcentration shall be funded by APBN
- (3) Administration of regional government affairs by the Governor in implementation of Co-administered Tasks shall be funded by APBN
- (4) Delegation of authority in implementation of Deconcentration and/or Co-administered Tasks from the Government to the regional government shall be followed with the provision of funds.

### **Section IV**

#### **Regional Revenue Sources**

#### **Article 5**

- (1) Regional Incomes in implementation of Decentralization and Deconcentration consists of Regional Revenue and Financing.
- (2) Regional Revenue referred to in paragraph (1) derives from:
  - a. PAD
  - b. Balancing Fund, and
  - c. Other incomes
- (3) Financing referred to in paragraph (1) derives from:
  - a. Remaining balance in the regional budget
  - b. Regional loan
  - c. Regional reserve fund, and
  - d. Proceeds from sales of regional assets set aside for the purpose

**Section V**  
**Regional Own Revenue**

**Article 6**

- (1) Regional Own Revenue (PAD) derives from:
- a. Regional Tax
  - b. Regional Retribution
  - c. Proceeds from the management of regional assets set aside for the purpose, and
  - d. Other legal PAD
- (2) Other legal PAD referred to in paragraph (1) includes:
- a. Proceeds from sales of regional assets not set aside for the purpose
  - b. Current account service
  - c. Interest income
  - d. Profits from the difference in the exchange rate of Rupiah against foreign currencies, and
  - e. Commission, discounts, and other forms of income arising from the sales and/or procurement of goods and/or services by the regional government.

**Article 7**

In the effort to increase PAD, the regional government may not::

- a. Establish a Perda on revenue which leads to a high-cost economy, and
- b. Establish a Perda on revenue which may hamper mobility of people and traffic of goods and services between regions and import/export activities.

**Article 8**

Provisions on Regional Tax and Regional Retribution referred to in Article 6 paragraph (1) letters a and b shall be implemented in accordance with the law.

**Article 9**

Provisions on income from the management of regional assets set aside for the purpose referred to in Article 6 paragraph (1) letter c shall be established based on the prevailing laws and regulations.

**Section VI**  
**Balancing Fund**

**Part One**  
**Types**

**Article 10**

- (1) Balancing Fund consists of:
  - a. Revenue Sharing Fund (DBH)
  - b. General Allocation Fund (DAU), and
  - c. Special Allocation Fund (DAK)
- (2) The amount of Balancing Fund referred in paragraph (1) shall be established annually in APBN.

**Part Two**  
**Revenue Sharing Fund**

**Article 11**

- (1) Revenue Sharing Fund (DBH) is sourced from taxes and natural resources.
- (2) DBH sourced from taxes referred to in paragraph (1) consists of:
  - a. Land and Building Tax (PBB)
  - b. Land Rent (BPHTB), and
  - c. Personal Income Tax (PPh) Articles 25 and 29 and PPh Article 21
- (3) DBH sourced from natural resources referred to in paragraph (1) derives from:
  - a. Forestry
  - b. General mining
  - c. Fisheries
  - d. Oil mining
  - e. Natural gas mining and
  - f. Geothermal mining

**Article 12**

- (1) DBH from PBB and BPHTB referred to in Article 11 paragraph (2) letters a. and b. shall be divided between the province, *kabupaten/kota* and the Government.
- (2) DBH from PBB shall be divided 90% (ninety percent) for the region as follows:
  - a. 16.2% (sixteen point two percent) for the province and paid into the account of the Regional Treasury of the province.

- b. 64.8% (sixty four point eight percent) for the *kabupaten/kota* and paid into the account of the Regional Treasury of the *kabupaten/kota*, and
  - c. 9% (nine percent) for the cost of collection
- (3) 10% (ten percent) of the Government share from PBB shall be distributed to all *kabupaten/kota* based on realized PBB of the current budget year as follows:
- a. 65% (sixty five percent) shall be equally distributed to all *kabupaten* and *kota*
  - b. 35% (thirty five percent) shall be distributed as incentives to *kabupaten/kota* whose realized contributions in the previous year exceeded estimated receipts from certain sectors.
- (4) DBH from BPHTB at 80% (eighty percent) shall be distributed as follows:
- a. 16% (sixteen percent) for the province and paid into the account of the Regional Treasury of the province, and
  - b. 64% (sixty four percent) for the producing *kabupaten/kota* and paid into the account of the Regional Treasury of the *kabupaten/kota*
- (5) 20% (twenty percent) of the Government share from BPHTB shall be distributed in equal portions to all *kabupaten/kota*
- (6) DBH from PBB and BPHTB referred to in paragraphs (3) and (4) shall be distributed in accordance with the prevailing laws and regulations.

### **Article 13**

- (1) DBH from Personal Income Tax PPh Articles 25 and 29 and PPh Article 21 referred to in Article 11 paragraph (2) letter c being the share of the region shall be 20% (twenty percent )
- (2) DBH from PPh referred to in paragraph (1) shall be divided between the province and *kabupaten/kota*
- (3) DBH from Personal Income Tax PPh Articles 25 and 29 and PPh Article 21 referred to in paragraph (1) shall be divided 60% (sixty percent) for *kabupaten/kota* and 40% (forty percent) for the province.
- (4) DBH referred to in paragraph (3) shall be distributed on a quarterly basis.

### **Article 14**

State revenues from natural resources referred to in Article 11 paragraph (3) shall be distributed as follows:

- a. Revenue from Forest Exploitation Right (HPH) and Forest Resource Provision (PSDH) shall be divided 20% (twenty percent) for the Government and 80% (eighty percent) for the region concerned.
- b. Revenue from Reforestation Fund shall be divided 60% (sixty percent) for the Government and 40 (forty percent) for the region concerned
- c. Revenue from General Mining shall be divided 20% (twenty percent) for the Government and 80% (eighty percent) for the region concerned
- d. Revenue from fisheries received on a national basis shall be divided 20% (twenty percent) for the Government and 80% (eighty percent) for all *kabupaten/kota*.
- e. Revenue from Oil Mining shall be divided, after tax and other levies in accordance with the prevailing laws and regulations, be divided 84.5% (eighty four point five percent) for the Government and 15.5% (fifteen point five percent) for the region concerned
- f. Revenue from Natural Gas Mining shall, after tax and other levies in accordance with the prevailing laws and regulations, be divided 69.5% (sixty nine point five percent) for the Government and 30.5% (thirty point five percent ) for the region concerned, and
- g. Revenue from geothermal mining as non-tax State revenue shall be divided 20% (twenty percent) for the Government and 80% (eighty percent ) for the region concerned.

### **Article 15**

- (1) DBH from IHPH being the share of the region referred to in Article 14 letter a shall be divided as follows:
  - a. 16% (sixteen percent) for the province
  - b. 64% (sixty four percent ) for the producing *kabupaten/kota*
- (2) DBH from PSDH being the share of the region referred to in Article 14 letter a, shall be divided as follows:
  - a. 16% (sixteen two percent) for the province
  - b. 32% (thirty two percent) for the producing *kabupaten/kota*, and
  - c. 32% (thirty two percent) distributed in equal portions to other *kabupaten/kota* within the province concerned.

### **Article 16**

- (1) DBH from Reforestation Fund being the share of the region referred to in Article 14 letter b shall be divided as follows:

- a. 60% (sixty percent) being the Government share will be used nationally to rehabilitate forests and land, and
- b. 40% (forty percent) being the share of the producing region will be used to rehabilitate forests and land in the producing *kabupaten/kota*.

### **Article 17**

- (1) Revenue from General Mining Receipts referred to in Article 14 letter c consists of:
  - a. Land rent and.
  - b. Royalty
- (2) DBH from land rent being the share of the region referred to in paragraph (1) letter a shall be divided as follows:
  - a. 16% (sixteen percent) for the province concerned, and
  - b. 64% (sixty four percent) for the producing *kabupaten/kota*.
- (3) DBH from royalty being the share of the region referred to in paragraph (1) letter b. shall be divided as follows:
  - a. 16% (sixteen percent) for the province
  - b. 32% (thirty two percent) for the producing *kabupaten/kota*, and
  - c. 32% (thirty two percent) for other *kabupaten/kota* within the province concerned.
- (4) The share for the *kabupaten/kota* referred to in paragraph (3) letter c shall be divided in equal portions to all the other *kabupaten/kota* within the province concerned.

### **Article 18**

- (1) Revenue from Fisheries referred to in Article 14 letter d consists of:
  - a. Levies on Fishing Companies, and
  - b. Levies on Fish Products
- (2) DBH from Fisheries referred to in Article 14 letter d shall be distributed in equal portions to *kabupaten/kota* all over Indonesia.

### **Article 19**

- (1) Revenue from Oil and Gas Mining distributed to the region means State revenue from Oil and Gas Mining resources from the region concerned after tax and other levies
- (2) DBH from Oil Mining referred to in Article 14 letter e (2) at 15% (fifteen percent) shall be distributed as follows:
  - a. 3% (three percent) for the province concerned
  - b. 6% (six percent) for the producing *kabupaten/kota*, and
  - c. 6% (six percent) for other *kabupaten/kota* within the province concerned.

- (3) DBH from Natural Gas Mining referred to in Article 14 letter f (2) at 30% (thirty percent) shall be distributed as follows:
  - a. 6% (six percent ) for the province concerned
  - b. 12% (twelve percent) for the producing *kabupaten/kota*, and
  - c. 12% (twelve percent) for other *kabupaten/kota* within the province concerned.,
- (4) The share for the *kabupaten/kota* referred to in paragraph (2) letter c and paragraph (3) letter c, shall be distributed in equal portions to all *kabupaten/kota* within the province concerned.

#### **Article 20**

- (1) DBH from Oil and Gas Mining referred to in Article 4 letter e (2) and letter f (2) at 0.5% (half a percent) shall be allocated for elementary education
- (2) DBH referred to in paragraph (1) shall be distributed as follows:
  - a. 0.1% (one tenth percent) for the province concerned
  - b. 0.2% (two tenth percent) for the producing *kabupaten/kota*, and
  - c. 0.2% (two tenth percent) for other *kabupaten/kota* within the province concerned.
- (3) The share of the *kabupaten/kota* referred to in paragraph (2) letter c. shall be distributed in equal portions to all *kabupaten/kota* within the province concerned.

#### **Article 21**

- (1) Revenue from Geothermal Mining referred to in Article 14 letter g being non-tax State revenue, consists of:
  - d. Government Share, and
  - e. Fixed Levy and Production Levy
- (2) DBH from Geothermal Mining distributed to the region referred to in Article 14 letter g shall be divided as follows:
  - a. 16% (sixteen percent) for the province
  - b. 32% (thirty two percent) for the producing *kabupaten/kota*, and
  - c. 32% (thirty two percent) for other *kabupaten/kota* within the province concerned.
- (2) The share of the *kabupaten/kota* referred to in paragraph 2 letter c shall be distributed in equal portions to all *kabupaten/kota* within the province concerned.

#### **Article 22**

The Government shall establish DBH allocations from natural resources in accordance with the base of calculation and producing region.

### **Article 23**

DBH being the share of the region referred to in Article 11 shall be distributed based on realized revenue of the current budget year.

### **Article 24**

- (1) Distribution of DBH from the oil and natural gas sector shall not exceed 130% (one hundred thirty percent) of the basic assumption of oil and natural gas prices in the current year APBN.
- (2) In the event distribution of DBH from the oil and natural gas sector referred to in paragraph (1) shall exceed 130% (one hundred thirty percent), then such should be done in accordance with a Revised APBN.

### **Article 25**

Infringement of the provisions referred to in Article 20 paragraphs (1) and (1) shall be subject to administrative penalty in the form of a cut on DBH distributed from the oil and natural gas sector.

### **Article 26**

Further provisions on DBH shall be established by Government Regulations.

## **Part Three General Allocation Fund**

### **Article 27**

- (1) Total amount of General Allocation Fund (DAU) shall be at least 26% (twenty six percent) of Net Domestic Revenue as established in APBN
- (2) DAU for a region shall be allocated based on fiscal gap and basic allocation.
- (3) Fiscal gap referred to in paragraph (2) means fiscal need less fiscal capacity of the region.
- (4) Basic allocation referred to in paragraph (2) shall be calculated based on total salaries of the Civil Service in the region..

### **Article 28**

- (1) Fiscal need of a region means the financing requirements of the region in providing basic public services

- (2) Financing requirements referred to in paragraph (1) shall be measured by total population, areas size, Construction Cost Index, Gross Regional Domestic Products per capita, and Human Development Index.
- (3) Fiscal capacity of a region means financing sources of the region derived from PAD and DBH.

### **Article 29**

The proportion of DAU between a province and a *kabupaten/kota* shall be established based on the sharing of authority between the province and the *kabupaten/kota*.,

### **Article 30**

- (1) DAU for a province based on fiscal gap referred to in Article 27 paragraph (2) shall be calculated based on the weight of the province multiplied by total DAU for all provinces
- (2) The weight of the province referred to in paragraph (1) means the fiscal gap of the province in proportion to the total fiscal gap of all provinces

### **Article 31**

- (1) DAU for a *kabupaten/kota* based on fiscal gap referred to in Article 27 paragraph (2) shall be calculated based on the weight of the *kabupaten/kota* multiplied by total DAU for all *kabupaten/kota*.
- (2) The weight of the *kabupaten/kota* referred to in paragraph (1) means the fiscal gap of the *kabupaten/kota* in proportion to the total fiscal gap of all *kabupaten/kota*.

### **Article 32**

- (1) A region with a fiscal gap equal to zero shall receive DAU in the amount of the basic allocation.
- (2) A region with a negative fiscal gap lower than the basic allocation shall receive DAU in the amount of basic allocation less the value of the fiscal gap.
- (3) A region with a negative fiscal gap equal to or lower than the basic allocation shall not receive DAU.

### **Article 33**

Data for calculating fiscal need and fiscal capacity referred to in Article 28 shall be obtained from the government statistical office and/or other institutions authorized to issue such data.

### **Article 34**

The Government shall formulate and calculate DAU referred to in Articles 30, 31 and 32. with due consideration to the opinion of the council tasked with providing policy recommendations on regional autonomy.

### **Article 35**

DAU for each province, *kabupaten*, and *kota* shall be established by Presidential Decree.

### **Article 36**

- (1) DAU referred to in Article 34 shall be distributed monthly at 1/12 (one twelfth) of DAU of the region concerned.
- (2) DAU referred to in paragraph (1) shall be distributed before the start of the month..

### **Article 37**

Further provisions on DAU shall be established by Government Regulations.

## **Part Four Special Allocation Fund**

### **Article 38**

The amount of Special Allocation Fund DAK shall be established annually in APBN.

### **Article 39**

- (1) DAK shall be allocated to certain region to finance special activities being the affairs of the region.
- (2) Special activities referred to in paragraph (1) shall be in accordance with the function as established in APBN.

### **Article 40**

- (1) The Government shall establish criteria for DAK, including general criteria, special criteria and technical criteria.

- (2) General criteria referred to in paragraph (1) shall be established with due regard to the financial capacity of the region in APBD.
- (3) Special criteria referred to paragraph (1) shall be established with due regard to the prevailing laws and regulations and the characteristics of the region.
- (4) Technical criteria referred to in paragraph (1) shall be established by the state ministry/technical department.

#### **Article 41**

- (1) A regions receiving DAK shall provide Matching Funds in an amount of at least 10% (ten percent ) of DAK allocation
- (2) Matching Funds referred to in paragraph (1) shall be budgeted in APBD.
- (3) A region with a certain fiscal capacity shall not be required to provide Matching Funds.

#### **Article 42**

Further provisions on DAK shall be established by Government Regulations

### **Section VII Other Incomes**

#### **Article 43**

Other incomes shall consist of incomes from grants and Emergency Fund.

#### **Article 44**

- (1) Income from grants referred to in Article 43 represents untied assistance.
- (2) A grant to a region from overseas should go through the Government.
- (3) A grant should be validated in an agreement between the regional government and the donator.
- (4) A grant shall be used in accordance with the agreement referred to in paragraph (3).

#### **Article 45**

Procedures on the extension, receipt and use of a grant, from both inside and outside Indonesia, shall be established by Government Regulations.

#### **Article 46**

- (1) The Government shall allocate Emergency Fund from APBN for urgent need in the event of a national disaster and/or extraordinary situation which cannot be coped with by a region by APBD alone.
- (2) An event which can be classified as a national disaster and/or extraordinary situation shall be established by the President.

#### **Article 47**

- (1) The Government may allocate Emergency Fund to a region declared in a solvency crisis.
- (2) A region shall be declared in a solvency crisis referred to in paragraph (1) based on a Government evaluation in accordance with the prevailing laws and regulations.
- (3) The Government shall declare a region in solvency crisis referred to in paragraph (1) after consultation with the DPR.

#### **Article 48**

Further provisions on Emergency Fund shall be established by Government Regulations

### **Section VIII Regional Loan**

#### **Article 49**

- (1) The Government shall establish the cumulative maximum limit of Government loan (to) the regional governments with due regard to the situation and development of Indonesian economy.
- (2) The cumulative maximum limit referred to in paragraph (1) shall not exceed 60% (sixty percent) of the Gross Domestic Products of the year concerned.
- (3) The Finance Minister shall establish the cumulative maximum limit of loan to the regional government as a whole not later than in August of the following budget year.

- (4) The cumulative maximum limit of loan to the regional governments shall be controlled in accordance with the prevailing laws and regulations.

### **Article 50**

- (1) The regional government may not seek loans directly from overseas.
- (2) Infringement of the provisions referred to in paragraph(1) shall be subject to administrative penalty in the form of a deferment of and/or cut in Balancing Fund from the Finance Minister.

## **Part Two Sources of Loan**

### **Article 51**

- (1) Regional Loan shall be sourced from:
- a. The Government
  - b. Other regional governments
  - c. banks/financial institutions
  - d. Non-bank financial institutions, and
  - e. The public
- (2) Regional Loan from the Government referred to in paragraph (1) letter a shall be extended through the Finance Minister.
- (3) Regional Loan sourced from the public referred in paragraph (12) letter e in the form of Regional Bond shall be obtained through the capital market.

## **Part Three Types and Period of Loan**

### **Article 52**

- (1) Types of loan include:
- a. Short term loan
  - b. Medium term loan, and
  - c. Long term loan
- (2) Short term loan referred to in paragraph (1) letter a is a Regional Loan for a period of less than or equal to one budget year with the obligation to repay the loan, including principal, interests and charges, in full within the budget year concerned.

- (3) Medium term loan referred to in paragraph (1) letter b is a Regional Loan for a period of more than one budget year with the obligation to repay the loan including principal, interests and charges, in full within a period not exceeding the term of the Regional Head concerned
- (4) Long term loan referred to in paragraph (10) letter c is Regional Loan for a period of more than one budget year with the obligation to repay the loan, including principal, interests and charges, in full in the following budget years in accordance with the terms and conditions of the loan.

#### **Part Four Use of Loan**

##### **Article 53**

- (1) Short term loan shall be used only for the purpose of covering shortfall in cash flow
- (2) Medium term loan shall be used to finance the provision of non-profit public services..
- (3) Long term loan shall be used to finance investments in income-generating projects..
- (4) Medium and short term loans are subject to DPRD approval..

#### **Part Five Conditions of Loan**

##### **Article 54**

- (1) In seeking a loan, a regional government must meet the following requirements:
  - a. The balance of the existing loan plus the amount of the loan to be drawn shall not exceed 75% (seventy five percent) of total revenue in APBD of the previous year
  - b. The ratio of financial capacity of the regional government to repay the loan shall be established by the Government
  - c. It is not in arrears in repayment of loan from the Government

##### **Article 55**

- (1) The regional government may give guarantee to a loan from a third party

- (2) Regional revenue and/or property may not be pledged as security for a Regional Loan
- (3) A project financed by Regional Bond, including regional property attached to the project, may be pledged as security for the Regional Bond.

**Part Six**  
**Regional Loan Procedure**

**Article 56**

- (1) The Government may not grant a loan to the regional government with funds derived from overseas.
- (2) A loan to the regional government referred to in paragraph (1) shall be granted through an agreement on on-forwarded loan with the regional government.
- (3) The agreement referred to in paragraph (2) shall be signed by and between the Finance Minister and the Regional Head.
- (4) The loan agreement referred in paragraph (3) may be denominated in rupiah or foreign currency.

**Part Seven**  
**Regional Bond**

**Article 57**

- (1) The regional government may issue Regional Bond in Rupiah currency on the domestic capital market
- (2) The value of the Regional Bond shall on the date of maturity be equal to the nominal value of the Regional Bond on the date of issue.
- (3) Issuance of the Regional Bond must meet the provisions of Articles 54 and 55 and the prevailing laws and regulations on capital market.
- (4) Proceeds from the sales of Regional Bond shall be used to finance investments in the public sector which generates income and brings benefits to the public.
- (5) Income from investments in the public sector referred to in paragraph (4) shall be used to pay the principal and interests of the Regional Bond with the balance paid to the Regional Treasury

### **Article 58**

- (1) Issuance of Regional Bond by the regional government is subject to the Regional Head obtaining a prior approval from DPRD and the Government
- (2) Issuance of Regional Bond shall be established by Perda.
- (3) Approval referred in paragraph(1) shall be given on the maximum net value of the Regional Bond to be issued on the date of APBD.

### **Article 59**

The Government does not guarantee Regional Bond

### **Article 60**

On every Regional Bond shall at least be stated the following:

- a. nominal value
- b. date of maturity
- c. date of interest payment
- d. rate of interest (coupon)
- e. frequency of interest payment
- f. method of calculating interest payment
- g. provision on the right to buy back Regional Bond before maturity, and
- h. provisions on transfer of ownership

### **Article 61**

- (1) DPRD approval to the issuance of Regional Bond referred to in Article 58 paragraph (1) shall include provisions on payment of principal and interests arising from the issuance of the Regional Bond.
- (2) The regional government shall pay the principal and interests on every Regional Bond on maturity
- (3) Funds to pay principal and interests referred to in paragraph (2) shall be provided in APBD annually until the end of the obligations.
- (4) In the event the interests payable exceeds the estimated funds referred to in paragraph (3) the Regional Head shall make report the realized payments to DPRD in the discussion on the draft APBD.

### **Article 62**

- (1) The Regional Head shall be responsible for the management of the Regional Bond.

- (2) Management of the Regional Bond referred to in paragraph (1) shall at least include:
- a. Management strategy and policy, including risk management policy
  - b. Portfolio structure planning
  - c. Issuance of Regional Bond
  - d. Sales of Regional Bond by auction
  - e. Repurchase of the Regional Bond before maturity
  - f. Payment on maturity, and
  - g. Accountability

**Part Eight  
Loan Report**

**Article 63**

- (1) The regional government shall report Regional Bond position and obligations to the Government every semester of the current budget year.
- (2) In the event the regional government fails to make the report, the Government may delay extension of the Balancing Fund

**Article 64**

- (1) All Regional Bond obligations shall on maturity be budgeted in APBD of the pertinent budget year.
- (2) In the event the regional government fails to repay the Regional Loan to the Government, the obligation shall be accounted for against DAU and/or DBH from State revenue which the regional government is entitled to.

**Article 65**

Further provisions on Regional Loan and Regional Bond shall be established by Government Regulations.

**Section IX  
Management of Decentralization Finances  
General Principles**

**Article 66**

- (1) Regional finances shall be managed in an orderly, efficient, economical, effective transparent, and responsible manner in accordance with the prevailing laws and regulations with due regard to fairness, propriety and benefit to the public.

- (2) APBD, Revised APBD and accountability in the implementation of APBD shall be established annually by Perda.
- (3) APBD has the function of authorization, planning, supervision, allocation and distribution.
- (4) All regional revenues and expenditures in the budget year concerned shall be stated in APBD.
- (5) APBD surplus may be used to finance regional expenditures of the following budget year.
- (6) Use of APBD surplus referred to in paragraph (5) to set up a reserve fund or participate in a regional enterprises shall be subject to prior approval from DPRD.

#### **Article 67**

- (1) Perda on APBD shall be a basis for the regional government in the management of regional revenue and expenditure.
- (2) No official may commit an expenditure on the account of APBD if the fund for the expenditure is not available or not adequately available in the budget.
- (3) All regional expenditures, including subsidies, grants and other assistance in accordance with government programs shall be funded by APBD.
- (4) Any delay in payment of invoices relating to implementation of APBD may lead to imposition of penalty and/or interest.
- (5) APBD shall be drawn up according to the need for governmental administration and to the financial capacity of the region.
- (6) In the likely event of a deficit, sources of funding to cover the deficit should be established in a Perda on APBD.
- (7) In the likely event of a surplus, use of the surplus should be established in a Perda on APBD.

#### **Article 68**

The budget year of APBD is the same as that of APBN covering a one-year period from 1 January through 31 December.

## **Part Two Planning**

### **Article 69**

- (1) The regional government shall, in the administration of the region, draw up RPKD based on the Government Work Program, as a unit in national development planning.
- (2) RPKD referred to in paragraph (1) shall be a basis for the drafting of ABPD.
- (3) RPKD referred to in paragraph (2) shall be manifested in RKA SPKD.
- (4) Provisions on RKA SPKD referred to in paragraph (3) shall be established by Government Regulations.
- (5) Further provisions on RKA SPKD shall be established in a Perda.

### **Article 70**

- (1) APBD shall consist of revenue budget, expenditure budget, and financing budget
- (2) Revenue budget referred to in paragraph (1) shall derive from PAD, Balancing Fund and Other Incomes.
- (3) Expenditure budget referred to in paragraph (1) shall be classified by organization, function, program, activity and type of expenditure.
- (4) Financing budget referred to in paragraph (1) shall consist of financing revenue and financing expenditure.

### **Article 71**

- (1) The regional government shall submit to DPRD the general policy on APBD on the following year in line with RPKD not later than in June of the current year.
- (2) DPRD shall put the general policy submitted by the regional government in a preliminary discussion of the draft APBD of the following budget year.
- (3) Based on the approval to general policy, the regional government and DPRD shall discuss budget priorities and ceiling as a reference for SKPD.

### **Article 72**

- (1) SKPD Head as user of the budget shall draw up RKA SKPD of the following year.
- (2) Renja SKPD shall be drawn up with an approach to performance to be achieved.

- (3) RKA SKPD referred to in paragraph (1) shall be accompanied by an estimate of expenditures for the following budget year.
- (4) The work program and budget referred to in paragraph (1) and (2) shall be submitted to DPRD in the preliminary discussion of the draft APBD.
- (5) Results of the discussion of the work program and budget shall be submitted to the official in charge of regional finances as a material for drawing up the draft Perda on APBD of the following year..

### **Article 73**

- (1) The Regional Head shall submit the draft Perda on APBD along with an explanation and supporting documents to DPRD for approval
- (2) DPRD jointly with the regional government shall discuss the draft APBD.
- (3) The draft APBD if approved will be incorporated in a Perda on APBD.

## **Part Three Implementation**

### **Article 74**

All regional incomes must be paid entirely on time to the account of the Regional Treasury.

### **Article 75**

- (1) Expenditure on the account of APBD in a budget year can only be made after APBD of the pertinent year has been established in a Perda
- (2) In the event the Perda referred to in paragraph I (1) is not approved by DPRD, then the regional government may, in financing its monthly need, make an expenditure in an amount at most as high as the realized APBD of the previous year.
- (3) The Head of SKPD shall prepare documents for the implementation of the SKPD budget based on budget allocations established by the Regional Head.
- (4) User of the budget shall carry out activities stated in the documents as approved.
- (5) User of the budget has the right to verify invoices, charge them to budget and order their payment on the account of APBD.

- (6) Payment of invoices on the account of APBD shall be made by the Regional Treasurer
- (7) Payment on invoices on the account of APBD may not be made before the goods and/or services are received.

#### **Article 76**

- (1) The regional government may set up a Reserve Fund to finance regional need which are not allocated in a budget year as established in Perda.
- (2) The Reserve Fund referred to in paragraph (1) may be sourced from the setting aside of APBD revenues other than DAK, Regional Loan, and other incomes whose use is limited to certain expenditure.
- (3) Use of the Reserve Fund in a budget year shall represent APBD payments in the budget year concerned.

#### **Article 77**

- (1) The Reserve Fund referred to in Article 76 paragraph (1) shall be placed in an account separate from the Regional Treasury Account.
- (2) If the Reserve Fund referred to in paragraph (1) is not yet used as intended, the fund may be placed in a low-risk portfolio which generate a fixed income.

#### **Article 78**

- (1) The regional government may enter into mutually profitable cooperation with a third party
- (2) The cooperation with a third party referred to in paragraph (1) shall be established in a Perda.
- (3) The budget arising from the cooperation referred to in paragraph (1) shall be stated in APBD.

#### **Article 79**

- (1) The regional government may, in an emergency situation, make expenditure from APBD in which no budget is yet available.
- (2) Expenditure referred to in paragraph (1) shall be further proposed in the revised APBD and/or stated in the Realized Budget Report.

## **Article 80**

- (1) Revision of APBD shall be established not later than 3 (three) months before the end of the budget year
- (2) Revision of APBD may be made only once in a budget year, except in an extraordinary situation.
- (3) Extraordinary situation referred to in paragraph (2) means a situation which may cause estimated revenue and/or expenditure in APBD to increase or decrease by more than 50% (fifty percent)

## **Part Four Accountability**

### **Article 81**

- (1) The regional government shall submit a draft Perda of accountability in implementation of APBD to DPRD in the form of a financial report audited by the State Audit Body not later than 6 (six) months before the end of the budget year
- (2) The financial report referred to in paragraph (1) shall at least cover Report of Realized APBD, Balance Sheet, Cash Flow Report and Notes on Financial Report, including financial reports from regional enterprises.
- (3) The form and contents of the accountability report referred to in paragraphs (1) and (2) shall be prepared and presented in accordance with the Government Accounting Standard.

### **Article 82**

Management and accountability of regional finances shall be in accordance with the laws and regulations on State finances and State treasury.

## **Part Five Control**

### **Article 83**

- (1) The Finance Minister shall establish the maximum limit of cumulative amounts of APBN and APBD deficits.
- (2) The cumulative deficits referred to in paragraph (1) may not exceed 3% (three percent) of Gross Domestic Products of the current year.

- (3) The Finance Minister shall establish criteria for APBD deficits and the maximum limit of APBD deficits of each region and each budget year.
- (4) infringement of the provisions referred to in paragraph (3) shall be subject to penalty in the form of delay in the extension of the Balancing Fund.

#### **Article 84**

In the likely event of a deficit in APBD, deficit financing shall be derived from:

- a. Remaining Balance of the of Budget (SLPA)
- b. Reserve Fund
- c. Sales of regional assets set aside for the purpose, and
- d. Regional Loan

### **Part Six Supervision and Audit**

#### **Article 85**

- (1) Decentralization Fund shall be set up according the prevailing laws and regulations
- (2) Decentralization Fund shall be audited according to the laws and regulations on audit of the management and accountability of the State finances.

#### **Article 86**

Further provisions on the management of regional finances shall be established by Government Regulations.

### **Section X Deconcentration Fund**

#### **Part One General Provisions**

#### **Article 87**

- (1) Deconcentration Funding shall be set up after the delegation of authority of the Government through the State ministries/institutions to the Governor as representative of the Government in the region.
- (2) Implementation of the delegation of authority referred to in paragraph (1) shall be funded by the Government.

- (3) Funding by the Government referred to in paragraph (1) shall be adjusted to the delegated authority.
- (4) Deconcentration activities in the regions shall be carried out by SKPD as established by the Governor.
- (5) The Governor shall notify DPRD of the work program and budget of the State ministries/institutions relating to the Deconcentration activities in the region
- (6) DPRD shall be notified of the work program and budget referred to in paragraph (5) on the date of discussion of the draft APBD.
- (7) Funding referred to in paragraph (3) shall; be for activities of a non-physical nature.

## **Part Two Deconcentration Fund Budgeting**

### **Article 88**

Deconcentration fund shall be part of the budget of the state ministries/institutions allocated based on the work program and budget of the State ministries/institutions.

## **Part Three Distribution of Deconcentration Fund**

### **Article 89**

- (1) Deconcentration fund shall be distributed through the account of the State Treasury
- (2) The Governor shall at the start of each budget year establish SKPD as executors of Deconcentration activities
- (3) In the event of a remaining balance in the implementation of Deconcentration budget, such balance shall be paid back into APBN.
- (4) In the event of cash balance in the implementation of Deconcentration budget, such e balance shall be paid to the account of the State Treasury.
- (5) In the event of an income being generated from the implementation of Deconcentration, such income shall be a revenue for APBN paid to the State Treasury in accordance with the prevailing laws ad regulations

**Part Four**  
**Deconcentration Fund Accountability and Reporting**

**Article 90**

- (1) The financial administration of Deconcentration shall be separate from the financial administration of Co-administered Tasks and Decentralization
- (2) SKPD shall be responsible for the orderly administration of money and goods in implementation of Deconcentration in accordance with the prevailing laws and regulations.
- (3) SKPD shall submit an accountability report on the implementation of Deconcentration to the Governor
- (4) The Governor shall submit an accountability report on the implementation of Deconcentration as a whole to the state ministries/institutions delegating the authority
- (5) The state ministries/institutions shall submit an accountability report on Deconcentration on a national basis to the President in accordance with the prevailing laws and regulations.

**Part Five**  
**Status of Goods in Implementation of Deconcentration**

**Article 91**

- (1) All goods obtained from Deconcentration Fund shall be the property of the state.
- (2) The state goods referred to in paragraph (1) may be donated to the region.
- (3) The state goods donated to the region referred to in paragraph (2) shall be managed and administered by the region.
- (4) The state goods which are not donated to the region shall be managed and administered by the State ministries/institutions delegating the authority.

**Article 92**

Further provisions on the budgeting, distribution, reporting and accountability and donation of the State goods obtained in implementation of Deconcentration Fund shall be established by Government Regulations.

**Part Six  
Supervision and Audit**

**Article 93**

- (1) Deconcentration Fund shall be supervised in accordance with the prevailing laws and regulations.
- (2) Deconcentration Fund shall be audited in accordance with the prevailing laws and regulations on audit of the management and accountability of the state finances.

**Section XI  
Co-administered Tasks Fund**

**Part One  
General Provisions**

**Article 94**

- (1) Co-administered Tasks shall be funded after assignment by the Government through state ministries/institutions to the Regional Head
- (2) Implementation of Co-administered Tasks referred to in paragraph (1) shall be funded by the Government
- (3) Government funding referred to in paragraph (2) shall be adjusted to the assignment granted.
- (4) Co-administered Tasks in the region shall be carried out SKPD as established by the governor, bupati or mayor
- (5) The Regional Head shall notify DPRD of the work program and budget of the state ministries/institutions relating to Co-administered Tasks.
- (6) The Work Program and Budget referred to in paragraph (4) shall be notified to DPRD on the date of discussion of the draft APBD.
- (7) Funding referred to in paragraph (3) shall be allocated for activities of a physical nature.

**Part Two**  
**Co-administered Tasks Fund Budgeting**

**Article 95**

Co-administered Tasks Fund shall be part of the budget of the state ministries/institutions allocated based on the work program and budget of the state ministries/institutions.

**Part Three**  
**Distribution of Co-administered Tasks Fund**

**Article 96**

- (1) Co-administered Tasks Fund shall be distributed through the account of the State Treasury .
- (2) The Regional Head shall at the start of each budget year establish the SDKPD as executors of Co-administered Tasks activities
- (3) In the event of a remaining balance in the implementation of Co-administered Tasks, such balance shall be paid back into APBN
- (4) In the event of a cash balance in Co-administered Tasks, such balance shall be paid to the account of the State Treasury.
- (6) In the event of an income being generated from the implementing of Co-administered Tasks, such income shall be a revenue for APBN paid to the State Treasury in accordance with the prevailing laws ad regulations

**Part Four**  
**Co-administered Tasks Accountability and Reporting**

**Article 97**

- (1) The financial administration of Co-administered Tasks shall be separate from the financial administration of Deconcentration and Decentralization
- (2) SKPD shall be responsible for the orderly administration of money and goods in implementation of Co-administered Tasks in accordance with the prevailing laws and regulations.
- (3) SKPD shall submit an accountability report on the implementation of Co-administered Tasks to the Governor, bupati or mayor

- (4) The Regional Head shall submit an accountability report on the implementation of Co-administered Tasks to the state ministries/institutions giving the assignment
- (5) The state ministries/institutions shall submit an accountability report on Co-administered Tasks on a national basis to the President in accordance with the prevailing laws and regulations.

**Part Five**  
**Status of Goods in Implementation of Co-administered Tasks**

**Article 98**

- (1) All goods obtained from Co-administered Tasks Fund shall be the property of the state.
- (2) The state goods referred to in paragraph (1) may be donated to the region.
- (3) The state goods which are not donated to the region shall be managed and administered by the State ministries/institutions giving the assignment
- (4) The state goods donated to the region referred to in paragraph (2) shall be managed and administered by the region.

**Article 99**

Further provisions on the budgeting, distribution, reporting and accountability and donation of the State goods obtained in implementation of Co-administered Tasks Fund shall be established by Government Regulations

**Part Six**  
**Supervision and Audit**

**Article 100**

- (1) Co-administered Tasks Fund shall be supervised in accordance with the prevailing laws and regulations.
- (2) Co-administered Tasks Fund shall be audited in accordance with the prevailing laws and regulations on auditing of the management and accountability of the state finances

**Section XII**  
**Regional Finance Information System**

**Article 101**

- (1) The Government shall set up a regional finance information system on a national basis aimed at:
  - a. formulating national fiscal policy and control
  - b. presenting regional financial information on a national basis
  - c. formulating regional financial policy, such as that on Balancing Fund, regional loan and budget deficit control, and
  - d. monitoring, controlling, and evaluating funding of Decentralization, Deconcentration, Co-administered Tasks, Regional Loan and regional budget deficit.
- (2) The Regional Finance Information System referred to in paragraph (1) shall be managed by the Government on a national basis.

**Article 102**

- (1) The Regional government shall provide the Government with reliable information the regional finances
- (2) The Regional government shall set up regional finance information system.
- (3) Information relating to regional finances referred to in paragraph (1) shall include:
  - e. APBD and report on realized APBD in the province, kabupaten and kota
  - f. Regional balance sheet
  - g. Cash flow report
  - h. Notes on regional financial report
  - i. Deconcentration Fund and Co-administered Tasks Fund
  - j. BUMN financial report, and
  - k. Data relating to fiscal need and fiscal capacity of the region
- (4) Information referred to in paragraph (3) letter a, b, c and d shall be submitted to the Government in accordance with the Government Accounting Standard.
- (5) The Finance Minister shall give penalty in the form of delay in the extension of the Balancing Fund to a regional government not providing information referred to in paragraph (3)

**Article 103**

Information published on the regional financial information system referred to in Article 101 shall be open data which may be accessed by the public.

## **Article 104**

Management of the regional financial information system referred to in Articles 101, 102 and 103 shall be established by Government Regulations.

## **Section XIII Transitional Provisions**

### **Article 105**

- (1) Implementing regulations on Law No.25/1999 concerning Revenue Sharing between the Government and the Regions shall remain in effect as long they have not been replaced with new implementing regulations based on this Law.
- (2) Implementing regulations as a follow up to this Law shall be completed not later than 1(one) year after the promulgation of this Law

### **Article 106**

- (1) Additional DBH in the oil and gas sector referred to in Article14 letters e and f and Article 20 shall be implemented starting from the budget year 2009
- (2) As of the coming into effect of this law through the budget year 2008 oil mining revenue from the region concerned shall, after tax and other levies in accordance with the prevailing laws and regulations, be divided as follows:
  - a. 85% (eighty five percent) for the Government, and
  - b. 15% (fifteen percent) for the region.
- (3) As of the coming into effect of this Law through the budget year 2008 natural gas mining revenue from the region concerned shall, after tax and other levies in accordance with the prevailing laws and regulations, be divided as follows:
  - c. 70% (seventy percent) for the Government, and
  - d. 30% (thirty percent) for the region.

### **Article 107**

- (1) As of the coming into effect of this law through the budget year 2007 DAU shall be established at 25.5% (twenty five point five percent) of Net Domestic Revenue as established in APBN.
- (2) Provisions on DAU allocation shall under this Law be fully implemented starting from the budget year 2008.

## **Article 108**

- (1) Deconcentration Fund and Co-administered Tasks Fund as part of the budgets of the state ministries/institutions used to administer affairs which under the prevailing laws and regulations, are the affairs of the regions, shall gradually be transferred to Special Allocation Fund.
- (2) Further Provisions on the transfer referred to in paragraph (1) shall be established by Government Regulation.

## **Section XIV Closing Provisions**

### **Article 109**

On the coming into effect of this law:

1. Law No. 25/199 concerning Revenue Sharing between the Government and the Regions (State Gazette 1999 NO. 72, Supplement No. 3845) shall be void.
2. Provisions on DBH under Law No.18/2001 concerning Special Autonomy for the Province of Nanggroe Aceh Darussalam and Law No.21/2001 concerning Special Autonomy for the Province of Papua shall remain in force until superseded by other provisions.

### **Article 110**

This Law comes into effect on the date of enactment  
In order that the public may take cognizance hereof, it is hereby ordered that this Law be published in the State Gazette of the republic of Indonesia.

Enacted in Jakarta  
On

The President of the Republic of Indonesia

Megawati Soekarnoputri

Promulgated in Jakarta  
On

The State Secretary of the Republic of Indonesia



**ELUCIDATION**  
**TO**  
**LAW OF THE REPUBLIC OF INDONESIA**  
**NUMBER 33 YEAR 2004**  
**CONCERNING**  
**REVENUE SHARING BETWEEN THE CENTRAL GOVERNMENT**  
**AND THE REGIONAL GOVERNMENTS**

**I. GENERAL**

The Unitary State of the Republic of Indonesia, engaged in national development aimed at the creation of a just and prosperous society based on Pancasila and the 1945 Constitution, is made up of provinces, *kabupaten* and *kota*, each having the rights and obligations to manage its own affairs and each trying to increase efficiency in the management of its public services.

Article 18A paragraph (2) of the 1945 Constitution calls for a fair and harmonious relationship in the field of financing, public service, and exploitation of natural and other resources between the Central Government and the Regional Government. This article serves as a philosophical and constitutional basis for the promulgation of Law on Revenue Sharing between the Central Government and the Regional Governments.

Decree No. IV/MPR/2000 of the People's Consultative Assembly (MPR) on Regional Autonomy and Decree No. VI/MPR/2002 on Implementation of MPR Decrees by the President, Supreme Advisory Council, House of Representatives (DPR), State Audit Agency and the Constitutional Court recommend that the Central Government and DPR make fundamental and comprehensive changes to Law No. 22/1999 concerning Regional Government and Law No. 25/1999 concerning Revenue Sharing between the Central Government and the Regional Governments. In line with the above-mentioned MPR decrees and with Law No.17/2003 concerning State Finances, Law No.1/2004 concerning State Treasury and Law No. 15/2004 concerning Audit of Management and Accountability of the State Finances,

Law No. 25/1999 therefore needs to be revised and harmonized with Law No. .. /2004 concerning Regional Government.

This Law on Revenue Sharing between the Central Government and the Regional Governments is meant to support and finance governmental affairs transferred to the Regional Governments under Law on Regional Government based on the principle of *money follows function*, meaning funding shall follow the transferred governmental functions.

The revenue sharing between the Central Government and the Regional Governments means a sharing on a proportional, democratic, fair, and transparent basis with due regard to the potential, condition and need of the region.

The Government essentially carries three main functions, i.e. the functions of distribution, stabilization and allocation. The functions of distribution and stabilization are more effectively and appropriately carried out by the Central Government and those of allocation by the Regional Government which better knows the local need, condition and situation. The sharing of the three functions is important in establishing the principles of revenue sharing between the Central Government and the Regional Governments.

In the implementation of regional autonomy, the transfer, delegation and assignment of governmental affairs to the Regional Governments should be followed by a regulation on the exploitation of the nation's natural resources, including a sharing of the revenue between the Central Government and the Regional Governments. As an autonomous entity, the Regional Government shall manage these affairs based on the principles of transparency, participation and accountability,.

In order to ensure an efficient and effective management of the governmental affairs and prevent overlapping in and unavailability of funding in a governmental sector, management of the governmental affairs by the Regional Government shall be funded by APBD and those of the Central Government by APBN, both that which is concentrated in the hands of the Governor assigned to the Regional Government and/or village or other entities under *Tugas Pembantuan* (co-administration).

Funding sources for the Regional Government shall be Regional Own Revenue (PAD), Balancing Fund, Regional Loan and other legal incomes,

PAD is sourced from regional tax and retribution, proceeds from management of regional assets, and other legal PAD, giving freedom to the Regional Government to find funding sources in implementation of regional autonomy as a manifestation of decentralization.

Balancing Fund is sourced from APBN, consisting of Revenue Sharing Fund (DBH), General Allocation Fund (DAU) and Special Allocation Fund (DAK). Balancing Fund is meant to help the Regional Government finance its governmental affairs (authority) and reduce inequality in funding sources between the Central Government and the Regional Government and among the regions. The three components of Balancing Fund represents the transfer of funds from the Central Government in a whole unit..

DBH is sourced from APBN shared out to the region at a certain percentage. Under this Law DBH is established in harmony with Law No.7/1983 concerning Income Tax as amended, most recently by Law No. 17/2000. This Law provides for the sharing of revenue from Personal Income Tax (PPh) Article 25/29 and Article 21 and from the geothermal sector referred to in Law No.27/2003 concerning Geothermal Mining. Reforestation Fund originally part of DAK is transferred to be part of DBH.

DAU aims at ensuring equal distribution of fiscal capacity to reduce inequality in financial capacity among the regions with due consideration to the need and potential of the region. DAU shall be established based on the fiscal gap of a region as a difference between fiscal need and fiscal capacity. This Law reconfirms the formula on fiscal gap and additional variable DAU. A region with a high fiscal potential and a low fiscal need will receive a relatively lower allocation. On the other hand, a region with a low fiscal potential and a high fiscal need will receive a relatively higher DAU. Implicitly, the principle confirms DAU as a factor for equal distribution of fiscal capacity.

DAK is meant to help fund special activities in certain regions being the governmental affairs of the region in accordance with national priorities, specifically to fund basic public services which have not reached a certain standard and speed up development of the region.

This Law also regulates grants from foreign governments, foreign agencies/institutions, international agencies/institutions, the Central Government, domestic agencies/ institutions and individuals, both in the

form of foreign exchange and rupiah and in the form of goods and/or services, including experts and training, which need not be repaid.

This Law also regulates Emergency Fund to a region affected by a national disaster and/or extraordinary events which cannot be coped with by APBD. The Central Government may provide Emergency Fund to a region suffering from insolvency crisis or a prolonged financial crisis. To avoid a lowering of public services, the Central Government may also provide Emergency Fund to a region after prior consultation with DPR.

Regional Loan aims at speeding up economic development of the region and improve its public services. Funds from Regional Loan should be properly managed in order not to cause a negative impact on the finances of the region itself and on national economic and monetary stability. Therefore, Regional Loan need to be based on criteria, provisions, mechanisms, and penalty as provided for in this Law.

This law also confirms that a region may not seek a loan from overseas. Loans from overseas can be obtained only through the Central Government as *penerusan pinjaman*. This provision aims at ensuring fiscal prudence and continuity in the Government fiscal and monetary policy. Regional Loan will not be limited only to funding income-generating infrastructure projects, but also funding public service projects which generate no income. Loan limitation is made only as part of the effort to control APBD deficits.

The Regional Government may also issue Regional Bond under certain conditions, including the prevailing laws and d regulations on capital market and the provisions on the maximum net value of the Regional Bond with the approval of the Central Government. All consequences or risks arising from the issuance of the Regional Bond shall be the full responsibility of the Regional Government concerned.

All funds shall be managed in accordance with the prevailing laws and regulations in an efficient, economic, effective, and transparent manner accountable to the stakeholders. All revenues and expenditures of a region in a budget year should be put in APBD. Management of regional finances, APBD and Revised APBD and accountability in its implementation shall be established annually in a Regional Regulation (Perda).

Deconcentration Fund aims at ensuring availability of funds for the implementation of authority delegated by the Central Government to the Governor as representative of the Central Government. *Co-Administration* Fund aims at ensuring availability of fund for

the implementation of authority assigned by the Central Government to the Regional Government.

This Law confirms that Deconcentration Fund and Co-Administration Fund shall be administered through the mechanism of APBN and Decentralization Fund through the mechanism of APBD to ensure that management of regional development and governmental affairs shall be done effectively, efficiently, transparently and accountably.

In order to improve management of Decentralization based on the principles of transparency and accountability, it is necessary to set up a Regional Finance Information System in the formulation of national fiscal policy and control.

The main points of this Law are as follows:

- a. Confirmation of the basic principles governing revenue sharing between the Central Government and the Regional Governments in accordance with the principles of Decentralization, Deconcentration and Co-Administration.
- b. Addition of DBH revenues from the Geothermal Mining and Personal Income Tax PPH Article 25/29 and PPh Article 21.
- c. Transfer of Reforestation Fund from DAK to DBH
- d. Improved principles of DAU allocation
- e. Improved principles of DAK allocation
- f. Addition of Grants and Emergency Fund
- g. Improved conditions and mechanism for Regional Loan and Regional Bond
- h. Provisions on financial management and accountability
- i. Provision on Regional Finance Information System, and
- j. Principles of accountability, responsibility and penalty.

## **2. Article by Article**

### **Article 1**

Self-explanatory

### **Article 2**

#### Paragraph (1)

Revenue sharing between the Central Government and the Regional Governments is an integral part of the state financial system aimed at regulating funding based on the authority transferred, delegated and assigned by the Central Government to the Regional Government..

Paragraph (2)

Meant by stability in this paragraph is stability of the national economy  
Meant by fiscal balance in this paragraph is the sharing of authority between the Central Government and the Regional Government. In this way, the financial balance shall covers not only regional revenue but also aspects of its management and accountability.

**Article 3**

Self- explanatory

**Article 4**

Paragraph (1)

Self- explanatory

Paragraph (2)

Self-explanatory

Paragraph (3)

Self- explanatory

Paragraph (4)

Funding referred to in this provision is adjusted to the weight of the authority delegated and or *Co-Administration* granted.

**Article 5**

Self-explanatory

**Article 6**

Paragraph (1)

Letter a

Self-explanatory

Letter b

Including revenue from services provided by a Regional Public Service Agency (BLU)

Letter c

Self-explanatory

Letter d  
Self-explanatory

Paragraph (2)  
Self-explanatory

### **Article 7**

Letter a

Meant by Perda which leads to a high-cost economy is a Perda which regulates tax and retribution on objects which have been subject to tax by the Central Government and the provincial government, resulting in a lowering of regional competitiveness.

Letter b

Examples of levies which may hamper mobility of people, traffic of goods and services between the regions and import export activities, are retribution on permits to enter the cities and tax/retribution on movement of good from one region to another

### **Article 8**

This provisions on Regional Tax and Regional Retribution aims at giving greater authority to the Regional Government in matters of regional tax and retribution by expanding the tax/retribution base and granting discretion in the establishment of tax/retribution rates.

Expansion of the tax base by adding new types of tax an retribution and granting Discretion in the establishment of tax rates is made by giving full authority to the provincial government in establishing the maximum rates as provided by law.

### **Article 9**

Self explanatory

### **Article 10**

Paragraph (1)

Balancing Fund which consists of three funding sources is a fund for the implementation of Decentralization whose allocations are inseparable from one another, each complementary to each other.

Paragraph (2)

Inclusion of Balancing Fund in APBN aims at giving certainty of funding for the region.

**Article 11**

Self-explanatory

**Article 12**

Paragraph (1)

Self-explanatory

Paragraph (2)

Self-explanatory

Paragraph (3)

Letter a

Distribution herein aims at ensuring equal distribution of financial capacity among the regions.

Letter b

Incentives herein aims at intensifying Land and Building Tax (PBB) collection. Meant by receipts from certain sectors are PBB receipts from the urban and rural sectors.

Paragraph (4)

Meant by the account of the Regional Treasury is the account set up by the Governor/bupati/mayor to keep all regional revenue in and pay regional expenditure with the bank.. The account is administered by the head of the regional finance unit as Regional Treasurer.

Paragraph (5)

Distribution herein is meant to ensure equal distribution of financial capacity among the regions.

Paragraph (6)

Self-explanatory

**Article 13**

Paragraph (1)

Self explanatory

Paragraph (2)

Self-explanatory

Paragraph (3)

Regional share of Personal Income Tax PPh Articles 25 and 29 and PPh Article 21 for *kabupaten/kota* at 60% and for the province at 40% shall be established by the Finance Minister

Paragraph (4)

Self-explanatory

#### **Article 14**

Letter a

Self-explanatory

Letter b

Self-explanatory

Letter c

Self-explanatory

Letter d

Self-explanatory

Letter e

Self-explanatory

Letter f

Self-explanatory

Letter g

Under the prevailing laws and regulations non-tax state revenue from geothermal mining includes:

- 1) Non-tax state revenue from geothermal contract signed before Law No. 27/2003 on Geothermal Mining shall derive from Government share after tax and other levies in accordance with the prevailing laws and regulations.
- 2) Non-tax state revenue from geothermal contract signed after Law No.27/2003 on Geothermal Mining shall derive from Fixed Levy and Production Levy.

#### **Article 15**

Self-explanatory

#### **Article 16**

Self-explanatory

## **Article 17**

### Paragraph (1)

#### Letter a

Meant by Land Rent is Fixed Levy received by the State for opportunity granted to carry out General Survey, Exploration or Exploitation activities in a Mining Authority Area

#### Letter b

Meant by Royalty is Production Levy received by the State on mineral products extracted by Exploration Mining Authority Holder upon authority granted and on one or more mineral products from Exploitation (royalty)

### Paragraph (2)

Self-explanatory

### Paragraph (3)

Self-explanatory

### Paragraph (4)

Self-explanatory

## **Article 18**

### Paragraph (1)

#### Letter a

Meant by Levies on Fishing Companies are levies imposed on Indonesian fishing companies holders of Fishing Permit (UP), Fishing Allocation (APIPM), and Fish Transport Permit (SIKI) for opportunity granted by the Indonesian government to operate in Indonesian waters.

#### Letter b

Meant by Levis on Fishing products are levies imposed on fishing companies operating according to SPI fishing permit.

### Paragraph (2)

Self-explanatory

## **Article 19**

### Paragraph (1)

State revenue from oil and gas sector derives from Pertamina's Own Operations, Production Sharing Contract (PSC) and contracts other than PSC.

Tax herein means tax on Oil and Gas Mining activities and other levies in accordance with the prevailing laws and regulations.

Paragraph (2)

Self-explanatory

Paragraph (3)

Self-explanatory

Paragraph (4)

Self-explanatory

## **Article 20**

Paragraph (1)

Self-explanatory

Paragraph (2)

Letter a

The share for the province shall be used in support of elementary education.

Letter b

Self-explanatory

Letter c

Self-explanatory

Paragraph (3)

Self-explanatory

## **Article 21**

Paragraph (1)

Letter a

Self-explanatory

Letter b

Meant by Fixed Levy is a levy paid to the state for opportunity granted to carry out exploration, feasibility study and exploitation in a contract area.

Meant by Production Levy is a levy paid to the state on products obtained from geothermal mining

Paragraph (2)

Self-explanatory

Paragraph (3)  
Self-explanatory

## **Article 22**

Further provisions on base of calculation and producing region shall be established by Government Regulations.

## **Article 23**

Self-explanatory

## **Article 24**

Paragraph (1)

Oil and gas revenue shared out shall be calculated on realized prices of oil and gas. Realized prices shall not exceed 130% (one hundred thirty percent) of the basic assumption of oil and gas prices realized in the current APBN year.

Paragraph (2)

If realized oil and gas prices exceeds 130% (one hundred thirty percent) of basic assumption of oil and gas prices realized in an APBN year, the DBH surplus from the oil and gas sector shall be distributed to the regions as additional DAU through Net Domestic Revenue based on DAU formula.

## **Article 25**

Self-explanatory

## **Article 26**

The Government Regulations shall contain regulations on authority of each agency involved in establishing producing regions, base of calculation, estimated DBH, process of establishment, consultation mechanism with DPRD, method of distribution, reporting and accountability,

## **Article 27**

Paragraph (1)

Net Domestic Revenue means tax and non-tax state revenue less state revenue shared out to the region.

Paragraph (2)

Self-explanatory

Paragraph (3)

Self explanatory

Paragraph (4)

Meant by total salaries of the civil service in the region is the basic salaries plus dependents' allowance and post support in accordance with the civil service salary regulations.

## **Article 28**

Paragraph (1)

Meant by basic public services are health and education services, infrastructure and poverty alleviation programs.

Paragraph (2)

Total population means a variable reflecting the need for public services in region.

Area size means a variable reflecting the need for infrastructure per area

Construction Cost Index means a variable reflecting the level of geographical difficulty based on the level of relative cost of physical infrastructure among the regions.

Gross Regional Domestic Products reflects the economic and potential and activity of a region based on total gross production output of the region.

Human Development Index is a variable reflecting the level of welfare achievement based on basic services in the field of education and health.

The funding need of a region shall be calculated based on a total approach to the average national expenditure.

Paragraph (3)

Self-explanatory

## **Article 29**

Self-explanatory

## **Article 30**

Self explanatory

## **Article 31**

Self explanatory

### Article 32

#### Paragraph (1)

Sample calculation: Fiscal need equals Fiscal Capacity

Fiscal Need = Rp100 billion

Fiscal Capacity = Rp100 billion

Basic Allocation = Rp50 billion

Fiscal Gap = Fiscal need – Fiscal capacity  
= Rp100 billion – Rp100 billion = 0

DAU = Basic Allocation

Total DAU = Rp50 billion

#### Paragraph (2)

In case of a negative Fiscal Gap, total DAU received by a region shall be equal to Basic Allocation after fiscal gap as follows as follows:

Fiscal Need = Rp100 billion

Fiscal Capacity = Rp125 billion

Basic Allocation = Rp50 billion

Fiscal Gap = Fiscal Need – Fiscal Capacity  
= Rp100 billion – Rp125 billion = Rp-25 billion(negative)

DAU = Fiscal Gap + Basic Allocation

Total DAU = Rp-25 billion + Rp50 billion = Rp25 billion

#### Paragraph (3)

Sample calculation: Fiscal gap (negative) exceeds Basic Allocation

Fiscal Need = Rp100 billion

Fiscal Capacity = Rp175 billion

Basic Allocation = Rp50 billion

Fiscal Gap = Fiscal Need - Fiscal Capacity  
= Rp100 billion – Rp175 billion = Rp-75 billion (negative)

DAU = Fiscal Gap + Basic Allocation

Total DAU = Rp-75 billion + Rp50 billion  
= Rp-25 billion or adjusted to Rp0 (nil)

### Article 33

Self explanatory

#### **Article 34**

Self-explanatory

#### **Article 35**

Self-explanatory

#### **Article 36**

Self explanatory

#### **Article 37**

The Government Regulations shall contain weight variables, percentage of DAU balance between the province and between the province and kabupaten/kota and method of distribution

#### **Article 38**

Self explanatory

#### **Article 39**

Paragraph (1)

Meant by certain region is a region meeting the criteria established annually to receive DAK allocation. In this way, not all regions will receive DAK allocation

Paragraph (2)

Meant by function in the budget include public services, defense, security and order, economy, . environment, housing and public facilities, health, tourism, culture, religion, education and social protection

#### **Article 40**

Paragraph (1)

Self-explanatory

Paragraph (2)

The general criteria is set down to identify the capacity of APBD to finance needs for regional development as reflected in APBD revenue less personnel expenditure

Financial capacity	= APBD revenue – personnel expenditure
General Revenue	= PAD + DAU + (DBH – DBHDR)
Personnel Expenditure	= Regional Civil Service Expenditure

Paragraph (3)

Meant by the prevailing laws and regulations are laws and regulations on the characteristics of a region.

Meant by the characteristics of a region are coastal and offshore areas, areas bordering a foreign country, backward/remote areas, and areas prone to floods and landslides, and food-short areas.

Paragraph (4)

The technical criteria means construction standard of quality/quantity, and estimates of local and national benefits as indicators in the technical calculation.

**Article 41**

Paragraph(2)

Self explanatory

Paragraph (2)

Self-explanatory

Paragraph (3)

Meant by a region with a certain fiscal capacity is a region in which the difference between APBD revenue and personnel expense is negative or equal to nil.

**Article 42**

The Government Regulations shall contain the general criteria , special criteria, technical criteria, allocation mechanism, distribution procedure, regional budgeting, monitoring, evaluation and reporting

**Article 43**

Self-explanatory

**Article 44**

Paragraph (1)

In receiving grants, a region may not enter into an agreement which may politically affect regional policy.

Paragraph (2)

A grant from overseas should be based on an agreement signed by the Central Government and the foreign donator.

Paragraph (3)

What is meant by grantor in this paragraph is the Central Government as the party on-granting the funds to the region.

Paragraph (4)

The grant received by a region may be used in support of improving governmental functions and basic public services and empowerment of regional apparatuses.

#### **Article 45**

Self-explanatory

#### **Article 46**

Paragraph (1)

Essentially funds for dealing with national disaster and/o extraordinary events shall be derived from APBD. However, if APBD is inadequate, the Central Government may allocate Emergency Fund sourced from ABPN.

Paragraph (2)

Meant by national disaster and/or other extraordinary events are events which cause a widespread economic social impact.

#### **Article 47**

Paragraph (1)

The solvency crisis means a prolonged financial crisis in a region over a period of 2 (two) budget years which cannot be solved by APBD.

Paragraph (2)

Self-explanatory

Paragraph (3)

A region is declared in a solvency crisis after a previous effort by the Central Government fails to solve the crisis.

Paragraph (4)

Self-explanatory

**Article 48**

The Government Regulations shall contain regulations on the criteria on national disaster and/or other extraordinary events, criteria and conditions for submission of request for Emergency Fund , submission procedures and accountability.

**Article 49**

Self-explanatory

**Article 50**

Paragraph (1)

Self-explanatory

Paragraph (2)

Balancing Fund which may be delayed or cut in its distribution refers to Revenue Sharing Fund and General Allocation Fund.

**Article 51**

Paragraph (1)

Letter a

Self-explanatory

Letter b

Self-explanatory

Letter c

Self-explanatory

Letter d

Self-explanatory

Letter e

Meant by the public are individuals and/or agencies making investment on the capital market

Paragraph (2)

Regional Loan sourced from the Central Government derives from APBN or foreign loans made by the Government and on-lent to the region.

Paragraph (3)

Self-explanatory

**Article 52**

Paragraph (1)  
Self-explanatory

Paragraph (2)  
Short-term loan is not the kind of short term credit normally granted in trade; for example, settlement of obligations on procurement of goods and/or services is not done on the date the goods and /r services are received.  
Chargers herein include administrative charges, commitment, commission, insurance and penalty.

Paragraph (3)  
Self-explanatory

Paragraph (4)  
Self-explanatory

### **Article 53**

Paragraph (1)  
Self-explanatory

Paragraph (2)  
Meant by public services are services which are the responsibility of the Regional Government

Paragraph (3)  
Meant by income generation are the proceeds of the infrastructure development project funded by the loan.

Paragraph (4)  
Meant by DPRD approval is approval for the on-lending to Regional State-owned Enterprises (BUMD).

### **Article 54**

Letter (a)  
Meant by APBD revenue of the previous year are the entire APBD revenues, excluding Special Allocation Fund, Emergency Fund, current loans, and other incomes whose use is limited to financing certain expenditures

Letter (b)

The ratio of regional financial capacity shall be calculated based on the ratio between PAD, DBH and DAK less mandatory expenditure divided by total principal, interests and charges on maturity. Meant by mandatory expenditure are personnel and DPRD expenditure.

$$\text{DSCR} = \frac{(\text{PAD} + \text{DAU} + (\text{DBH} - \text{DBHDR}) - \text{Obligation expense})}{\text{Principal} + \text{Interest} + \text{Charges}} = \_ \times$$

Letter (c)

Self-explanatory

**Article 55**

Self-explanatory

**Article 56**

Self-explanatory

**Article 57**

Self-explanatory

**Article 58**

Paragraph (1)

Self explanatory

Paragraph (2)

Self-explanatory

Paragraph (3)

Meant by net value is addition to the nominal value of Regional Bonds in circulation. The addition to the nominal value represents the difference between the nominal value of the Regional Bonds issued and the nominal value of Regional Bonds withdrawn and settled

before maturity and Regional Bonds settled on maturity in a budget year.

#### **Article 59**

This provision confirms that all risks arising from the issuance of Regional Bond shall be guaranteed by or be the responsibility of the Central Government

#### **Article 60**

Self-explanatory

#### **Article 61**

Paragraph (1)

DPRD approval to Regional Bond issued automatically means approval to payments and settlement of all future financial obligations arising from the issuance of the Regional Bond.

Paragraph (2)

Self-explanatory

Paragraph (3)

All payments of principal and interests arising from the issuance of Regional Bond shall be allocated annually in APBD until the end of the obligations. Estimate of fund to be allocated for payments of the obligations in a budget year shall be submitted to DPRD for calculation of the APBD of the year concerned.

Paragraph (4)

Realized payments of the principal and interests may not exceed projected payments of interests in a budget year in the event the interest rate of the Regional Bond at a floating rate is greater than the assumed rate of interest established in APBD.

#### **Article 62**

Paragraph (1)

Management of Regional Loan shall be accounted for by a unit appointed for the purpose by the Regional Head.

Paragraph (2)

The Regional Government shall, in seeking the lowest cost of the Regional Bond at an acceptable and controlled risk, implement and report the activities at least as provided in this paragraph.

### **Article 63**

Paragraph (1)

Copies of the report on cumulative position shall be submitted to DPRD as notification.

Paragraph (2)

Self explanatory

### **Article 64**

Paragraph (1)

Self explanatory

Paragraph (2)

Method of cutting DAU and/or Regional Share from the state revenue and delaying their distribution shall be established by decree of the Finance Minister.

### **Article 65**

The Government Regulations shall contain Regional Bond procedures and conditions

### **Article 66**

Paragraph (1)

The Regional Government shall manage the regional finances with reference to the principles as stated in this paragraph. Management herein includes planning, control, use, accountability and supervision.

Paragraph (2)

Self explanatory

Paragraph(3)

The function of authorization means that the regional budget shall be the basis for the implementation of the revenue and budget of the year concerned.

The function of planning means that the regional budget shall be a guide in the management and planning of activities in the budget year concerned.

The function of supervision means that the regional budget shall be directed toward reducing unemployment and resource wastage and improving economic efficiency and effectiveness.

The function of distribution means that the regional budget policy should take fairness and propriety into consideration.

Paragraph (4)  
Self explanatory

Paragraph (5)  
Self explanatory

Paragraph (6)  
Self explanatory

## **Article 67**

Paragraph (1)  
Self explanatory

Paragraph (2)  
Self explanatory

Paragraph (3)  
The Regional Government programs shall be proposed in the draft Perda on APBD and drawn in accordance with the need for the regional administration and capacity in raising regional revenue on the basis of the Government Work Program in the effort to realize the Government objective.

Paragraph (4)  
Penalty and/or interests herein may be imposed on both parties.

Paragraph (5)

In drawing up APBD, effort should be made to ensure that operating expenditure shall not exceed revenue in the budget year concerned.

Paragraph (6)

Self explanatory

Paragraph (7)

Use of APBD surplus need to take in consideration the principles of inter-generation accountability, especially for the settlement of the debts, formation of the reserve fund and improvement of social security.

## **Article 68**

Self explanatory

## **Article 69**

Self explanatory

## **Article 70**

Paragraph (1)

Self explanatory

Paragraph (2)

Self explanatory

Paragraph (3)

Regional expenditures shall specified by organization shall in accordance with the composition of the regional apparatuses/regional technical institutions

Regional expenditures shall be specified by function, including public services, security and order, economy, environment, public housing and facilities, health, tourism, culture, religion, education and social protection

Regional expenditures shall be specified by type of expenditure (economic), including personnel expenditure, goods expenditure, capital expenditure, interest, subsidies, grants and social assistance

Paragraph (4)

Self explanatory

**Article 71**

Self explanatory

**Article 72**

Self explanatory

**Article 73**

Self explanatory

**Article 74**

Self explanatory

**Article 75**

Self explanatory

**Article 76**

Paragraph (1)

Reserve Fund means a fund set aside to meet the need for a relatively large fund which cannot be met in a budget year.

Reserve Fund in APBD shall be treated as an expenditure on formation and as revenue on usage.

Regional Regulations on Reserve Fund shall at least contain the objective, amount, source, period, use, and placement of the fund.

Paragraph (2)

Self explanatory

Paragraph (3)

The Reserve Fund shall be liquidated as a revenue in the budget year concerned in the implementation of activities funded by the Reserve Fund in accordance with Perda.

## **Article 77**

Paragraph (1)

Self explanatory

Paragraph (2)

An example of a portfolio which generates fixed income with a low risk are deposits with a government bank.

## **Article 78**

Paragraph (2)

Cooperation with a third party is made when the Regional Government has limited funds for public services. Such cooperation includes cooperation between the regions, between the Regional Government and BUMD, and between the Regional Government and the private sector, aimed at optimizing regional assets without disrupting public services.

Paragraph (2)

Self explanatory

Paragraph (3)

Self explanatory

## **Article 79**

Paragraph (1)

Expenditure referred to in this Article includes expenditure for urgent need whose criteria shall be established in a Perda on APBD.

Emergency situation shall meet at least the following criteria

- a. Not a normal activity of the Regional Government and unpredicted.
- b. Not expected to recur over and over
- c. Beyond the control and influence of the Regional Government, and
- d. Has a significant impact on regional budget in the effort to deal with the Emergency situation.

Paragraph (2)

Self explanatory

## **Article 80**

Paragraph (1)  
Self explanatory

Paragraph (2)  
Self explanatory

Paragraph (3)  
50% (fifty percent) represents the difference (gap) between APBD revenue and expenditure

#### **Article 81**

Paragraph (1)  
Audit of the financial report by BPK shall be completed not later than 2 (two) months after receipt of the report from the Regional Government

Paragraph (2)  
Report on Realized Budget shall present realized revenue and expenditure and performance of SKPD

Paragraph (3)  
Self explanatory

#### **Article 82**

Self explanatory

#### **Article 83**

Paragraph (1)  
Meant by maximum cumulative amounts of APBN and APBD deficits are amounts of APBN deficits plus amounts of APBD deficit in a budget year. Establishment of the maximum cumulative amount of deficits is meant to ensure national fiscal prudence and control

Paragraph (2)  
Meant by maximum cumulative amounts of deficits shall not exceed 3% (three percent) of Gross Domestic Products in accordance with the best practice in fiscal management.

Paragraph (3)

The Finance Minister shall establish the maximum limit of APBD deficits for each region in August of each year.

Paragraph (4)

Self explanatory

In principle APBD shall be drawn up with due consideration to the financial capacity of the region. In the likely event of revenue being larger than expenditure, then sources for the deficit spending will be obtained from SILPA, Reserve Fund, proceeds from sale of regional assets, and Regional Loan

#### **Article 85**

Paragraph (1)

Self explanatory

Paragraph (2)

Audit of the regional finances shall at least include PAD, Balancing Fund, Other Incomes, Regional Loan, and regional expenditure. The audit is made annually and at the end of the terms of the Regional Head and DPRD

#### **Article 86**

Self explanatory

#### **Article 87**

Paragraph (1)

Self explanatory

Paragraph (2)

Self explanatory

Paragraph (3)

This provision is meant to ensure that the amount of funds allocated shall guarantee implementation of the authority delegated.

Paragraph (4)

Self explanatory

Paragraph (5)

Notification of the work program and budget of the state ministries/institutions relating to Deconcentration is meant to synchronize activities funded by APBD and activities funded by APBN and avoid duplication in funding.

Paragraph (6)

Self explanatory

Paragraph (7)

Activities of a non-physical nature include coordination in planning, facilities, training, guidance, supervision and control

#### **Article 88**

Self explanatory

#### **Article 89**

Paragraph (1)

Self explanatory

Paragraph (2)

Self explanatory

Paragraph (3)

Self explanatory

Paragraph (4)

Self explanatory

Paragraph (5)

Meant by prevailing laws and regulations are laws and regulations are provisions on non-tax State revenue.

#### **Article 90**

Paragraph (1)

Separation of the financial administration of Deconcentration Fund and Co-Administration Fund from Decentralization Fund is meant to

ensure an orderly administration based on the principle of financial management.

Paragraph (2)

Self-explanatory

Paragraph (3)

Self explanatory

Paragraph (4)

Meant by report on implementation of Deconcentration include accountability, substance of authority, expenditure, outputs, and results of authority delegated.

Paragraph (5)

Self explanatory

#### **Article 91**

Self explanatory

#### **Article 92**

Self explanatory

#### **Article 93**

Self explanatory

#### **Article 94**

Paragraph (1)

Assignment by the Central Government through the state ministries / institutions represents an assignment within the authority of the Central Government

Paragraph (2)

Self explanatory

Paragraph (3)

This provision is meant to ensure the amount of the funds allocated shall guarantee implementation of the assignment delegated.

Paragraph (4)  
Self explanatory

Paragraph (5)  
Notification of the work program and budget of the state ministries/institutions relating to Co-Administration is meant to synchronize activities funded by APBD and activities funded by APBN and avoid duplication in funding

Paragraph (6)  
Self explanatory

Paragraph (7)  
Self explanatory

#### **Article 95**

Self explanatory

#### **Article 96**

Paragraph (1)  
Self explanatory

Paragraph (2)  
Self explanatory

Paragraph (3)  
Self explanatory

Paragraph (4)  
Self explanatory

Paragraph (5)  
Meant by prevailing laws and regulations are provisions on non-tax state revenue.

#### **Article 97**

Separation of the financial administration of Co-Administration from Deconcentration Fund and Decentralization Fund is meant to ensure an orderly administration based on the principle of financial management....

## **Article 98**

Self explanatory

## **Article 99**

Self explanatory

## **Article 100**

Self explanatory

## **Article 101**

Paragraph (1)

Regional Finance Information System represent a means for the Central Government to process, present and publish regional finance information and reports in support of good governance based on the principle of transparency and accountability.

Paragraph (2)

Self explanatory

## **Article 102**

Paragraph (1)

Meant by reliable information source from Perda on APBD, Realized APBD and APBD report

Paragraph (2)

Management of the regional finance information system by the Regional Government shall be gradually implemented in accordance with financial capability of the region.

Paragraph (3)

Self explanatory

Paragraph (4)

Self explanatory

Paragraph (5)

The penalty shall be imposed after a written reminder

Balancing Fund delayed in its distribution owing to penalty shall be done without disrupting management of the Regional Government

**Article 103**

Self explanatory

**Article 104**

The Government Regulations shall contain provisions on mechanism for submission of regional finance report, principle of management of the regional finance information system, financial information format, and mechanism on penalty for delay in submission of the report.

**Article 105**

Self explanatory

**Article 106**

Self explanatory

**Article 107**

Paragraph (1)  
Self explanatory

Paragraph (2)  
The DAU formula will be used starting from budget year 2006, but through budget year 2007 DAU allocation for each region shall not be less than in budget year 2005  
If through year 2007 DAU for a certain province is less than in budget year 2005, then the province shall be allocated an adjustment fund whose amount will be in accordance with the capability and economy of the state.

**Article 108**

Self explanatory

**Article 109**

Self explanatory

